

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year Ended June 30, 2012



WEST BASIN MUNICIPAL WATER DISTRICT
CARSON, CALIFORNIA

www.westbasin.org

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West Basin Municipal Water District
Carson, California



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WEST BASIN MUNICIPAL WATER DISTRICT
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INTRODUCTORY SECTION

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December 18, 2012

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

West Basin Municipal Water District ("West Basin" or "The District") staff is pleased to present the Comprehensive Annual Financial Report (CAFR) for the Fiscal Year 2011-12, which ended June 30, 2012.

The CAFR is intended to provide the Board of Directors, West Basin's customers, the public and interested parties with a broad financial outlook for West Basin. This report is also prepared for the purpose of meeting California state law that requires special districts to submit an audited annual financial report to the State Controller within six months of the end of each Fiscal Year.

This report was prepared pursuant to the guidelines set forth by the Governmental Accounting Standards Board (GASB). For the last seven 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 has prepared this financial report in conjunction with the unqualified "clean" opinion issued by Mayer Hoffmann McCann PC., an independent CPA firm. The independent auditor's report is located at the front of the financial section of this report. 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 statement. 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 West Basin. Consequently, management assumes full responsibility for the completeness and reliability of the information presented in this report to the best of our knowledge.

OUR MISSION STATEMENT

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

INTRODUCTION

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. West Basin is a special district of the State of California and an innovative, award-winning public agency that provides drinking water to its 185-square mile service area (see Service Area Map, p. 3), recycled water to more than 350 customer sites, conservation, water efficiency, and education programs to residents and businesses, and invests in research and technology for improving the water purification processes used in water recycling and desalination.

To protect the local groundwater aquifer from seawater intrusion, West Basin provides water for injection into the West Coast Basin Seawater Barrier (Barrier). Currently, up to 75% highly purified recycled water is sold to the Water Replenishment District of Southern California (WRD) for the Barrier, with a permit to expand that amount to 100% by 2013. The Barrier water protects and augments thousands of acre-feet of local groundwater supplies.

Consistent with expanding a portfolio of locally-produced water to ensure future water supply reliability for residents and businesses, West Basin invests in comprehensive water efficiency programs and ocean-water desalination technologies and processes that will help supplement our groundwater and imported drinking water supplies. West Basin's Ocean-Water Desalination Demonstration Facility (Demonstration Facility) is gathering science to protect the ocean at intake and discharge, reduce energy consumption, and optimize ocean desalination operations.

COMMITMENT STATEMENTS

West Basin's Board of Directors has dedicated significant time and effort to developing a long-term vision for the agency to meet its commitments to its customers and communities. This planning has resulted in clear commitments to the agency's customers, including a commitment to periodically survey our customers, a system to receive ongoing feedback, a new mission statement, and an updated Strategic Business Plan (Strategic Plan). The Strategic Plan, approved in 2008 and updated in 2011, is available at www.westbasin.org in the Board of Directors section and focuses West Basin projects and programs on the key goals and objectives that define and measure success. The goals correspond to customer commitments that include:

- 1.) Water Reliability – West Basin is committed to innovative planning and investments to provide water reliability and drought protection;
- 2.) Water Quality – West Basin is committed to providing safe, high quality water by meeting current and anticipated water quality requirements;
- 3.) Customer Service – West Basin is committed to providing value by understanding and meeting the needs of the customers and communities we serve;
- 4.) Sound Financial and Resource Management – West Basin is committed to efficient business operations, financial planning, and asset management; and
- 5.) Environmental Stewardship – West Basin is committed to sustainable and environmentally-friendly business practices.

The Strategic Plan provides continuous direction for the Board of Directors and management in each year's planning, budgeting, implementation, evaluation and reporting.

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 income diversity ranges from approximately \$23,000 in Westmont to approximately \$200,000 in Rolling Hills (Source: 2000 census). West Basin's service area presents unique challenges in meeting a wide variety of needs, from varying types of residences and sizes of yards to different types of industrial and commercial enterprises.

