



COMPREHENSIVE ANNUAL FINANCIAL REPORT

WEST BASIN MUNICIPAL WATER DISTRICT
Carson, California
www.westbasin.org

Fiscal Year Ended June 30, 2011



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WEST BASIN MUNICIPAL WATER DISTRICT
CARSON, CALIFORNIA

PREPARED BY:

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Cover Photo: West Basin provides free tours of its Edward C. Little Water Recycling Facility (ECLWRF) in El Segundo on the second Saturday of each month and at its annual Water Harvest Festival each October. Currently under construction, known as Phase V, the ECLWRF is increasing its recycled water production capacity by 16 million gallons per day. This helps West Basin move toward its Water Reliability 2020 goal of reducing our dependence on imported water by expanding locally-produced supplies. To schedule a tour, call 310-660-6200 or visit www.westbasin.org.

WEST BASIN MUNICIPAL WATER DISTRICT
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INTRODUCTORY SECTION



December 19, 2011

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

INTRODUCTION

West Basin Municipal Water District (West Basin) staff is pleased to present the Comprehensive Annual Financial Report (CAFR) for the Fiscal Year 2010-2011, which ended June 30, 2011.

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 financial report to the State Controller within six months after the end of the fiscal year.

This report was prepared pursuant to the guidelines set forth by the Governmental Accounting Standards Board (GASB). For the last six years, West Basin has submitted the CAFR and received the Excellence in Financial Reporting award from the Government Finance Officers Association (GFOA).

West Basin staff prepared this financial report in conjunction with the unqualified "clean" opinion issued by Mayer Hoffman McCann P.C. The Independent Auditor's Report is located at the front of the financial section of this report (Section Two). Management's discussion and analysis (MD&A) immediately follows the Independent Auditor's Report and provides a narrative introduction, overview and analysis of the basic financial statements for the fiscal year, ended June 30, 2011. MD&A complements this Letter of Transmittal and should be read in conjunction with it.

This report consists of Management's representations concerning the finances of the District. Consequently, Management assumes full responsibility for the completeness and reliability of the information presented in this report to the best of our knowledge.

This report is organized into three sections: (1) Introductory; (2) Financial; and (3) Statistical. The Introductory section offers general information about West Basin. The Financial section includes the Independent Auditor's report, Management's Discussion and Analysis, the audited financial statements and Notes to Financial Statements. The Statistical section includes changes in the District's major financial indicators such as net assets, outstanding debts, revenues and expenses for the past ten years, as well as demographic and other operating information of West Basin.

WEST BASIN MUNICIPAL WATER DISTRICT 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 for detail). 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 replenish and protect our local groundwater aquifer from seawater intrusion, West Basin provides purified recycled 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 also invests in both water efficiency and ocean-water desalination programs that will help to supplement our local drinking water supply.

COMMITMENT STATEMENTS

West Basin's Board of Directors has dedicated significant time and effort to developing a long-term vision for the agency. This was accomplished through the creation of a new mission statement and Strategic Business Plan (The Plan), in addition to surveying our customers. The Plan focuses West Basin projects and programs on the key goals and objectives that will define and measure our success. After two years of implementation, the goals have been consolidated in 2011 to continue meeting the agency's needs. These goals are also our commitments to our customers and the communities we serve:

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

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

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

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

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

The Plan provides continuous direction for each year's planning, budgeting, implementation, evaluation and reporting. As staff prepared this year's budget, we 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; 2010 data analysis for service area not yet available). 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 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 currently serving on the MWD Board of Directors are Edward C. Little and Gloria D. Gray.

WEST BASIN MUNICIPAL WATER DISTRICT BOARD OF DIRECTORS



Director Ronald C. (Ron) Smith
 2011 Board President
 Serves Division I Cities of Carson, Palos Verdes Estates, Rancho Palos Verdes, Rolling Hills, Rolling Hills Estates, and unincorporated portions of San Pedro.



Director Gloria D. Gray
 Serves Division II Cities of Inglewood, South Ladera Heights, a portion of Lennox and Athens, Howard and Ross-Sexton.



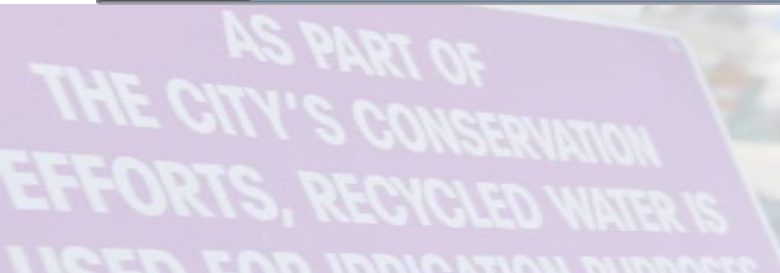
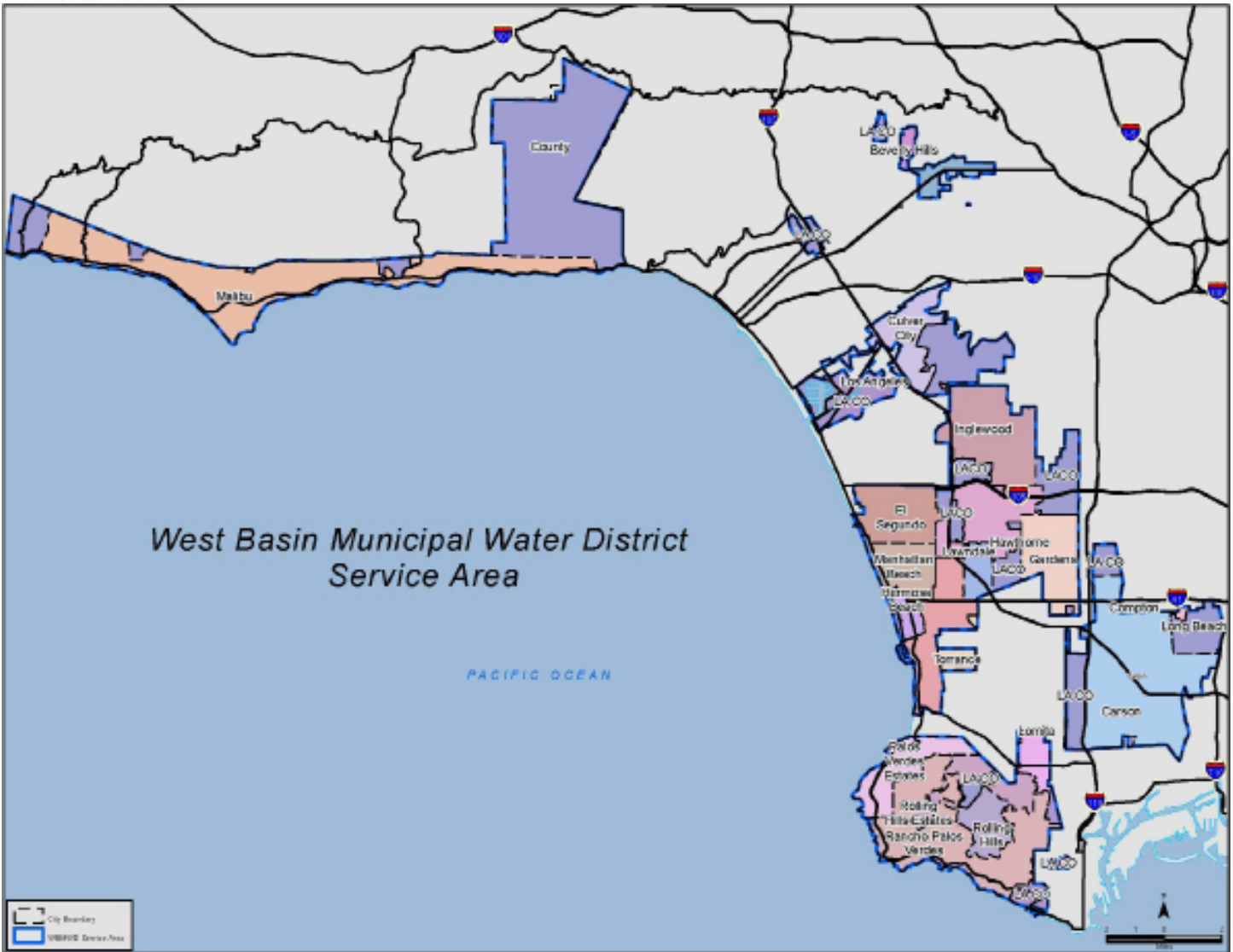
Director Carol W. Kwan
 Serves Division III Cities of Hermosa Beach, Lomita, Manhattan Beach, Redondo Beach and Torrance.



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



Director Donald L. Dear
 2011 Board Vice President
 Serves the Cities of Gardena, Hawthorne, Lawndale and portions of El Camino Village.



HISTORY OF WEST BASIN

As early as 1918, the levels of the West Coast groundwater basin were 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 the 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 MWD. In 1947, West Basin was formed by a 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 distribute 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. West Basin is educating people about water use, reuse, supply, local production, efficiency, 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 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. West Basin is the only agency in the world that produces 5 types of "designer" recycled waters.

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 Carson 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% at each location.

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 Water Reliability 2020 Program (WR 2020), we are currently expanding production of locally-produced water by doubling water recycling and conservation and adding ocean-water desalination. In late 2010, West Basin opened its ocean-water desalination demonstration facility and Water Education Center to the public to share Southern California's water story, teach the community about local supplies, and share the latest in environmentally-responsible desalination technology.

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 West Basin's service area.

WATER RELIABILITY 2020

West Basin is a recognized leader in the production of recycled water, and our conservation and education outreach 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, retrofits commercial kitchens and residential sprinklers and teaches residents about water-efficient and environmentally-friendly landscaping. West Basin's vibrant education program hosts 10,000 school children each year, holds an annual water awareness art contest, and sponsors high school solar cup boat-building teams to help support young people who will become our next generations of water professionals.

Supplies of imported water from the Sacramento-San Joaquin Bay Delta and the Colorado River have been challenged and cut back in recent years due to climate change, population growth, increased 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 nearly 7,000 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.

West Basin's Water Recycling Facility was re-named the Edward C. Little Water Recycling Facility (ECLWRF) in 2007 to honor the 6-term commitment made to West Basin and its constituents by Director Edward C. Little. 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.

This facility produces more than 30 million gallons of recycled water every day for more than 380 customer sites. Uses of recycled water include irrigation, boiler feeds, cooling towers, and injection into seawater barriers to replenish and prevent our local groundwater supplies from being contaminated by the ocean. West Basin's world-class water purification facilities produce five types of "designer" waters to serve specific customer needs for various uses, including golf courses, professional soccer fields, restrooms, high and low pressure boilers, cooling towers and other commercial, municipal and industrial uses. All five (5) types of designer waters meet the treatment and water quality requirements specified in the California Department of Public Health's Water Recycling Criteria and are permitted by the Los Angeles Regional Water Quality Control Board.

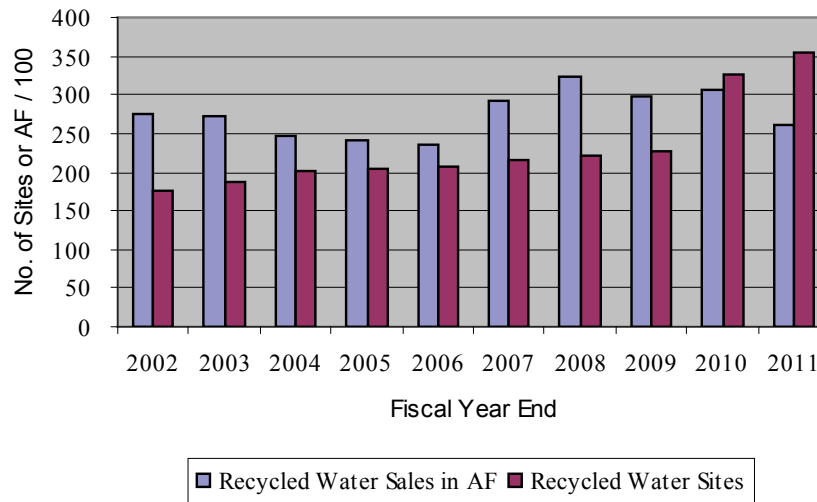
- **Tertiary Water:** Secondary treated wastewater that has been filtered and disinfected for a wide variety of industrial and irrigation uses.
- **Nitrified Water:** Tertiary water that has been nitrified to remove ammonia for industrial cooling towers.
- **Reverse Osmosis Water:** Secondary treated 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.

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 West Coast barrier is a series of injection wells positioned like an underground 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. In April 2009, West Basin and the Water Replenishment District of Southern California (WRD) signed an agreement to increase the amount of recycled water supplied to the barrier to 100%. This step will eventually save 5.5 billion gallons of drinking water a year.

Recycled Water AF vs. No. of Sites - June 30, 2011



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.

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 conservation, education, public outreach, government affairs, water recycling, and ocean-water desalination programs. Here's a summary of our efforts:

CONSERVATION AND WATER USE EFFICIENCY

In Fiscal Year 2010-11 West Basin collaborated with all eight of its water retailers to implement an integrated conservation master planning project that would help meet the state's new 20% water reductions by 2020, and to help West Basin meet its WR 2020 Initiative – to double its water conservation efforts. Both of these goals are aligned with West Basin's overall mission to increase local-control of water supplies and ensure long term water reliability. The end result of this project was the development of a new Water Use Efficiency Master Plan for West Basin and each of its customers. The draft Plans were complete in the summer of 2011 and each agency is working to fine-tune and adopt their individual, agency-specific Plan.

West Basin worked closely with its retail customers and a consultant to develop a wide-array of programs. By

collaborating with local and regional agencies, and successfully obtaining federal, state and local grants, West Basin is able to deliver cost-effective programs that are free to residents, businesses, and other public agencies within its service area.