Five publicly-elected directors comprise West Basin’s Board of Directors. Voters in each of the five divisions from Malibu to Palos Verdes, El Segundo to Carson, elect one director to serve a four-year term. The West Basin Board of Directors 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
2012 Board Treasurer; Serves Division I Cities of Carson, Palos Verdes Estates, Rancho Palos Verdes, Rolling Hills, Rolling Hills Estates, & portions of San Pedro.



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



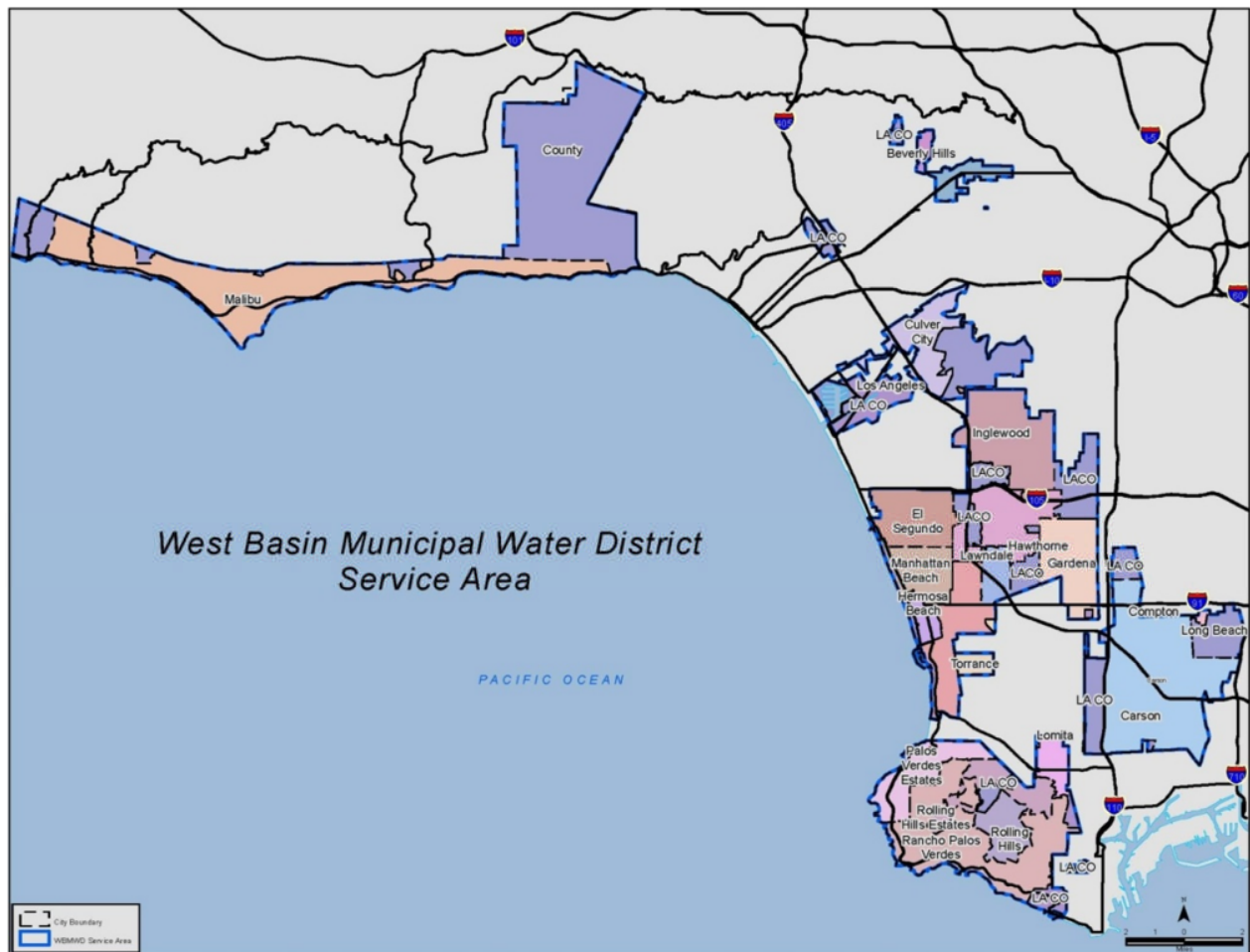
Director Carol W. Kwan
2012 Board Vice President
Serves Division III Cities of Hermosa Beach, Lomita, Manhattan Beach, Redondo Beach & Torrance.



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 & Windsor Hills.



Director Donald L. Dear
2012 Board President; Serves the Cities of Gardena, Hawthorne, Lawndale & portions of El Camino Village.



HISTORY OF WEST BASIN

As early as 1918, the levels of the groundwater basins were dropping so low that salt water from the ocean was seeping into the basins 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 become a member of MWD and supply the region with imported water. MWD began importing water from the Colorado River in the 1920s, then later from Northern California in the 1960s. In 1947, West Basin was formed by a vote of the people and, in 1948, became a member agency of MWD. For almost four decades, West Basin served its communities solely as a water wholesaler, providing its customers and communities with 100% imported water. As a result of the extreme drought of the late 1980s and early 1990s, West Basin evolved from being a water agency that provides imported water to one that provides conservation programs and invests in the development of local supplies. The diversification of resources supports West Basin's mission to provide a safe and reliable supply of high quality water to the communities it serves.

Today, West Basin is an international water industry leader that hosts visitors from around the globe and shares accomplishments and lessons learned with international audiences. West Basin is focused on providing value to its customers and delivering water reliability for the region through diverse supplies that include imported, recycled, desalted and conserved sources. West Basin invests in the research and use of new technologies, alternative energy sources, conservation, youth education and public outreach programs. Working with teachers and school children, West Basin is educating thousands of young people each year about water use, supply, local production, and careers in the water industry. West Basin provides hundreds of tours and talks within the community each year to encourage an appreciation for the value of our water supplies.

West Basin began investing in the local production of recycled water in the early 1990s by building a water recycling facility that would convert treated wastewater into varying qualities of recycled water. Today, West Basin's facilities produce five different types of recycled water that are suitable for various customer needs including groundwater recharge, irrigation, and municipal, industrial and commercial uses. The benefits generated by the water recycling facility include more affordable water rates for customers, a reliable, locally-controlled supply of recycled water, reduced energy use as compared to imported water, reducing the amount of wastewater and bio-solids discharged to the ocean, and turning wastewater into a usable water resource.

The drought of the early 1990s also increased awareness about water conservation that resulted in West Basin's addition of "Conservation" as a new water supply. Today, this new water supply is referred to as "Water Use Efficiency." 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, located at its Water Recycling Facility and Carson Headquarters Building, West Basin has reduced its water use by 80% at each garden and created teaching tools for the community to learn about water-efficient landscaping practices like rain and runoff capture, drought-tolerant plants, permeable paving, mulch and more.

West Basin is implementing its Board-adopted Strategic Plan with the goal of building long-term reliability into our local water supplies. Through the 2008 Board-adopted Water Reliability 2020 Program (WR 2020), West Basin is expanding production of locally-produced water by doubling water recycling and conservation and adding desalted ocean-water to our water supply portfolio. In late

2010, West Basin opened its Water Education Center and Demonstration Facility to the public to share Southern California's water story, teach the community about local supplies, and share scientific research and the latest desalination technology.