West Basin’s conservation and water use efficiency programs are developed in a strategic, collaborative and responsible manner. Due to economic and other resource challenges water agencies and cities face, it is important for agencies to work together to leverage resources and funding wherever possible.

In Fiscal Year 2010-11, West Basin continued to provide value by leveraging project opportunities, new funding partnerships, and several new grants, focusing its programs on improved water use efficiency.

Ocean-Friendly Landscapes: With 30-70% of water use in West Basin’s service area taking place outdoors, the Ocean-Friendly Garden (OFG) 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. Classes take place throughout the service area and may be found at www.westbasin.org.

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. The *Cash for Kitchens* program encourages businesses with commercial kitchens to take advantage of *free* water and energy audits and, if they qualify, receive water and energy efficient devices, installed. West Basin works directly with residents to exchange old water-wasting toilet(s) for new water efficient one(s), or inefficient sprinkler controller(s) for new, ‘smart’ controller. The Toilet distribution program saves 43 million gallons of water a year. The ‘smart’ sprinkler controllers can help a resident save up to 47 gallons per day.

FY 2010-11 Device Savings

Program	Device	Annual Water Savings (AF)	Device Lifetime Water Savings (AF)
5 Toilet Distribution Events	1,744 HE Toilets	70 AF	1,400 AF
Large Landscape Sprinkler Controllers	Installed 98 Smart Controllers	30 AF	300 AF
Green Living for Apts & Condos	1,080 HE Toilets	67 AF	1,340 AF
Cash 4 Kitchens	173 Kitchen Devices	7 AF	14 AF
Recirc and Save	1 Process Equip Installed	6 AF	30 AF
Commercial Retrofit Program	606 HE Toilets	26 AF	520 AF
Total		206 AF 67M Gallons	3,604 AF 1 B Gallons



EDUCATION

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

Water Education Center: West Basin's Water Education Center is a visual portfolio showcasing water conservation and water efficiency, 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. Thousands of school children visit the facility each year as part of West Basin's Water Explorations School Tours program.

Water Explorations Tours: Showcasing water recycling and environmental stewardship at a level appropriate for children in 3rd thru 12th grades, this program combines in-classroom participation, a tour experience, and a visit to a nearby aquarium. The water recycling tour takes place at the Edward C. Little Water Recycling Facility in El Segundo and emphasizes water conservation and efficiency, marine life protection and the production of alternative water sources such as recycled water and desalinated ocean-water. 10,000 students will participate in this program during the 2011-2012 school year.

Splash Science: In accordance with state curriculum standards, West Basin offers schools within its service area an opportunity for 4th graders to take a journey through California's water systems. The traveling tidepool van, constructed with touch tanks with lessons taught by the L.A. Conservation Corps SEA Lab team, visits schools within West Basin's service area and encourages students to interact with live marine animals at their school site.

Water is Life Student Art Contest: This annual art contest inspires young people to tell visual stories about the value of water and the importance of using it wisely. Water is Life invites participation from students in elementary, middle and high schools 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 libraries in West Basin's service area, available at the library 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 seven months working together to build their boats with the final race taking place over Solar Cup weekend at Lake Skinner in May.

PUBLIC OUTREACH

West Basin reaches out to the public in multiple media, including newspapers, in-person briefings, website, events, and publications to convey news about our water supply, 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, and as discussed previously, is designed to reduce our dependence on imported water by increasing the amount of water we conserve and produce locally. By 2020, West Basin plans to double its water recycling and water conservation programs and include desalted ocean-water as 10% of our water supply portfolio.

Presentations to community groups are arranged through our Speaker's Bureau. 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 Information and Conservation 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 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 130 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, with clues in different home environments that lead the player to figure out who is the water wasting culprit. 2011 brought online a map/database to help customers identify their retail water provider by inputting their address into a google map based system on www.westbasin.org.

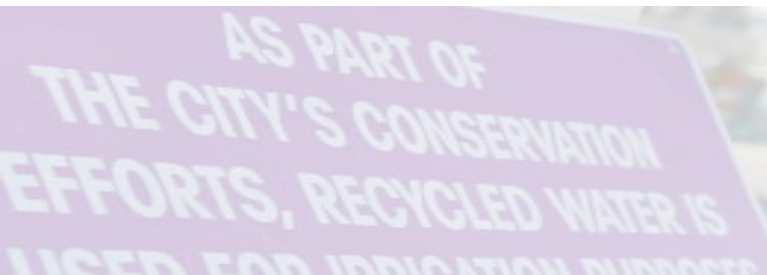
Water Star: West Basin's new WR 2020 Water Star program encourages elementary aged school children to sign up to save 20 gallons a day, reducing our dependence on imported water and reducing runoff to the ocean. Children receive a water star conservation kit complete with fix-it tickets and conservation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

Media Outreach Media outreach is a priority for West Basin as it strengthens its relationships with local, regional and national press, magazines, electronic media and other public forums. Our efforts are focused on encouraging citizens to learn about our water supply, the need to make it more reliable, and West Basin's value, leadership, programs and services. In 2010, West Basin hosted its first media tour of its facilities and programs, resulting in extensive media coverage for the agency.

Events: West Basin staff and directors participate in events throughout the year to share water supply and conservation messages with the public. Spring and Fall are the busiest times, with a long list of events focused around Earth Day and water awareness month. 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. In 2010-11, West Basin hosted its first ever book signing and lecture event for *The Big Thirst* by author Charles Fishman.

Tours: 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 and now, ocean-water desalination. We additionally offer recycling tours for the public on the second Saturday of each month, to introduce the community to their water supply and offer public tours of the desalination facility Tuesday thru Saturday and by appointment.

Construction outreach: Our construction outreach efforts support West Basin's capital improvement projects when construction requires access through residential or business communities. Community meetings and other outreach efforts inform local communities of the extent and timeline of construction.



LEGISLATIVE AND 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 (COGs), 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*.

WHAT THE FUTURE HOLDS

As the population increases and imported water supplies become challenged, West Basin will expand our programs to meet increasing water needs and decrease our reliance on imported water. Meeting West Basin's long-term water supply reliability objectives lies in managing demand through conservation and growing local supplies through desalination and water recycling.

OCEAN-WATER DESALINATION

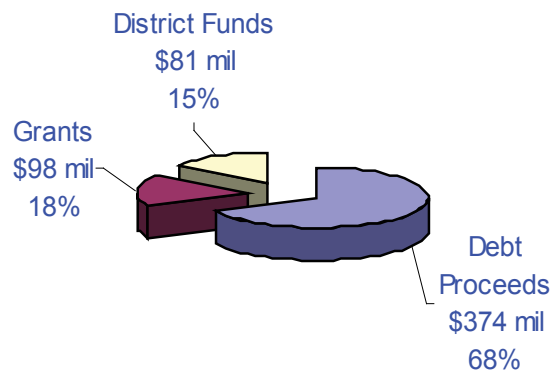
In May 2002, West Basin initiated piloting efforts to desalinate ocean-water and evaluate its viability as a future water supply source for the region. Supported by various institutions and other interested parties including water agencies and agricultural associations, West Basin began a \$1.5 million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

The Desalination Demonstration Facility processes 550,000 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. The Desalination Demonstration facility was dedicated in November 2010 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 progress and is expected to be complete in FY 2013.

**Funding for the Water Recycling Program
through June 30, 2011**



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, information technology 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 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. At the beginning of Fiscal Year 2010-11, West Basin received a Model Investment Policy award from the Association of Public Treasurers. 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 all subsequent fiscal years.

To maintain its financial strength, West Basin has developed a Long-Range Financial Plan (LRFP). The LRFP starts with the current existing budget and incorporates revenue and expense assumptions used to address anticipated operating and capital expenditures to allow a dynamic financial model to. 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 \$106.4 million for the fiscal year ending June 30, 2011, while recycled water sales amounted to \$26.4 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 36 persons, of whom 23 work in the operations, planning, communications and engineering departments and 13 work in accounting or administration.

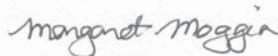
ACKNOWLEDGEMENTS

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, 2010

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.



Linda C. Davison

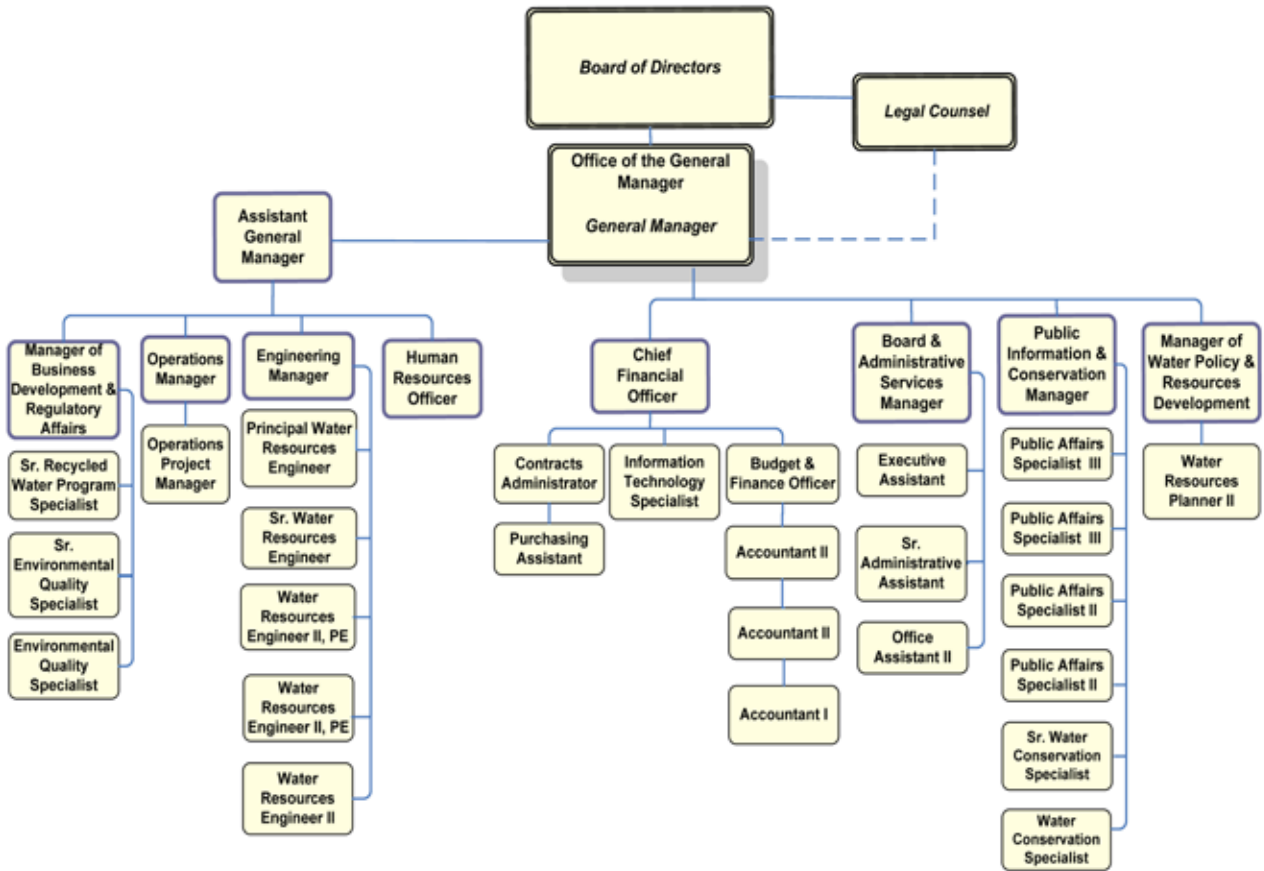
President

Jeffrey R. Emer

Executive Director

WEST BASIN MUNICIPAL WATER DISTRICT

June 2011



AS PART OF
THE CITY'S CONSERVATION
EFFORTS RECYCLED WATER IS
USED FOR IRRIGATION PURPOSES

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FINANCIAL SECTION



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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, 2011, 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, 2010 and, in our report dated December 10, 2010, 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, 2011, 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.

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 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.



Board of Directors
West Basin Municipal Water District
Page Two

In accordance with *Government Auditing Standards*, we have also issued a report dated December 9, 2011 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.

Mayor Hoffman on 11-18-11

Irvine, California
November 18, 2011



West Basin Municipal Water District

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2011

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the West Basin Municipal Water District (District) provides an introduction to the financial statement of the District for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with the transmittal letter in the Introductory Section and with the basic financial statements and related notes, which follow this section.

Financial Highlights

- The District's net assets increased by \$7.6 million, or 3.93% from the prior year.
- During the year, the District's revenues were \$152 million, up 2.24% from the prior year, while expenses were \$157 million, up 2.77% from the prior year.
- Capital contributions to the District were \$13 million for the year.

Required Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and Statement of Cash Flows provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies.

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

The Statement of Revenues, Expenses and Changes in Net Assets present information that shows the result of the District 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 the District has recovered its costs through user fees and other charges.

The Statement of Cash Flows provides information regarding the District's cash receipts, cash disbursements and net changes in cash resulting from operations, investing, and capital and non-capital financing activities. This statement provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided 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. The Notes to the Financial Statements can be found on pages 33 through 57.