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

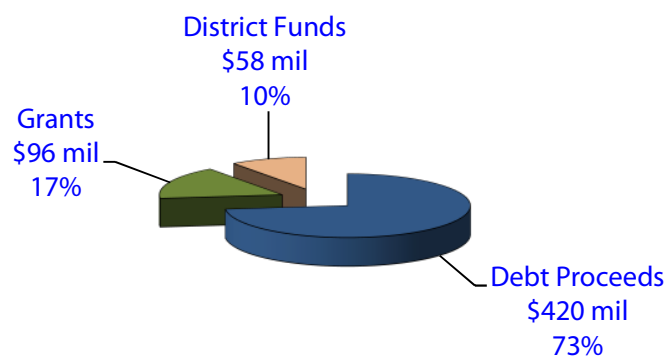
COMMITMENT TO LOCAL RELIABLE SOURCES OF WATER

West Basin is an industry leader in the production of recycled water and our award winning outreach, conservation and education programs are fundamental to West Basin's diverse water portfolio. Our desalination program is demonstrating the use of environmentally-protective technologies and processes that are providing valuable data and research for safe and effective desalination programs.

Water Recycling

In 1992, West Basin received federal funding to create a water recycling program in El Segundo. The facility became operational in 1995 when it began converting secondary treated wastewater into a usable recycled water resource for customers. West Basin's water recycling facility has been re-named the Edward C. Little Water Recycling Facility (ECLWRF) to honor the decades-long 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 such as ExxonMobil, bp, Chevron, Goodyear, California State University Dominguez Hills, Home Depot Center, Raytheon, Los Angeles Air Force Base, Marriott, various cities, WRD, and more, West Basin has built a one-of-a-kind water recycling program with the capacity to expand its customer base throughout the service area and beyond.

Funding for the Water Recycling Program through June 30, 2012

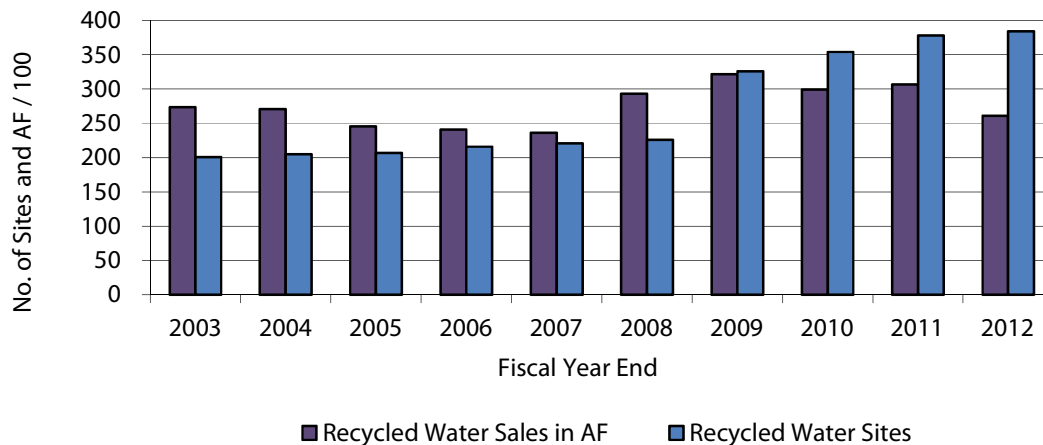


This world-class water purification facility produces five types of custom-designed waters to serve the specific needs of more than 350 customer sites for various uses, including golf courses, professional soccer fields, street sweeping, restrooms, boilers, cooling towers and other commercial, municipal and industrial uses. All five (5) types of designer water meet the treatment and water quality requirements specified in the California Department of Public Health's Water Recycling Criteria and permitted by the Los Angeles Regional Water Quality Control Board. The five types of water include:

- **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 pre-treated by microfiltration, followed by reverse osmosis (RO) and advanced oxidation (Ultraviolet light/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 microfiltration and RO for low pressure boiler feed water.
- **Ultra-Pure Reverse Osmosis Water:** Secondary treated wastewater that has undergone microfiltration 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 West Coast Seawater Barrier (Barrier) to prevent seawater intrusion into our local groundwater basins. The Barrier is a series of injection wells positioned between the ocean and the groundwater aquifer. These wells inject highly purified water along the Barrier to ensure that the water level near the ocean stays high enough to prevent seawater from seeping into the aquifer. In April 2009, West Basin and WRD signed an agreement to increase the amount of water supplied to the Barrier to 100%, decreasing the amount of potable supplies needed for Barrier injection. This step will eventually save 5.5 billion gallons of imported drinking water a year.