Financial Analysis of the District

1) Statement of Net Assets

Condensed Statement of Net Assets

	<u>2011</u>	<u>2010</u>	<u>Change</u>
Assets:			
Current unrestricted assets	\$ 85,360,067	\$ 89,031,681	\$ (3,671,614)
Current restricted assets	14,718,227	15,321,696	(603,469)
Capital assets, net	427,881,437	413,472,203	14,409,234
Other assets	<u>7,229,951</u>	<u>8,113,744</u>	<u>(883,793)</u>
Total Assets	<u>535,189,682</u>	<u>525,939,324</u>	<u>9,250,358</u>
Liabilities:			
Current liabilities	40,124,159	38,555,660	1,568,499
Long term liabilities	<u>293,435,753</u>	<u>293,373,237</u>	<u>62,516</u>
Total Liabilities	<u>333,559,912</u>	<u>331,928,897</u>	<u>1,631,015</u>
Net Assets:			
Invested in capital assets, net of related debt	140,017,863	138,495,972	1,521,891
Unrestricted	<u>61,611,907</u>	<u>55,514,455</u>	<u>6,097,452</u>
Total Net Assets	<u>\$ 201,629,770</u>	<u>\$ 194,010,427</u>	<u>\$ 7,619,343</u>

Net Assets measure the District's financial health, or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, new or changed government legislation, etc. The Condensed Statement of Net Assets show that assets of the District exceeded liabilities by \$201 million and \$194 million as of June 30, 2011 and 2010, respectively.

A large portion of the District's net assets (\$140 million and \$138 million as of June 30, 2011 and 2010, respectively) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debts used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to customers; consequently, these assets are not available for future spending.

2) Statement of Revenues, Expenses, and Changes in Net Assets

Condensed Statements of Revenue, Expenses and Changes in Net Assets

	<u>2011</u>	<u>2010</u>	<u>Change</u>
Revenue			
Operating revenues			
Water	\$106,427,113	\$ 101,365,201	\$ 5,061,915
Water recycling revenue	26,382,155	28,011,549	(1,629,394)
Water conservation and monitoring	741,055	912,083	(171,028)
Desalting revenue	801,332	333,775	467,557
Total operating revenues	<u>134,351,655</u>	<u>130,622,608</u>	<u>3,729,050</u>
Non-Operating revenues			
Standby charges	9,898,501	9,679,063	219,438
Investment Income	1,215,5375	1,426,242	(210,705)
Other non-operating revenues	6,052,632	6,471,486	(418,854)
Total non-operating revenues	<u>17,166,668</u>	<u>17,576,791</u>	<u>(410,121)</u>
Total revenues	<u>151,518,323</u>	<u>148,199,399</u>	<u>3,318,929</u>
Expenses			
Operating expenses			
Source of supply	94,855,060	92,276,466	2,578,599
Water recycling costs	25,277,282	23,477,102	1,800,180
Depreciation and amortization	18,267,800	17,077,536	1,190,264
Communications and monitoring	4,642,948	4,360,178	282,770
Water resource planning	892,731	1,043,584	(150,853)
Desalting operations	668,219	550,935	117,284
Total operating expenses	<u>144,604,040</u>	<u>138,785,801</u>	<u>5,818,244</u>
Non-Operating expenses			
Miscellaneous expense	26,926	656,254	(629,328)
Loss on disposition for assets	426,260	921,731	(495,471)
Interest expense	12,038,152	12,497,585	(459,433)
Total non-operating expenses	<u>12,491,338</u>	<u>14,075,570</u>	<u>(1,584,232)</u>
Total expenses	<u>157,095,378</u>	<u>152,861,371</u>	<u>4,234,012</u>
Net income (loss) before capital contributions	<u>(5,577,055)</u>	<u>(4,661,972)</u>	<u>(915,083)</u>
Capital contributions	<u>13,196,398</u>	<u>15,318,648</u>	<u>(2,122,250)</u>
Change in net assets	<u>7,619,343</u>	<u>10,656,676</u>	<u>(3,037,333)</u>
Net assets, beginning of year	<u>194,010,427</u>	<u>183,353,751</u>	<u>10,656,676</u>
Net assets, end of year	<u>\$ 201,629,770</u>	<u>\$ 194,010,427</u>	<u>\$ 7,619,343</u>

The statement of revenues, expenses and changes of net assets shows how the District's net assets changed during the fiscal year. Net assets increased by \$7.6 million and \$10.7 million for the fiscal years ending June 30, 2011 and 2010, respectively.

A closer examination of the sources of changes in net assets reveals that:

In 2011, the District's total revenues increased by \$3.3 million, primarily due to an increased in potable water sales revenues of \$5 million. The increase in potable water revenues is the result of increase in water rates in the year. The District purchases potable water from Metropolitan Water District (MWD) and set its rate based on the rate from MWD. In 2011, the potable rate increase \$74 per acre foot or 9% during the fiscal year. Also, non-operating revenues decreased by \$410,000 primarily due to lower interest rates on its investment portfolio and more use of cash on capital projects. In addition, total expenses increased by \$4.2 million which

are the result of paying the higher rate to MWD to purchase the potable water, increases in operation and maintenance costs at the water recycling facility and increases in depreciation expenses.

The capital contributions are from three major categories, the fixed payments from major recycled water customers of \$6.8 million, the contributed facilities from the U.S. Army Corp of Engineers of \$4.6 million and total grants of \$1.7 million from Department of Water Reclamation to support the District Ocean Desalination project.

3) Capital Assets

At June 30, 2011, the District investment in capital assets totaled \$567.3 million. Capital assets include land, discharge capacity rights, water facilities, potable distribution system, education center, buildings and improvements, furniture, fixtures and equipment and construction in progress. This amount represents an increase of \$31.2 million over the prior year. The following is a summary of capital assets:

	<u>2011</u>	<u>2010</u>	<u>change</u>
Land	\$ 25,211,646	\$ 25,211,646	\$ -
Discharge Capacity	621,189	335,000	286,189
Water Facilities	474,202,050	466,318,916	7,883,134
Building and Improvements	2,721,478	2,364,937	356,540
Meter 28 Potable Distribution System	1,241,681	0	1,241,681
Education Center	548,067	0	548,067
Furniture, Fixtures, and Equipment	2,520,214	2,490,983	29,232
Construction in Progress	<u>60,275,082</u>	<u>39,395,291</u>	<u>20,879,791</u>
Total Capital Assets	<u>\$ 567,341,409</u>	<u>\$ 536,116,773</u>	<u>\$ 31,224,634</u>

A significant portion of the current year's construction in progress is attributable to the District's continued efforts in Ocean Desalination, as well as Phase V expansion of the water recycling facility. In addition, West Basin invested in a Capital Improvement Master Plan, Harbor South Bay projects and other reliability projects.

Additional information regarding capital assets can be found in note 4 in Notes to Basic Financial Statements.

4) Long-Term Debt

As of June 30, 2011, the District had \$310 million in long-term debt including the State of California loan, certificates of participations and interest rate swaps. The District paid down \$10.4 million from the principal of its long-term debts in fiscal year 2011. The District borrowed an additional \$15.8 million from the 2010 adjustable rate certificates of participation which resulted in a \$25.8 million outstanding balance at the end of the fiscal year. Subsequent to year-end, the District refinanced approximately \$33 million of the 2003 refunding revenue certificates of participation and the entire amount of the state loan outstanding, which is noted in Note 10 (Subsequent Events) of the Notes to Basic Financial Statements. Additional information regarding long-term debt can be found in Notes 5 in Notes to Basic Financial Statements.

The District has three outstanding swaps as of June 30, 2011. The liability of \$8.7 million represents what



the District would owe if its three swaps were terminated as of June 30, 2011. The District terminated one of the swaps in August, 2011, which is noted in Note 10 (Subsequent Events) of the Notes to Basic Financial Statements. For more information regarding the District's swaps, please refer to Note 9 of the Notes to Basic Financial Statements. The following is a summary for the years 2010 and 2011:

	<u>2011</u>	<u>2010</u>	<u>Change</u>
State of California Loan	\$ 1,440,344	\$ 1,743,027	\$ (302,683)
Certificates of Participation	300,050,000	294,395,000	5,655,000
Interest Rate Swaps	<u>8,728,674</u>	<u>14,445,879</u>	<u>(5,717,205)</u>
Total Long Term Debt	<u>\$ 310,219,018</u>	<u>\$ 310,583,906</u>	<u>\$ (364,888)</u>

Condition Affecting Current Financial Position

Management is unaware of any conditions that would have a significant impact on the District's financial position, net assets, or operating results in terms of past, present and future.

Contacting the District's Financial Manager

This financial report is designed to provide our citizens, customers, investors, and creditors with an overview of the District's financial operations and overall financial condition. If you have questions about this report or need additional financial information, contact Margaret Moggia, Chief Financial Officer at West Basin Municipal Water District.



WEST BASIN MUNICIPAL WATER DISTRICT

STATEMENT OF NET ASSETS

June 30, 2011

(With comparative totals for June 30, 2010)

ASSETS

	<u>2011</u>	<u>2010</u>
CURRENT ASSETS		
Unrestricted assets:		
Cash and cash equivalents (note 2)	\$ 22,048,103	\$ 34,238,807
Investments (note 2)	35,563,136	28,141,327
Accounts receivable	26,414,537	25,572,390
Accrued interest receivable	328,572	130,743
Inventory	439,004	420,708
Prepaid expenses	566,715	527,706
Total unrestricted assets	<u>85,360,067</u>	<u>89,031,681</u>
Restricted assets (note 3):		
Cash and cash equivalents (note 2)	12,670	18,150
Investments (note 2)	13,614,100	13,614,100
Accrued interest receivable	324,984	324,984
Retrofit loans receivable	474,816	486,657
Custodial cash (note 2)	291,657	877,805
Total restricted assets	<u>14,718,227</u>	<u>15,321,696</u>
TOTAL CURRENT ASSETS	<u>100,078,294</u>	<u>104,353,377</u>
NONCURRENT ASSETS		
Capital assets, net (note 4)	427,881,437	413,472,203
Net OPEB asset (note 7)	653,350	653,350
Deferred outflows - interest rate swap (note 9)	3,812,440	4,496,309
Unamortized bond issuance costs:		
2003 refunding revenue certificates of participation	682,611	718,379
2008 adjustable rate refunding revenue certification of participation	193,000	205,000
2008 refunding revenue certificates of participation	1,762,433	1,850,189
2010 adjustable rate revenue certification of participation	126,117	190,517
TOTAL NONCURRENT ASSETS	<u>435,111,388</u>	<u>421,585,947</u>
TOTAL ASSETS	<u>\$ 535,189,682</u>	<u>\$ 525,939,324</u>

(Continued)



WEST BASIN MUNICIPAL WATER DISTRICT

STATEMENT OF NET ASSETS

June 30, 2011

(With comparative totals for June 30, 2010)

(CONTINUED)

LIABILITIES AND NET ASSETS

	<u>2011</u>	<u>2010</u>
CURRENT LIABILITIES		
Accounts payable and accrued expense	23,619,763	22,982,830
Accrued interest payable	5,174,676	5,125,147
Current portion of long-term liabilities (note 5)	11,329,720	10,447,683
TOTAL CURRENT LIABILITIES	<u>40,124,159</u>	<u>38,555,660</u>
LONG-TERM LIABILITIES (note 5)		
Compensated absences	900,738	784,713
2003 refunding revenue certificates of participation	115,245,000	121,830,000
2008 adjustable rate refunding revenue certification of participation	34,035,000	35,930,000
2008 refunding revenue certificates of participation	124,970,000	126,635,000
2010 adjustable rate revenue certification of participation	25,800,000	10,000,000
State of California loan payable	1,440,344	1,743,027
Interest rate swaps (note 9)	8,728,674	14,445,879
Subtotal	311,119,756	311,368,619
Less: Unamortized bond premiums (discounts)	4,072,715	4,280,299
Deferred amount on refunding	(10,426,998)	(11,827,998)
Total	304,765,473	303,820,920
Less current portion above	(11,329,720)	(10,447,683)
TOTAL LONG-TERM LIABILITIES	<u>293,435,753</u>	<u>293,373,237</u>
TOTAL LIABILITIES	<u>333,559,912</u>	<u>331,928,897</u>
NET ASSETS:		
Invested in capital assets, net of related debt	140,017,863	138,495,972
Unrestricted	61,611,907	55,514,455
TOTAL NET ASSETS	<u>\$ 201,629,770</u>	<u>\$ 194,010,427</u>



WEST BASIN MUNICIPAL WATER DISTRICT

STATEMENT OF REVENUES, EXPENSES

AND CHANGES IN NET ASSETS

Year ended June 30, 2011

(With comparative totals for the year ended June 30, 2010)

	2011	2010
OPERATING REVENUES:		
Water	\$ 106,427,113	\$ 101,365,201
Water recycling revenue	26,382,155	28,011,549
Water conservation and monitoring	741,055	912,083
Desalting revenue	801,332 #	333,775
TOTAL OPERATING REVENUES	134,351,655	130,622,608
OPERATING EXPENSES:		
Source of supply	94,855,060	92,276,466
Water recycling costs	25,277,282	23,477,102
Depreciation and amortization	18,267,800	17,077,536
Communications and monitoring	4,642,948	4,360,178
Water resource planning	892,731	1,043,584
Desalting operations	668,219	550,935
TOTAL OPERATING EXPENSES	144,604,040	138,785,801
OPERATING INCOME (LOSS)	(10,252,385)	(8,163,193)
NONOPERATING REVENUES (EXPENSES):		
Standby charges	9,898,501	9,679,063
Investment income	1,215,535	1,426,242
Change in fair value of swap instrument (nonhedged)	5,033,336	5,701,607
Miscellaneous income	560,659	557,072
Noncapital grants	458,637	212,807
Miscellaneous expense	(26,926)	(656,254)
Loss on disposition of assets	(426,260)	(921,731)
Interest expense	(12,038,152)	(12,497,585)
TOTAL NONOPERATING REVENUES (EXPENSES)	4,675,330	3,501,221
NET INCOME BEFORE CAPITAL CONTRIBUTIONS	(5,577,055)	(4,661,972)
CAPITAL CONTRIBUTIONS:		
Capital grants and contributions (cash)	1,681,844	-
Capital-recovery charges	6,886,648	7,746,840
Contributed facilities	4,627,906	7,571,808
TOTAL NONOPERATING REVENUES (EXPENSES)	13,196,398	15,318,648
CHANGE IN NET ASSETS	7,619,343	10,656,676
NET ASSETS - BEGINNING OF YEAR	194,010,427	183,353,751
NET ASSETS - END OF YEAR	\$ 201,629,770	\$ 194,010,427