Recycled Water AF vs. Number of Sites – June 30, 2012



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 nearly 60 miles of pipeline. To meet the increased demand on the system by the construction of the Harbor/South Bay Water Recycling Project and the increased capacity for the Barrier, West Basin is currently implementing its Phase V Construction Project, expected to be complete in FY 2012-13. Phase V will increase production capacity at the ECLWRF by approximately 15 million gallons per day (MGD).

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 is 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. The CIMP prioritizes the capital improvement projects needed to expand West Basin's recycled water from 30,000 acre-feet per year (AFY) to 70,000 AFY by 2020.

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 Demonstration Facility. Each year, approximately 25,000 water quality tests are conducted on water produced at the ECLWRF and more than 5,000 are conducted on water produced at the Demonstration Facility.

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 desalination research pilot project in El Segundo. After six years of data collection and studies, West Basin expanded its desalination efforts to a demonstration-scale facility at the SEA Lab property in Redondo Beach.

In spring 2009, the California Coastal Commission overwhelmingly approved West Basin's plan to proceed with a demonstration-scale facility to further its research and testing efforts on environmentally-friendly intake technologies and energy recapture. The Demonstration Facility is testing the viability of a future, full-scale desalination plant capable of providing up to 6.5 billion gallons of drinking quality water, enough to supply 40,000 households for a year. Research has demonstrated that wedge wire screens secured over intake pipes in an open ocean environment will protect 100% of the adult and juvenile fish and mature larvae. In addition, the energy recovery system is capturing and reusing up to 50% of the energy needed in the reverse osmosis process.

The Demonstration Facility is processing 550,000 gallons of seawater every day, developing a basis for design of a full-scale operational facility, evaluating performance of alternative energy practices and technology, analyzing water quality, and evaluating integration with local potable water systems. One of the key goals of the Demonstration Facility is to research and generate science to ensure protection of the ocean environment in conjunction with future ocean-water desalination plants. The research to protect the ocean at the source is posted on West Basin's website under Water Reliability 2020. West Basin is currently working on a Desalination Master Plan that is evaluating several potential locations for a full-scale facility and is scheduled for completion in 2012.

Conservation and Water Use Efficiency

Since 1991, West Basin has successfully implemented water efficiency programs with its communities that are saving millions of gallons of precious drinking water each year. West Basin joined a state

conservation effort at that time, committing resources to urban water conservation and implementation of its “Best Management Practices” (BMPs).

West Basin’s conservation and water use efficiency programs focus on indoor and outdoor residential, commercial and industrial uses that help reduce the consumption of potable water. Through these programs, the agency provides *free* water audits, retrofits commercial kitchens and residential sprinklers and teaches residents about water-efficient, environmentally-friendly landscaping.

FY 2011-12 Device Savings

Program	Device	Annual Water Savings (AF)	Device Lifetime Water Savings (AF)
5 Free High-Efficiency Toilet Exchange Events	1,575 HE Toilets	64	1270
Large Landscape Smart Sprinkler Controllers	Installed 60 Smart Controllers	18	183
Large Landscape Surveys	Conducted 2 Surveys	0.66	1.32
Landscape Sprinkler Nozzles	Installed 305 sprinkler nozzles	1.4	14
Turf Removal	Removed 7,467 sq. ft. of turf	1	10
Cash 4 Kitchens			
Flow Control Valve	56	3.92	19.60
Water Broom	13	1.99	3.98
Pre-Rinse Spray Valve	22	3.37	6.73
Recirc and Save	1 project, deionization system	5	25
Commercial Retrofit Program - Toilets	1237	52.57	1051.45
Commercial Retrofit Program - Urinals	35	4.29	85.89
Total Savings	Acre Feet	156	2671
	Gallons	50,842,393	870,465,405

West Basin began its Water Efficiency Master Plan (Master Plan) development in 2005 to establish a five-year action plan for conservation program implementation. In 2010, the Master Plan was updated to compile data and record achievements of the previous five years and to help plan for the next five years. The current Master Plan maps out doubling water efficiency from 3 billion to 6 billion gallons by 2015. The new road map was developed in conjunction with West Basin’s eight local retail water agencies that also developed their own customer specific plans. The Master Plan provides partnership and outreach opportunities to local cities, retail water agencies, community groups, nonprofit organizations and consumers. The 2005 and 2010 Master Plans are available for download from the Conservation section of West Basin’s website at www.westbasin.org.

Under new state law, all California water agencies must reduce their water use 20% by the year 2020. West Basin’s Master Plan, along with its customer agency master plans, will not only meet that requirement but exceed it. By 2020, West Basin is planning to meet at least 14% of the service area’s retail water demand with conservation and water use efficiency.

Partnerships with other agencies help maximize West Basin’s and each agency’s investment in programs, allowing both to offer more services to residents and businesses in our service area for less cost. Through investments made by the State of California, U.S. Bureau of Reclamation, MWD and some of West Basin’s customers, every \$1 that West Basin invests in conservation results in \$7 worth of conservation program value for the community.

Water use efficiency, formerly “Conservation,” workshops for residents, community groups and city officials are held on an ongoing basis throughout the year. These often involve water audits or surveys, distribution of devices such as high-efficiency toilets, “smart” landscaping controllers, showerheads, faucet aerators, and others aimed at effectively reducing water use, water education and demonstrating West Basin’s leadership role in making our water supply more reliable.

Program priorities, as outlined in the Master Plan, include:

- High-Efficiency Toilet Distribution
- Ocean-Friendly Landscape Classes and Gardens
- Energy Upgrade California (in partnership with South Bay Environmental Services Center)
- Cash for Kitchens
- Commercial Restroom Retrofit
- Recirc and Save
- SCE Commercial Audit
- Small Business Direct Install
- Sprinkler Nozzle Voucher – Pilot Program
- Turf Removal Incentives – Pilot Program
- Water Budget – Pilot Program



Education

West Basin’s vibrant, award-winning water education programs inform teachers and students in a lively and engaging manner about the importance of water use efficiency, conservation and environmental sustainability. West Basin hosts thousands of school children each year at its water recycling and desalination facilities, holds an annual water awareness art contest, and sponsors high school solar cup boat-building teams to help raise water stewards who will become our next generations of water professionals through the following programs:



- Water Education Center (WEC), Redondo Beach: West Basin's Water Education Center is a visual portfolio showcasing water use efficiency and conservation, water recycling, imported water, and ocean-water desalination. This local water museum is located at the SEA Lab in Redondo Beach, adjacent West Basin's Demonstration Facility. Nearly 5,000 school children will visit the WEC facility each year as a complement to West Basin's Water Explorations School Tours program at its water recycling facility.
- Water Explorations Tours, El Segundo: This unique program showcases water recycling and environmental stewardship at a level appropriate for children in 3rd thru 12th grades. This program combines classroom-setting participation, water recycling processes, and a visit to a nearby aquarium. The water recycling tour takes place at the ECLWRF in El Segundo and emphasizes water conservation, marine life protection and the production of alternative, local water sources such as recycled water and ocean-water desalination. More than 5,000 students participate in this program annually.
- Water Star: West