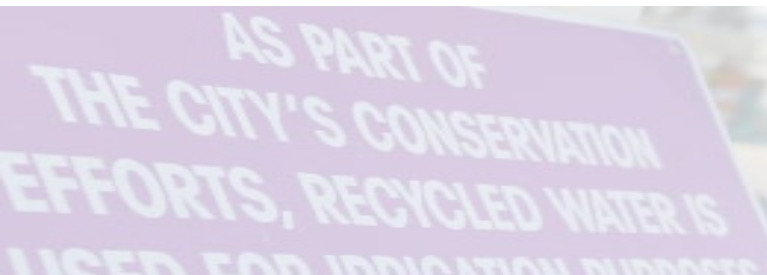
**WEST BASIN MUNICIPAL WATER DISTRICT
STATEMENT OF CASH FLOWS**

Year ended June 30, 2011

(With comparative totals for the year ended June 30, 2010)

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 134,043,241	\$ 125,920,297
Cash paid to suppliers of goods and services	(121,959,506)	(112,970,674)
Cash paid to employees for services	<u>(3,669,240)</u>	<u>(3,852,504)</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>8,414,495</u>	<u>9,097,119</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Grants received	458,637	212,807
Cash received for standby charges	<u>9,898,501</u>	<u>9,668,654</u>
NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES	<u>10,357,138</u>	<u>9,881,461</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on long-term liabilities	(10,447,683)	(9,297,730)
Acquisition and construction of capital assets	(27,082,049)	(17,410,200)
New issuance of long-term liabilities	15,800,000	10,000,000
Interest paid on long-term liabilities	(11,988,623)	(12,772,992)
Capital grants and contributions (cash) received	1,681,844	-
Capital-recovery charges received	<u>6,886,648</u>	<u>7,746,840</u>
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(25,149,863)</u>	<u>(21,734,082)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of investments	36,881,321	35,669,029
Purchase of investments	(44,429,015)	(22,020,531)
Interest received	<u>1,143,592</u>	<u>1,952,172</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>(6,404,102)</u>	<u>15,600,670</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(12,782,332)	12,845,168
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>35,134,762</u>	<u>22,289,594</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 22,352,430</u>	<u>\$ 35,134,762</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO AMOUNTS REPORTED ON THE STATEMENT OF NET ASSETS:		
Cash and cash equivalents	\$ 22,048,103	\$ 34,238,807
Restricted cash and cash equivalents	12,670	18,150
Restricted custodial cash	<u>291,657</u>	<u>877,805</u>
Cash and cash equivalents at end of year	<u>\$ 22,352,430</u>	<u>\$ 35,134,762</u>

(Continued)



WEST BASIN MUNICIPAL WATER DISTRICT

STATEMENT OF CASH FLOWS

Year ended June 30, 2011

(With comparative totals for the year ended June 30, 2010)

(Continued)

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>2011</u>	<u>2010</u>
Operating income (loss)	\$ (10,252,385)	\$ (8,163,193)
Depreciation and amortization	18,267,800	17,077,536
Nonoperating miscellaneous revenue	560,659	557,072
Nonoperating miscellaneous expenses	(26,926)	(656,254)
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	(842,147)	(4,658,129)
(Increase) decrease in inventory	(18,296)	80,659
(Increase) decrease in prepaid expense	(39,009)	108,428
(Increase) decrease in net OPEB asset	-	(56,196)
(Increase) decrease in retrofit loans receivable	11,841	20,296
(Increase) decrease in custodial accounts receivable	-	55,000
Increase (decrease) in accounts payable	636,933	4,731,263
Increase (decrease) in compensated absences	116,025	637
	<u>8,414,495</u>	<u>9,097,119</u>
 NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	 <u>\$ 8,414,495</u>	 <u>\$ 9,097,119</u>
 NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Contributed facilities	<u>\$ 4,627,906</u>	<u>\$ 7,571,808</u>
Loss on disposition of assets	<u>\$ 426,260</u>	<u>\$ 921,731</u>
Unrealized gain (loss) from investments	<u>\$ (125,885)</u>	<u>\$ 176,182</u>
Revenue created by the change in the nonhedged swap fair value	<u>\$ 5,033,336</u>	<u>\$ 5,701,607</u>

WEST BASIN MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2011

(1) Summary of significant accounting policies

Organization and description of the district - West Basin Municipal Water District (District) was incorporated on December 17, 1947, which operates under the authority of Division 20 of the California Water Code for the purpose of providing water and related services to the properties within the District. In 1997, a Financing Corporation has been formed for the purpose of issuing the District's certificate of participations. The District is governed by a five member Board of Directors elected by the voters in the area to four-year term.

The mission of the District is to provide a safe and reliable supply of high quality water to the communities we serve. The District's customers consist of 9 agencies, private and public, within its 185-square mile service area. The District provides drinking and recycled water and water efficiency programs to its customers.

Basis of accounting

The District financial statements are comprised of the Comparative Statements of Net Assets, the Comparative Statement of Revenues, Expenses and Changes in Net Assets, the Comparative Statement of Cash Flows and the notes to the financial statements.

The District uses enterprise fund to record its activities. An enterprise fund is a type of Proprietary fund used to account for operations where the costs of providing services to the general public on a continuing basis be financed or recovered primarily through user fees and charges or debt backed by fees and charges.

The District uses "accrual basis of accounting", where revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows

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)

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.

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.

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

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

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

Depreciation aggregated \$16,874,460 for the year ended June 30, 2011.

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 \$1,393,340 for the year ended June 30, 2011.

**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.

Compensated Absences - Vested or accumulated vacation and sick leave is recorded as an expense and liability as benefits accrue to employees.

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.

Capital contributions - Capital contributions for the fiscal year ended June 30, 2011 are as follows:

Capital grants and contributions (cash)	\$ 1,681,844
Capital-recovery charges	6,886,648
Contributed Facilities-U.S. Army Corps of Engineers	<u>4,627,906</u>
Total	<u>\$ 13,196,398</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.

Capital grants and contributions (cash) - The District received grants from the Department of Water Reclamation, Interior Department Bureau of Reclamation, and other contributions this fiscal year for the support of its Ocean-water desalination project.

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.



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

(1) Summary of significant accounting policies (Continued)

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 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, 2011 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 \$200,395,050). 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 \$59,000,000.

Auto liability - The Insurance Authority has pooled self-insurance up to \$1,000,000 per occurrence and has purchased excess insurance coverage up to \$59,000,000.

Public officials' liability - The Insurance Authority has pooled self-insurance up to \$1,000,000 and has purchased excess insurance coverage up to \$59,000,000.

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

At June 30, 2011 the District also had insurance coverage with Alliant Insurance for crime up to \$3,000,000, with a \$100,000 deductible.

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, 2011:

	<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	\$20,741,492	\$ -	\$ -	\$20,741,492
Money market mutual funds	82,663	-	-	82,663
Deposits with financial institutions	1,528,275	-	-	1,528,275
Investments:				
United States agency securities	4,047,590	15,191,108	-	19,238,698
United States treasury securities	11,016,723	3,358,261	-	14,374,984
Corporate notes	972,591	976,863	-	1,949,454
Guaranteed investment contracts	-	-	13,614,100	13,614,100
Total cash and investments	<u>\$38,389,334</u>	<u>\$19,526,232</u>	<u>\$13,614,100</u>	<u>\$71,529,666</u>

Financial Statement Classification:

Current assets:

Cash and cash equivalents	\$22,048,103
Investments	35,563,136

Restricted assets:

Cash and cash equivalents	12,670
Investments	13,614,100
Custodial cash	<u>291,657</u>

Total Cash and Investments **\$71,529,666**

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	\$20,741,492
Money market mutual funds	82,663
Deposits with financial institutions	<u>1,528,275</u>
Total cash and cash equivalents	<u>\$22,352,430</u>

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>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</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, mortgage pass-through securities, mutual funds, and open ended money market mutual funds. In addition, investment in a prime banker's acceptances shall not exceed 15% of the portfolio and no more than 15% of this category may be invested in any one commercial bank's acceptances, no more than 5% of the portfolio may be invested in any one issuer. For Commercial paper, the District allows no more than 5% of the portfolio may be invested in any one issuer.

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>Maximum Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Investment in One Issuer</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, 2011.

The District is invested in a pay-fixed, receive-variable interest rate swap agreement with a negative fair value of \$4.9 million as of June 30, 2011. The terms of this interest rate swap agreement are described in Notes 9 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 under Current Assets and restricted assets..

<u>Investment</u>	<u>Rating as of Year End Standard & Poor’s</u>
U.S. agency securities	AAA
U.S. treasury securities	N/A
LAIF	Not Rated
Money market mutual funds	AAA
Corporate Notes	A+ and AA+
Held by bond trustee:	
Money market mutual funds	AAA
Guaranteed investment contracts	Not Rated

Subsequent to June 30, 2011, Standard & Poor’s changed its rating of U.S. Treasury long-term securities and agencies that have direct reliance on the U.S. government from AAA to AA+.

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	\$5,042,181
Federal Home Loan Mortgage Association	U.S. agency securities	<u>13,192,807</u>
		<u>\$18,234,988</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, 2011:

<u>Funding source</u>	<u>Use</u>	
Certificates of Participation and interest earned	Reserve Fund	\$13,951,754
Retrofit Loans receivable	Connect customers to recycled water distribution pipeline	474,816
Custodial receipts	Custodial costs	<u>291,657</u>
		<u>\$14,718,227</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, 2011:

	<u>Balance at July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2011</u>
Capital assets, not being depreciated:				
Land - Recycling facilities	\$ 23,541,078	-	-	\$ 23,541,078
Land – Carson	1,670,568	-	-	1,670,568
Discharge Capacity -	335,000	286,189	-	621,189
Construction-in-progress*	<u>39,395,291</u>	<u>30,292,993</u>	<u>(9,413,202)</u>	<u>60,275,082</u>
Total capital assets, not being depreciated	<u>64,941,937</u>	<u>30,579,182</u>	<u>(9,413,202)</u>	<u>86,107,917</u>
Capital assets, being depreciated:				
Building – Carson	2,343,573	-	-	2,343,573
Building improvement	21,364	356,541	-	377,905
Potable distribution system	-	1,241,681	-	1,241,681
Education center	-	548,067	-	548,067
Recycling facilities	462,525,354	6,714,046	(336,353)	468,903,047
Groundwater desalting facility	3,793,562	1,505,443	-	5,299,005
Machinery and equipment	2,118,618	5,167	-	2,123,785
Furniture and fixtures	<u>372,365</u>	<u>24,064</u>	<u>-</u>	<u>396,429</u>
Total capital assets, being depreciated	<u>471,174,836</u>	<u>10,395,009</u>	<u>(336,353)</u>	<u>481,233,492</u>
Less accumulated depreciation:				
Building – Carson	(273,417)	(93,743)	-	(367,160)
Building improvement	(1,930)	(20,082)	-	(22,012)
Potable distribution system	-	(31,042)	-	(31,042)
Ocean desalination education center	-	(30,448)	-	(30,448)
Recycling facilities	(120,083,871)	(16,258,017)	59,058	(136,282,830)
Groundwater desalting facility	(1,392,694)	(219,292)	-	(1,611,986)
Machinery and equipment	(653,841)	(177,561)	-	(831,402)
Furniture and fixtures	<u>(238,817)</u>	<u>(44,275)</u>	<u>-</u>	<u>(283,092)</u>
Total accumulated depreciation	<u>(122,644,570)</u>	<u>(16,874,460)</u>	<u>59,058</u>	<u>(139,459,972)</u>
Total capital assets, being depreciated, net	<u>348,530,266</u>	<u>(6,479,451)</u>	<u>(277,295)</u>	<u>341,773,520</u>
Total capital assets, net	<u>\$413,472,203</u>	<u>24,099,731</u>	<u>(9,690,497)</u>	<u>\$427,881,437</u>

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

(5) Long-term liabilities

The following amounts of debt were outstanding June 30, 2011:

	<u>Balance at July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2011</u>	<u>Current Portion</u>
2003 Refunding Revenue					
Certificates of Participation	\$121,830,000	-	(6,585,000)	115,245,000	6,785,000
2008 Adjustable Rate					
Refunding Revenue					
Certificate of Participation	35,930,000	-	(1,895,000)	34,035,000	1,945,000
2008 Refunding Revenue					
Certificate of Participation	126,635,000	-	(1,665,000)	124,970,000	2,030,000
2010 Adjustable Rate					
Revenue Certificates					
of Participation	10,000,000	15,800,000	-	25,800,000	-
State of California Loan					
Payable	<u>1,743,027</u>	<u>-</u>	<u>(302,683)</u>	<u>1,440,344</u>	<u>312,974</u>
Subtotal	<u>296,138,027</u>	<u>15,800,000</u>	<u>(10,447,683)</u>	<u>301,490,344</u>	<u>11,072,974</u>
Unamortized Discount and					
Premium	4,280,299	-	207,584	4,072,715	
Deferred Amount on					
Refunding	<u>(11,827,998)</u>	<u>-</u>	<u>(1,401,000)</u>	<u>(10,426,998)</u>	
Compensated absences	<u>784,713</u>	<u>372,771</u>	<u>(256,746)</u>	<u>900,738</u>	<u>256,746</u>
Total	<u>\$289,375,041</u>	<u>16,172,771</u>	<u>(11,897,845)</u>	<u>296,036,799</u>	<u>11,329,720</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, 2011 totaled \$115,245,000.

2008 adjustable rate refunding revenue certificates of participation - In May 2008, the Financing Corporation issued \$39,465,000 (\$21,110,000 series 2008A-1 and \$18,355,000 series 2008A-2) 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 of Participation, 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)

Both 2008A-1 and 2008A-2 have interest rates that are remarketed on a weekly basis (0.06% at June 30, 2011). The amount of bonds outstanding at June 30, 2011 totaled \$34,035,000.

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 of Participation, 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, 2011 totaled \$124,970,000.

2010 adjustable rate revenue certificates of participation - In June 2010, U.S. Bank National Association agreed to extend up to \$50,000,000 authorization 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 "*Certificate*"), 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 utilized portion of the Certificate is based on fixed rate and adjusted LIBOR rate. The District also pays facility fee on the unutilized portion of the Certificate, which is based on the fixed rate. The amount of certificates outstanding at June 30, 2011 totaled \$25,800,000.

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, 2011 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, 2011 the balance of the loan payable totaled \$1,440,344.

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. For the year ended June 30, 2011, debt coverage (net revenues divided by senior debt service) for senior debt was approximately 1.78. Debt coverage (net revenues divided by total debt service) for all debt was approximately 1.18.

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 2010 Adjustable rate revenue certificates of participation) and the State Loan subsequent to June 30, 2011 are as follows:

	<u>Certificates of Participation</u>			State of California <u>Loan Payable</u>		Total
	Principal	Interest	Hedging Derivatives, Net	Principal	Interest	
2012	10,760,000	12,884,351	1,116,010	312,974	48,972	25,122,307
2013	12,070,000	12,565,711	1,043,459	323,615	38,331	26,041,116
2014	12,785,000	11,844,405	974,911	334,618	27,328	25,966,262
2015	13,360,000	11,322,369	900,554	345,995	15,951	25,944,869
2016	14,000,000	10,752,067	825,522	123,142	1,411	25,702,142
2017	10,725,000	10,004,898	742,962	-	-	21,472,860
2018	10,000,000	9,585,591	661,916	-	-	20,247,507
2019	10,425,000	9,196,318	576,207	-	-	20,197,525
2020	10,890,000	8,663,269	487,906	-	-	20,041,175
2021	11,350,000	8,270,317	393,671	-	-	20,013,988
2022	11,835,000	7,720,967	298,312	-	-	19,854,279
2023	12,560,000	7,191,448	246,058	-	-	19,997,506
2024	13,455,000	6,580,424	201,600	-	-	20,237,024
2025	14,085,000	5,926,086	155,106	-	-	20,166,192
2026	14,775,000	5,240,409	107,931	-	-	20,123,340
2027	15,520,000	4,524,747	57,958	-	-	20,102,705
2028	16,195,000	3,759,592	8,278	-	-	19,962,870
2029	15,520,000	2,968,775	-	-	-	18,488,775
2030	16,295,000	2,197,000	-	-	-	18,492,000
2031	17,110,000	1,382,250	-	-	-	18,492,250
2032	<u>10,535,000</u>	<u>526,750</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,061,750</u>
	<u>\$274,250,000</u>	<u>153,107,744</u>	<u>8,798,361</u>	<u>1,440,344</u>	<u>131,993</u>	<u>437,728,442</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, 2011 is 12.936% 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 contributions to the plan for the years ending June 30, 2009, 2010, and 2011 were \$769,042, and \$690,472 and \$802,587, respectively, and were equal to the required employer and employee portion of the contributions for each year.

Under GASB 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period July 1, 2010 to June 30, 2011 has been determined by an actuarial valuation of the plan as of June 30, 2008.

Schedule of Employer Contribution

<u>Fiscal Year</u>	<u>Annual Pension Cost (Employer Contribution)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/09	\$ 481,030	100%	\$-0-
6/30/10	458,329	100%	-0-
6/30/11	522,633	100%	-0-

Effective with the 6/30/2003 valuation, risk pools were established for plans containing less than 100 active members as of the valuation date. In general, plans satisfying this criteria were lumped into pools based on their benefit formula and membership category (safety/miscellaneous). In total, ten risk pools were established for the 6/30/2003 valuation.

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

(6) Defined benefit pension plan (Continued)

PARS:

The District has established a defined benefit, single-employer retirement plan that provides a pension benefit for eligible 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 eligible 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. This Plan is administered for the District through a third party administrator, 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 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 retirement 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 actuarial assumptions used for the report are listed in below:

Asset Valuation Method:	Smoothed market value
Discount rate:	5.5%, a decrease from the 6.0% assumed previously
Mortality:	Post-retirement mortality rates are from the CalPERS' 1997-2007 Experience Study
General Inflation:	3%
Aggregate payroll Increase:	3.25%
Termination:	None assumed
Salary Scale:	Individual payroll increases are the lesser of 5% and inflation
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**

(6) Defined benefit pension plan (Continued)

PARS:

The actuarial methods used are listed in below:

Cost Method: Entry Age Normal Level % of Pay.

The Unfunded Liability Amortization is calculated by using:

- The plan's June 30, 2006 Fresh Start Unfunded Actuarial Accrued Liability (UAAL) has 12 years remaining as of 2010/11
- Gains and losses are amortized over 15 years
- Plan changes, assumption and method changes are amortized over 20 years
- Maximum 30 years combined amortization period

The Actuarial Value Assets are calculated by using:

- Asset gains/losses recognized over 5 years
- Corridor: 80% & 120% of market value

The schedule in below shows the results of the actuarial assumptions and methods used for the report:

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

Actuarial Covered Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liabilities (b)	Unfunded Actuarial Accrued Liabilities (b-a)	Ratio (a/b)	Annual Funded Payroll (c)	Ratio of Unfunded Liability to Annual Covered Payroll (b-a/c)
6/30/06	\$ 241	\$ 433	\$ 192	55.7%	\$ 127	51.2%
6/30/08	479	579	100	82.7	152	65.8
6/30/10	709	832	123	85.2	156	78.8

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 Plan's annual pension cost for the fiscal year ending June 30, 2011 is based on an actuarial valuation as of June 30, 2010. For the fiscal year ending June 30, 2011, the District's annual pension cost is \$104,000, or 64.1% of the projected total Director payroll. Based on 64.1% of the actual Director payroll incurred during the year, the District contributed \$97,638 to the plan. For previous years, the full ARC was contributed resulting in no Net Pension Obligation (NPO).

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

(6) Defined benefit pension plan (Continued)

PARS:

The required schedule of funding progress immediately following 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.

Schedule of Employer Contribution

Fiscal Year Ending <u>June 30</u>	Annual Pension Cost (APC)	Percentage of APC <u>Contributed</u>	Net Obligation <u>(Asset)</u>
2009	91,000	100%	0
2010	82,000	100%	0
2011	104,000	94%	6,362

(7) Other postemployment benefits (OPEB)

Plan Description: 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. Based on the actuarial report, the District contributes Annual Required Contribution of the Employer required contribution of the employer (ARC) to the California Employer's Retirement Benefit Trust (CERBT) administered by CalPERS.

CERBT holds 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.



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

(7) Other postemployment benefits (Continued)

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	\$ 305,558
Interest on net OPEB obligation	(44,828)
Adjustment to annual required contribution	<u>44,828</u>
Annual OPEB cost (expense)	305,558
Contributions made (including premiums paid)	<u>(305,558)</u>
Increase (decrease) in net OPEB obligation	-
Net OPEB obligation (asset) - beginning of year	<u>(653,350)</u>
Net OPEB obligation (asset) - end of year	<u>\$ (653,350)</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 2011 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>
6/30/11	\$305,558	100%	\$(653,350)
6/30/10	295,941	119%	(653,350)
6/30/09	286,000	293%	(597,154)

In Fiscal Year 2008/09, District contributed \$1,080,000 to CERBT fund, which was more than the combined total for the annual required contributions of the employer (ARC) for fiscal year 2007/08 of \$241,702 and fiscal year 2008/09 of \$286,000, this transaction resulted in a net OPEB asset for fiscal year 2008/09 and the subsequent years.

Funding Status and Funding Progress. As of July 1, 2009, the most recent actuarial valuation date, the plan was 44% funded. The table in below shows the Funding Progress.

SCHEDULE OF FUNDING PROGRESS

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Liability (AAL) Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a % of Covered Payroll (b-a)/c)</u>
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%

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.



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

(7) Other postemployment benefits (Continued)

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between 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

(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, 2011 the total unpaid amount on these contracts is approximately \$68,000,000. These commitments may be funded from restricted assets.

(9) Swap transaction agreements

In June, 2004 , District entered into a swap transaction in the original notional amount of \$22,875,000 for the purpose of hedging the variable interest rate that related to one of the District's Revenue Certificates of Participation at the time. This swap was executed and confirmed on June 8, 2004. In 2008, District refinanced this Revenue Certification to 2008A-1 Refunding Revenue Certificates of Participation and the swap was amended and restated as of June 6, 2008 for the notional amount of \$18,650,000. 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 fair market value of this swap was (\$2,335,393) based on the market interest rates as of June, 30, 2011.



WEST BASIN MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

(9) Swap transaction agreements (Continued)

Also in April, 2005, District entered into a swap transaction in the notional amount of \$18,175,000 for the purpose of hedging the variable interest rate that related to another District's Revenue Certificates of Participation at the time. This swap was executed on June 7, 2004. In 2008, District refinanced this Revenue Certification to 2008A-2 Refunding Revenue Certificates of Participation and the swap was amended and restated as of May 22, 2008 for the notional amount of \$15,025,000 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 fair market value of this swap was (\$1,477,047) based on the market interest rates as of June, 30, 2011.

The third swap is the result of 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. District entered into this 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 was scheduled to terminate on August 1, 2030, unless terminated earlier. Under the agreements associated with the swap transaction 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 receiving a termination payment based on market rates at the time of the termination. As of June 30, 2011, the District's fair value of this swap transaction based on the market interest rates in effect at June 30, 2011 was (\$4,916,234).

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2011, 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, 2011</u>		<u>Notional</u>
	<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>	
Business-type activities					
Cash flow hedges:					
Pay-fixed interest rate swap	Deferred outflow	\$ 433	Debt	\$ (2,335)	\$18,650
Pay-fixed interest rate swap	Deferred outflow	\$ 251	Debt	\$ (1,477)	\$15,025
Investment derivatives:					
Pay-fixed interest rate swap	Investment revenue	\$5,033	Investment	\$ (4,916)	\$220,575

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 revenues, expenses, and changes in net assets.



WEST BASIN MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

(9) Swap transaction agreements (Continued)

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, 2011, 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 Adjustable Rate Revenue Certificates of Participation Series 2008A-1.	\$18,650	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 Adjustable Rate Revenue Certificates of Participation Series 2008A-2.	\$15,025	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, 2011, the interest rate on the District's hedged variable-rate debt was 0.06 percent, while 65 percent of LIBOR was approximately 0.12 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, 2011, applicable one-month LIBOR plus 0.992 percent was approximately 1.18 percent, and SIFMA swap index divided by 0.604% was approximately 0.15 percent.

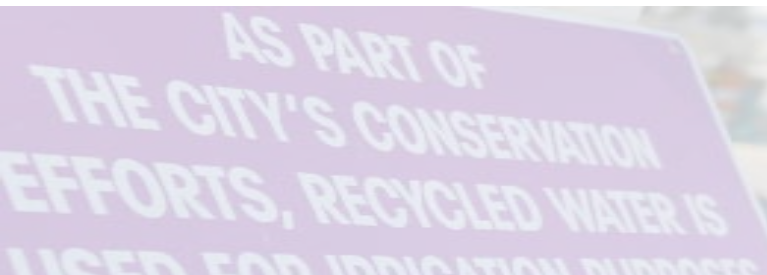
Termination risk. The District or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. In such event, the District may either receive or owe a payment to the counterparty. The amount and the direction of the payment is dependent on swap interest rates and ratios and is reflects the value of the swap at the time of such termination. As of June 30, 2011, the District would owe \$8,728,674 if its three swaps were terminated.

(10) Subsequent Event:

On August 3, 2011, the District executed a trade to terminate a swap agreement with BNY Mellon and Rice Derivatives Holdings. The fair market value of the swap at the time of termination was \$4,916,243. The District received \$250,247 with the termination of the swap.

On September 22, 2011, the District issued Series 2011A Refunding Revenue Bonds to refinance \$34.8 million of the 2003A Certificates of Participation and the entire amount of the State Loan outstanding of \$1.44 million.

On November 17, 2011, the District issued Series 2011B Refunding Revenue Bonds in the amount of \$60,275,000 to refinance the outstanding balance, nearly \$50 million, on the 2010A Adjustable Rate Revenue Certificates of Participation and approximately \$10 million of the eligible 2003A Refunding Revenue Certificates of Participation.



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STATISTICAL SECTION

WEST BASIN MUNICIPAL WATER DISTRICT STATISTICAL SECTION

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

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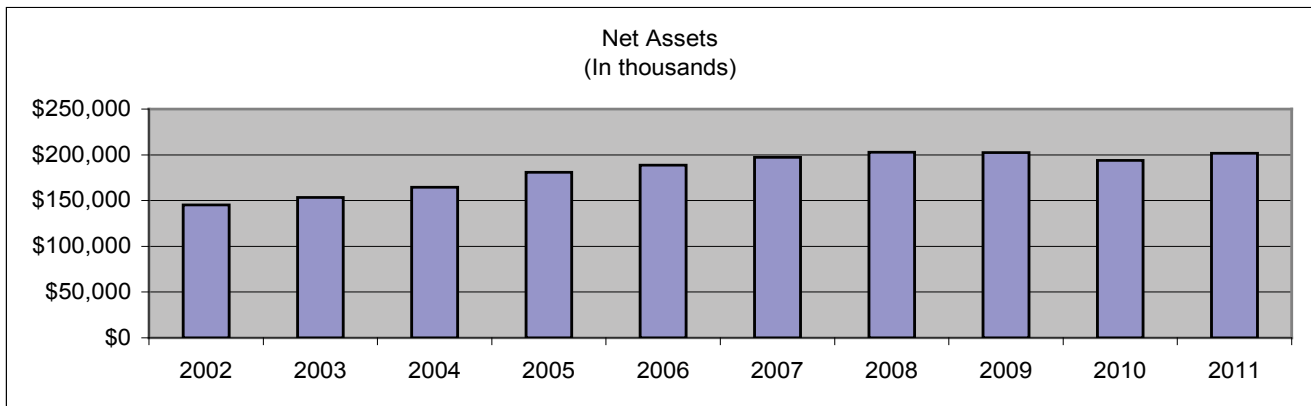
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WEST BASIN MUNICIPAL WATER DISTRICT

Table 1
NET ASSETS
LAST TEN 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)
2011	140,018	61,612	201,630



(1) Fiscal Year 2009 Net Assets were restated to reflect the correction for 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.

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 (1)	Operating Expenses (2)	Operating Revenue (Loss)	Standby Charges	Interest Earnings	Grant Inc / Miscellaneous Inc (Exp)
2002	95,438	98,182	(2,744)	9,496	3,732	(797)
2003	94,116	97,756	(3,640)	9,607	2,543	(486)
2004	94,924	97,751	(2,827)	9,724	433	(140)
2005	91,913	97,091	(5,178)	9,669	2,669	396
2006	95,486	104,191	(8,705)	9,785	2,230	(1,588)
2007	105,289	113,094	(7,805)	9,659	4,555	1,081
2008	106,072	115,260	(9,188)	9,365	3,581	207
2009	107,704	119,924	(12,220)	9,701	3,093	243
2010	130,623	138,786	(8,163)	9,679	1,426	(808)
2011	134,352	144,604	(10,252)	9,899	1,216	567

- (1) Further detail is shown on Table 3 - "Operating Revenues by Source"
- (2) Further detail is shown on Table 4 - "Operating Expenses by Source"
- (3) Non-Operating Revenue (Loss) represents standby charges, investment income, miscellaneous income (expense), grant income or loss on disposition of assets and interest expense. Also, the 2006 amount includes \$1.5million on loss from disposition of assets. Due to a debt refinancing in FY 2008, the interest expense increased \$4 million in FY 2009 from FY 2008.
See Table 15 - "Standby Charge and Fixed Revenue Charge" for the nature of and ten year information on this revenue.
- (4) Further detail 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) Effective fiscal year 2010, GASB 53 states that the swap agreements that do not conform to the hedge accounting criteria 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

(continued)

WEST BASIN MUNICIPAL WATER DISTRICT

**Table 2
CHANGES IN NET ASSETS
LAST TEN FISCAL YEARS**

(In Thousands)
(continued)

Fiscal Year Ended June 30,	Interest Expense (5)	Change in fair value of swap (nonhedged) (6)	Total Nonoperating Revenue (Loss) (3)	Income (Loss) Before Contributions	Capital Contributions (4)	Change in Net Assets
2002	(7,815)		4,616	1,872	7,334	9,206
2003	(7,770)		3,894	254	7,922	8,176
2004	(7,179)		2,838	11	11,388	11,399
2005	(10,195)		2,539	(2,639)	19,033	16,394
2006	(10,593)		(166)	(8,871)	16,359	7,488
2007	(9,101)		6,194	(1,611)	10,337	8,726
2008	(9,808)		3,345	(5,843)	11,526	5,683
2009	(13,848)		(811)	(13,032)	12,644	(388)
2010	(12,498)	5,702	3,501	(4,662)	15,319	10,657
2011	(12,038)	5,033	4,675	(5,577)	13,196	7,619



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WEST BASIN MUNICIPAL WATER DISTRICT

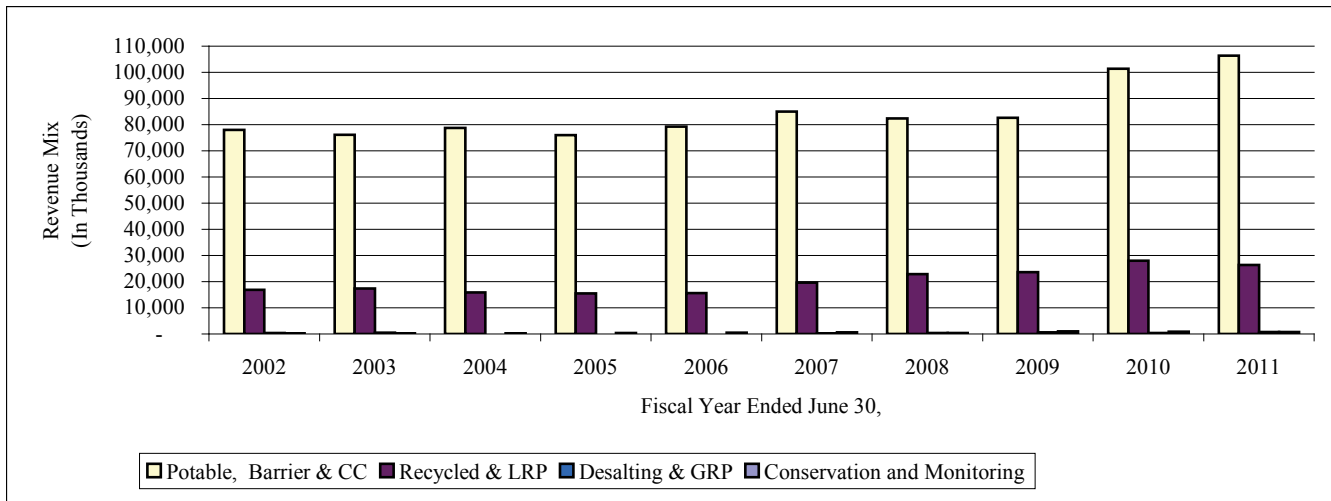
**Table 3
OPERATING REVENUES BY SOURCE
LAST TEN FISCAL YEARS
(In Thousands)**

Fiscal Year Ended June 30,	Water Sales				Total
	Potable, Barrier & CC (1)	Recycled & LRP (2)	Desalting & GRP (3)	Conservation and Monitoring	
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
2011	106,427	26,382 (6)	802	741	134,352

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

GRP = Groundwater Recovery Program. This is an incentive 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.
- (6) In Fiscal Year 2011, recycled water sales decreased due to water quality issue.



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
	(1), (6)	(2)	(3)	
2002	71,797	14,534	311	1,590
2003	69,918	14,849	411	1,937
2004	70,944	14,193	167	2,095
2005	69,609	13,719	69	2,509
2006	73,089	14,899	72	2,487
2007	77,828	17,317	137	2,309
2008	75,470	20,709	440	3,123
2009	76,153	21,528	481	4,476
2010	92,276	23,477	551	4,360
2011	94,855	25,277	668	4,643

(1) Includes water purchases from Metropolitan Water District of Southern California, readiness-to-serve 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) 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 the costs for activities related to the Board of Directors.

(5) 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 decrease Communication and Montoring in fiscal year 2008. The decrease in 2011 reflects the District's effort to reduce its costs.

(6) 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

(continued)

WEST BASIN MUNICIPAL WATER DISTRICT

Table 4

OPERATING EXPENSES BY SOURCE

LAST TEN FISCAL YEARS

(In Thousands)

(continued)

Fiscal Year Ended June 30,	General and Administrative	Water Resource Planning	Depreciation and Amortization	Total Operating Expenses
	(4)	(5)		
2002	319	718	8,913	98,182
2003	614	974	9,053	97,756
2004	797	1,355	8,200	97,751
2005	1,113	1,732	8,340	97,091
2006	3,350	1,985	8,309	104,191
2007	1,997	3,163	10,343	113,094
2008		2,195	13,323	115,260
2009		1,096	16,190	119,924
2010		1,044	17,078	138,786
2011		893	18,268	144,604



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
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 (2)	409	452	9,069 (2)
2010	7,172	7,572	126	449	15,319
2011	6,887	4,628	1,239	442	13,196

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.

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).

2011

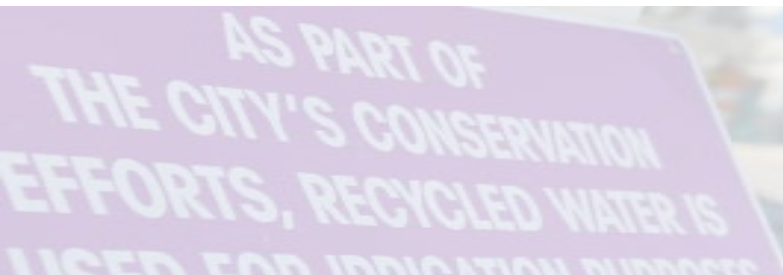
Name	in US \$	%
California Water Service (CalWater)	50,409	48.2%
Golden State Water Company (GSWC) (1)	14,353	13.7%
Water Replenishment District (WRD)	12,034	11.5%
City of El Segundo	8,880	8.5%
Los Angeles County Water Works (LA County)	7,463	7.1%
City of Inglewood	6,229	6.0%
City of Manhattan Beach	2,764	2.6%
City of Lomita	1,885	1.8%
California American Water Company (CAWC)	645	0.6%
Total	<u>\$ 104,662</u>	<u>100.0%</u>

2002

Name	in US \$	%
California Water Service (CalWater)	36,796	48.1%
Southern California Water Company (SCWC) (1)	14,165	18.5%
Water Replenishment District (WRD)	7,182	9.4%
Los Angeles County Water Works (LA County)	5,132	6.7%
City of El Segundo	4,927	6.4%
City of Manhattan Beach	2,947	3.8%
City of Inglewood	2,945	3.8%
City of Lomita	1,453	1.9%
California American Water Company (CAWC)	1,002	1.3%
Total	<u>\$ 76,549</u>	<u>100.0%</u>

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

Source: Finance Department



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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).

2011		
Name	in US \$	%
City of El Segundo	6,289	32.1%
California Water Service (CalWater)	4,102	20.9%
City of Torrance	4,091	20.9%
Water Replenishment District (WRD)	3,953	20.2%
L.A. Dept of Water & Power	487	2.5%
City of Inglewood	389	2.0%
City of Manhattan Beach	181	0.9%
Golden State Water Company (GSWC) (1)	101	0.5%
Inglewood Unified School District	22	0.1%
Total	\$ 19,615	100.0%

2002		
Name	in US \$	%
City of El Segundo	3,162	31.2%
Water Replenishment District (WRD)	3,134	31.0%
City of Torrance	1,846	18.2%
California Water Service (CalWater)	1,518	15.0%
City of Inglewood	184	1.8%
L.A. Dept of Water & Power	108	1.1%
City of Manhattan Beach	84	0.8%
Southern California Water Company (SCWC) (1)	77	0.8%
Inglewood Unified School District	9	0.1%
Total	\$ 10,122	100.0%

(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					Recycled	Desalting	All Water Deliveries
	Non- Interruptible	Ground- water (4)	Saltwater Barrier (5)	Seasonal Water (1), (3)	Total Potable Water (5)			
2002	120,195	51,436	18,124	6,220	195,975	27,387	571	223,933
2003	124,022	51,099	17,877	1,864	194,862	27,114	716	222,692
2004	132,181	48,461	17,737	-	198,379	24,553	-	222,932
2005	129,315	44,329	11,400	-	185,044	24,070	-	209,114
2006	129,260	36,792	13,722	745	180,519	23,653	-	204,172
2007	134,802	36,424	11,162	1,982	184,370	29,250	89	213,709
2008	127,925	38,785	7,609	-	174,319	32,209	467	206,995
2009	114,293	43,835	9,774	-	167,902	29,908	682	198,492
2010	108,261	44,405	13,054	-	165,720	30,680	285	196,685
2011	107,151	44,215	13,534	-	164,900	26,127	882	191,909

(1) Seasonal Water includes (a) Seasonal Storage Long-term; (b) Seasonal Shift; (c) Seasonal Shift Contract, as applicable.

(2) 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 the installation of a new brine discharge system. In October 2010, the Desalter was fully operational.

(3) During this period, MWD offered more seasonal water, thereby increasing deliveries on this type of water.

(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) In 2009, 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.

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

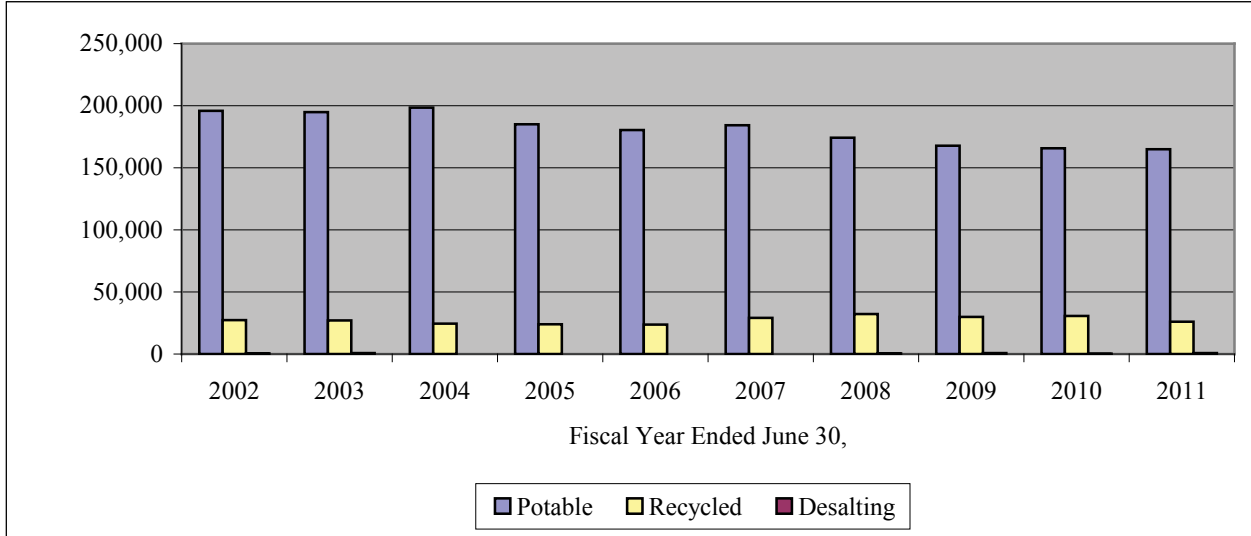
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Source: Finance Department

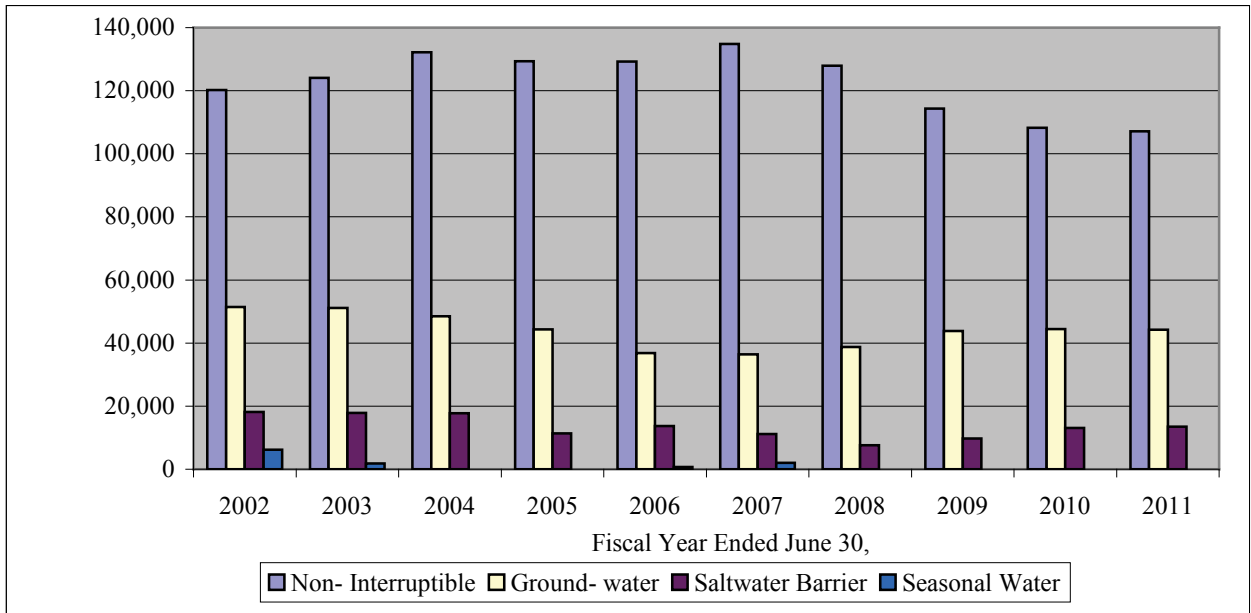
**WEST BASIN MUNICIPAL WATER DISTRICT
ALL WATER DELIVERIES IN ACRE-FEET
LAST TEN FISCAL YEARS**

(Continued)

POTABLE, RECYCLED AND DESALTING WATER DELIVERIES IN ACRE-FEET



POTABLE WATER DELIVERIES IN ACRE-FEET



AS PART OF
THE CITY'S CONSERVATION
EFFORTS RECYCLED WATER IS
USED FOR IRRIGATION PURPOSES

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.

	2002	2003	2004	2005	2006
California American Water Company (CAWC)	1,898	1,892	1,451	1,384	682
California Water Service (CalWater)	68,708	68,741	72,395	70,014	69,999
City of El Segundo	16,963	16,645	17,074	16,360	15,767
City of Inglewood	6,285	7,312	7,549	6,884	7,816
City of Lomita	2,752	2,734	2,813	2,676	2,576
City of Manhattan Beach	5,889	6,003	5,972	5,893	6,419
City of Torrance	7,329	7,473	6,581	6,921	6,409
Golden State Water Company (GSWC)	27,111	25,800	28,024	29,377	29,689
Inglewood Unified School District	31	30	67	60	57
Los Angeles County Water Works (LA County)	9,720	10,056	10,478	9,748	9,533
L.A. Dept of Water & Power	398	277	394	283	257
Water Replenishment District (WRD) (1)	25,414	24,631	21,672	15,185	18,174
	172,497	171,593	174,471	164,785	167,380

(1) Sales decreased due to replacement of the pressure reducing valves during FY 2005, and poor source water quality in FY 2008

(2) Overall sales decreased from fiscal year 2008 to 2011 due to conservation messaging and water supply allocation

Source: Finance Department

(Continued)

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

	2007	2008	2009	2010	2011
		(3)	(3)	(3)	(3)
California American Water Company (CAWC)	2,272	1,725	1,436	809	712
California Water Service (CalWater)	74,498	73,917	68,164	65,422	61,127
City of El Segundo	17,062	16,950	17,773	19,666	16,522
City of Inglewood	8,882	8,339	7,817	7,173	7,545
City of Lomita	2,720	2,583	2,420	2,290	2,096
City of Manhattan Beach	6,037	5,566	5,073	3,565	3,359
City of Torrance	6,037	6,389	5,876	6,445	5,785
Golden State Water Company (GSWC)	28,270	22,935	18,280	16,634	20,600
Inglewood Unified School District	68	56	63	56	
Los Angeles County Water Works (LA County)	10,836	10,654	9,886	8,750	8,331
L.A. Dept of Water & Power	335	360	444	619	763
Water Replenishment District (WRD) (1)	20,266	18,738	17,426	20,851	20,854
	177,284	168,210	154,657	152,280	147,694

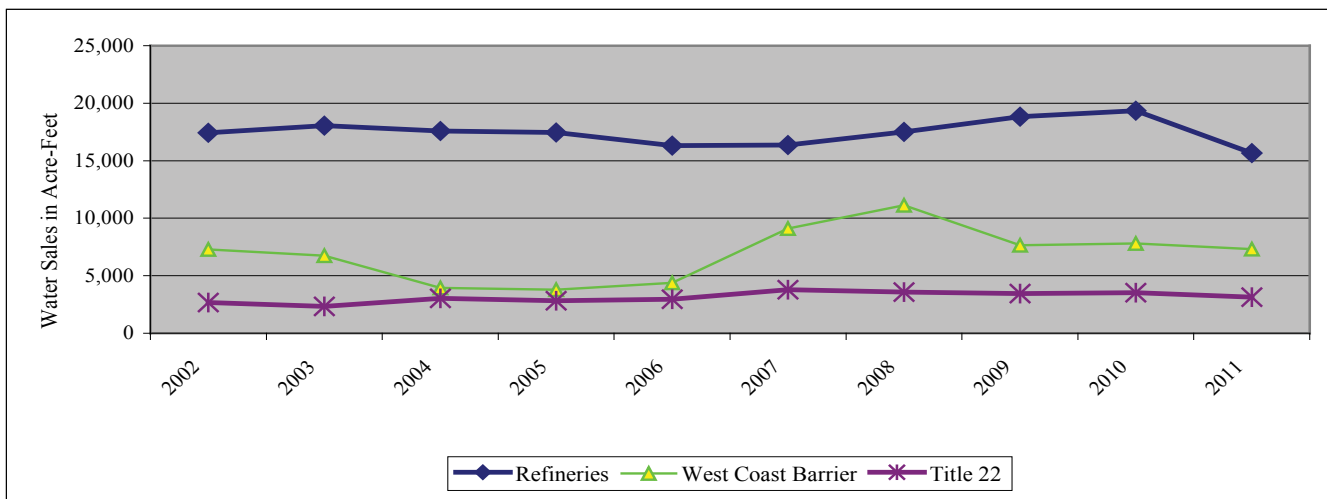
AS PART OF
 THE CITY'S CONSERVATION
 EFFORTS RECYCLED WATER IS
 USED FOR IRRIGATION PURPOSES

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 ⁽¹⁾	Mobil Refinery ⁽¹⁾	Bp Amoco Refinery ⁽¹⁾	Total Refineries	West Coast Barrier	Title 22 Irrigation	Total
	⁽⁴⁾				^{(3), (5)}	⁽²⁾		
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	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
2011	378	6,163	5,538	3,973	15,674	7,320	3,133	26,127

- (1) Chevron refinery is located in the city of El Segundo, ExxonMobil refinery is located in Torrance, and BP Amoco is located in Carson.
- (2) 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 to 2011 due to poor source water quality.
- (3) Recycled Water Sales include deliveries to refineries for nitrification, boiler feed, reverse osmosis industrial, and Reverse Osmosis Ultra.
- (4) In February 2009, 100 new recycled water irrigation sites were connected.
- (5) In fiscal year 2011, sales to all refineries were decreased due to water quality issue.



Source: Finance Department

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

Type of Water	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<i>Purchased from MWD</i>										
Non-interruptible	\$ 528	\$ 519	\$ 515	\$ 528	\$ 541	\$ 560	\$ 591	\$650	\$773	\$898
Saltwater Barrier	528	519	515	528	541	560	591	650	773	898
Seasonal Storage-LT	346	334	326	344	362	382	411	454	547	645
Seasonal Shift	396	401								
Seasonal Shift Contract	346									
<i>West Basin Treatment Plants</i>										
Recycled- T22	\$ 280	\$ 295	\$ 303	\$ 303	\$ 312	\$337	\$367	\$438	\$600	\$686
Recycled- T22 OSA	320	335	343	343	354	379	409	480	642	728
Recycled- Barrier	430	430	430	430	430	421	440	458	501	540
Recycled- RO Industrial	508	533	549	549	568	596	633	722	913	914
Recycled- RO Ultra	660	705	725	725	750	788	837	954	1195	1270
Recycled- RO Nitrified		275	283	283	292	317	347	418	577	666
<i>West Basin Desalting Plant</i>										
Desalted Water	\$ 409	\$ 409	\$ 409	\$ 451	\$ 472	\$ 491	\$ 517	\$608	\$723	\$746

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 incentive 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 incentive 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 2011

Tables below delineate the fiscal years ended June 30, 2010 and 2011 water rates for West Basin and Metropolitan Water District of Southern California (MWD).

	MWD	Readiness-to-Serve Charge	West Basin Reliability Service Charge	Total
Fiscal Year Ended June 30, 2010				
<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
Fiscal Year Ended June 30, 2011				
<i>July 1, 2010 to December 31, 2010</i>				
Non-Interruptible & Barrier (Tier 1)	\$701	\$94	\$66	\$861
Non-Interruptible & Barrier (Tier 2)	811	94	66	971
Seasonal Storage Long-term	556		66	622
<i>January 1, 2011 to June 30, 2011</i>				
Non-Interruptible & Barrier (Tier 1)	\$744	\$125	\$66	\$935
Non-Interruptible & Barrier (Tier 2)	869	125	66	1,060
Seasonal Storage Long-term	601		66	667

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)

Table below provides an overview of the ratio of the total capital assets to debt outstanding as of fiscal year-end. Total long-term (LT) debt includes certificate of participations and state loan.

Fiscal Year Ended June 30,	OUTSTANDING DEBT			CAPITAL ASSETS			Debt/ Capital Assets
	Certificate of Participation	State Loan	Total LT Debt	Capitalized Assets (1)	Construction- in-Progress (2)	Capital Assets	
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
2011	300,050	1,440	301,490	507,066	60,275	567,341	0.53

(1) Amounts exclude accumulated depreciation; does not include capital assets of the Financing Authority through fiscal year 2007. See details at "General Operating Information".

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

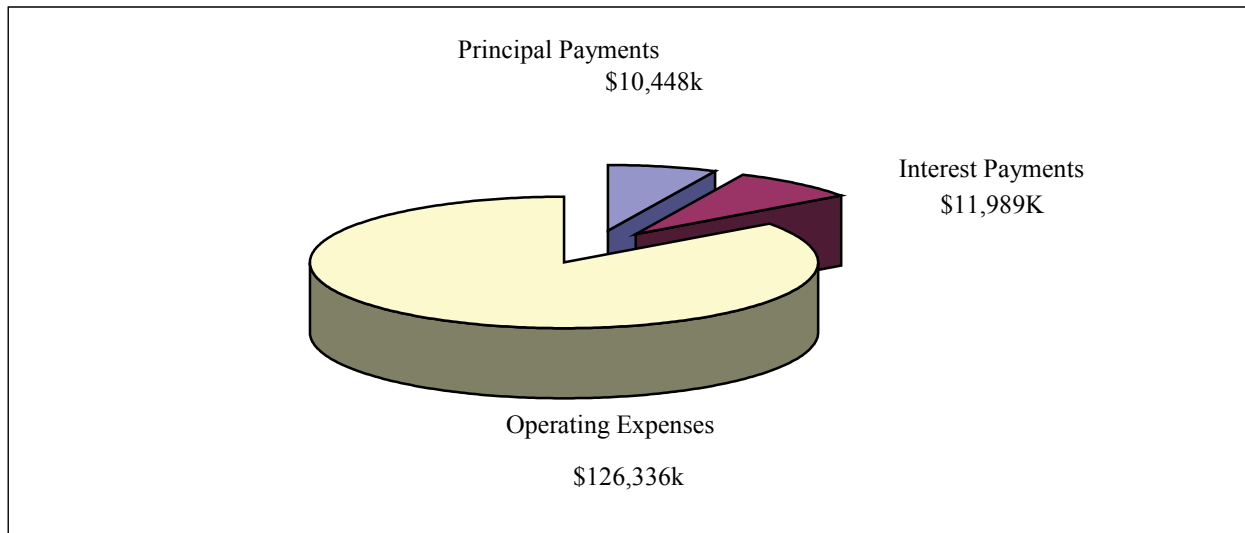
Source: Finance Department



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/Expenses
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
2011	10,448	11,989	22,437	126,336	0.18

* Excludes depreciation and amortization.



Source: Finance Department

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

Standby charges and Capital Fixed Payments are fixed revenues that are used towards 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. The table below shows the information on these revenues as compared to debt service.

Fiscal Year Ended June 30,	Standby Charge (1)	Capital Fixed Payments (2)	Total	Debt Payment (3)	% of Debt Service
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%
2011	9,899	6,887	16,786	22,437	75%

- (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) Capital Fixed Payments 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 for delivery of recycled water to these entities. Amounts are based on contractual terms. These fixed revenues are reported as Capital Contributions in the basic financial statements, see table 5-"Capital Contribution By Source".
- (3) Beginning In fiscal year 2006, the debt service increased due to the district paying both interest and principal for its subordinate bonds. 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 for Debt Coverage)

	2002	2003	2004	2005	2006
Changes in Net Assets (6)	\$ 9,206	\$ 8,176	\$ 11,399	\$ 16,394	\$ 7,488
Add: Interest Expense	7,815	7,770	7,179	10,195	10,593
Add: Depreciation/Amortization	8,913	9,053	8,200	8,340	8,309
Less: Non-cash items (1)	(384)	(577)	(1,898)	(3,125)	(4,671)
Net Revenues for Coverage	\$ 25,550	\$ 24,422	\$ 24,880	\$ 31,804	\$ 21,719
Parity Debt Service (2)	14,254	14,096	12,263	15,869	16,094
Reserve Fund Earnings	(758)	(682)	(1,338)	(1,868)	(1,177)
Total Net Senior Debt Service	\$ 13,496	\$ 13,414	\$ 10,925	\$ 14,001	\$ 14,917
Debt Coverage	1.89	1.82	2.28	2.27	1.46
Subordinate Debt Service (2)	4,428	4,261	2,606	3,281	7,246
Reserve Fund Earnings	(56)	(35)	(19)	(5)	(1)
Total Net Subordinate Debt Service	\$ 4,372	\$ 4,226	\$ 2,587	\$ 3,276	\$ 7,245
Debt Coverage (5)	2.76	2.60	5.39	5.43	0.94
All-In Debt Coverage	1.43	1.38	1.84	1.84	0.98
Cash Available for Additional Debt Service, Capital Projects and	\$ 7,682	\$ 6,782	\$ 11,368	\$ 14,527	\$ (443)

(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 of disposition of assets and nonroutine litigation settlements.

(2) Net of 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 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.

(Continued)

Source: Finance Department

WEST BASIN MUNICIPAL WATER DISTRICT

Table 16

DEBT COVERAGE

LAST TEN FISCAL YEARS

(In thousands, except for Debt Coverage)

(continued)

	2007	2008	2009	2010	2011
Changes in Net Assets (6)	\$ 8,726	\$ 5,683	\$ (388)	\$ 10,657	\$ 7,619
Add: Interest Expense	9,101	9,808	13,848	12,498	12,038
Add: Depreciation/Amortization	10,343	13,323	16,190	17,078	18,268
Less: Non-cash items (1)	(2,517)	(4,021)	(5,022)	(11,579)	(9,109)
Net Revenues for Coverage	<u>\$ 25,653</u>	<u>\$ 24,793</u>	<u>24,628</u>	<u>28,654</u>	<u>28,816</u>
Parity Debt Service (2)	16,185	16,345	16,595	16,078	16,517
Reserve Fund Earnings	(825)	(799)	(767)	(762)	(762)
Total Net Senior Debt Service	<u>\$ 15,360</u>	<u>\$ 15,546</u>	<u>\$ 15,828</u>	<u>\$ 15,316</u>	<u>\$ 15,755</u>
Debt Coverage	<u>1.67</u>	<u>1.60</u>	<u>1.51</u>	<u>1.82</u>	<u>1.78</u>
Subordinate Debt Service (2)	8,445	6,157	6,897	7,624	7,968
Reserve Fund Earnings	(2)	(12)	(2)	-	-
Total Net Subordinate Debt Service	<u>\$ 8,443</u>	<u>\$ 6,145</u>	<u>\$ 6,895</u>	<u>\$ 7,624</u>	<u>\$ 7,968</u>
Debt Coverage (5)	<u>1.22</u>	<u>1.50</u>	<u>1.17</u>	<u>1.66</u>	<u>1.54</u>
All-In Debt Coverage	<u>1.08</u>	<u>1.15</u>	<u>1.08</u>	<u>1.25</u>	<u>1.21</u>
Cash Available for Additional Debt Service, Capital Projects and	\$ 1,850	\$ 3,102	\$ 1,905	\$ 5,714	\$ 5,093



WEST BASIN MUNICIPAL WATER DISTRICT
Table 17
TEN LARGEST EMPLOYERS WITHIN WEST BASIN SERVICE AREA
CALENDAR YEAR 2010 AND FIVE YEARS PRIOR

Employer	2010*		2006	
	Number of Employees	Rank	Number of Employees	Rank
Raytheon Company	7,302	1	8,594	1
Sony Pictures Entertainment	6,000	2	2,018	5
Northrop Grumman Corporation	5,665	3	5,555	3
Boeing Satellite Systems Inc.	4,735	4	5,960	2
Aerospace Corporation	2,983	5	2,847	4
DirecTV Operations Inc.	1,681	6	1,268	9
Mattel, Inc.	1,615	7	1,737	7
Palos Verdes Peninsula Unified School District	1,350	8	1,800	6
Interactive Corp. (aka Ticketmaster)	1,300	9	1,300	8
Chevron Products Company/USA Inc.	1,199	10	1,062	10

* Most current available data.
Employer information is not readily available prior to 2006.

Source: Finance Department

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

Calendar Year	West Basin Population	LA County Population	Personal Income (in thousands)	Per Capita Personal Income	Unemployment Rate
	(1)	(2)	(2)	(2)	(3)
2002	826,198	9,717,871	311,361,182	32,040	6.8%
2003	833,187	9,777,324	322,267,247	32,961	7.0%
2004	837,542	9,808,494	338,203,048	34,481	6.5%
2005	839,285	9,803,912	357,186,377	36,433	5.4%
2006	839,385	9,760,598	385,724,212	39,519	4.8%
2007	839,134	9,734,701	400,366,343	41,128	5.1%
2008	838,888	9,779,254	412,638,667	42,195	7.5%
2009	840,260	9,848,011	402,459,119	40,867	11.6%
2010	853,377	-	-	-	12.5%
2011	857,545	-	-	-	12.7%

Source:

- (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 2010 and 2011 not available.
- (3) Data obtained from the State of California Employment Development Department for Los Angeles County.
2011 information is as of August.



WEST BASIN MUNICIPAL WATER DISTRICT DEMOGRAPHICS

Service Area

Estimated Total Population Served	857,545
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 11

West Basin's customers are comprised of Cities and Retail Water Agencies that purchase Potable Non-Interruptible Water and Recycled Water for further sales to the end-user or use in the Seawater Barrier.

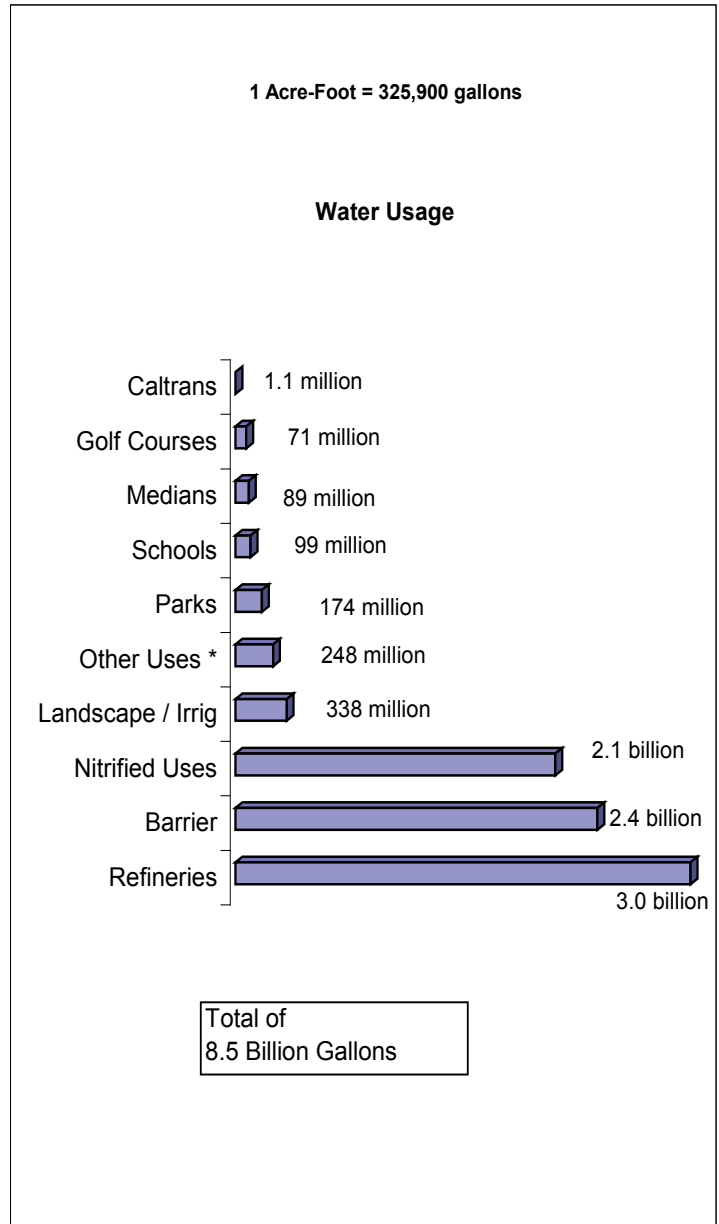
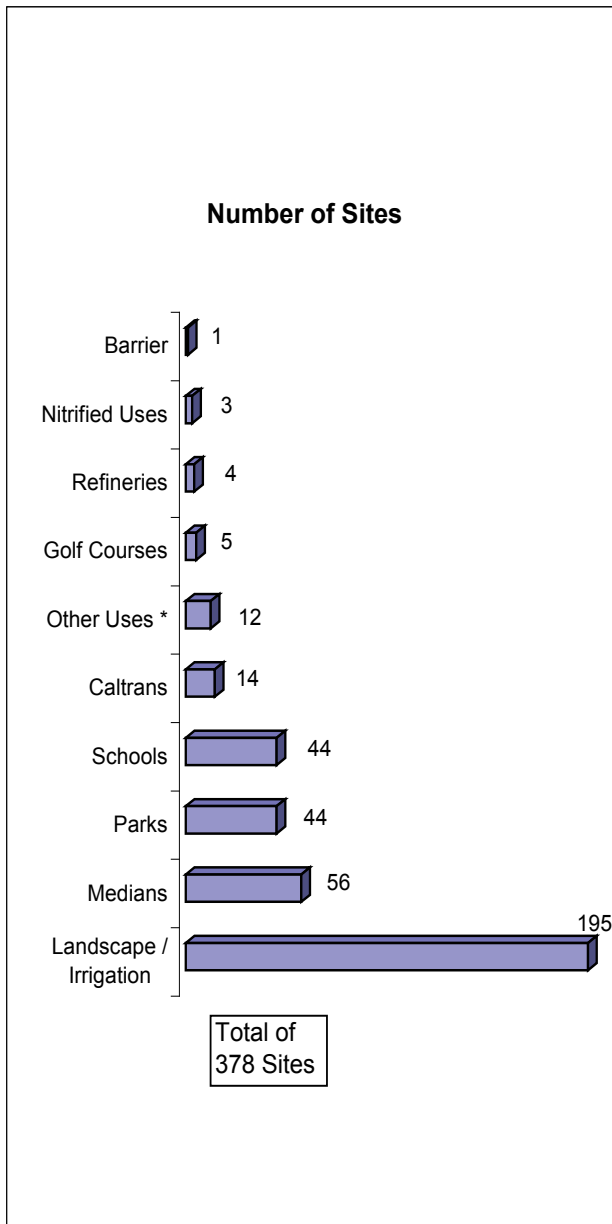
Annual Water Deliveries (approximate)

Non-Interruptible Water (including groundwater)	165,782 acre-feet
Recycled Water	26,127 acre-feet

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

Source: Planning Department

**WEST BASIN MUNICIPAL WATER DISTRICT
RECYCLED WATER USERS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**



Other Uses * { Cemetery (1) 129 million
Multi-industrial / irrigation uses (2) 21 million
Construction uses (1) 120 thousand
Street Sweeping (1) 19 thousand
College (4) 97 million
Draining / Sump Pumps (3) 394 thousand

Source: Planning Department



**WEST BASIN MUNICIPAL WATER DISTRICT
GENERAL OPERATING INFORMATION
FISCAL YEAR ENDED JUNE 30, 2011**

Number of Budgeted Full-Time Personnel

	Budgeted Full-Time Employees
2002	30
2003	28
2004	28
2005	30
2006	30
2007	33
2008	33
2009	33
2010	34
2011	36

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)	Admin. Facility	West Basin Capital Assets	Financing Authority	Total Fixed Assets (1)
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	4,014	497,225	-	497,225
2009	474,281	3,700	1,025	32,938	4,014	515,958	-	515,958
2010	486,401	3,794	2,491	39,395	4,035	536,116	-	536,116
2011	493,065	5,299	3,761	60,275	4,941	567,341	-	567,341

(1) Excludes accumulated depreciation

(2) In Fiscal Year 2010, the Construction in Progress includes approximately \$30 million in recycling facilities and approximately \$30 million 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 \$493 million in recycling facilities as of June 30, 2011. Cumulative recycled water produced and sold by these facilities was 381,218 acre-feet from inception of operations up to June 30, 2011.

Source: Finance Department

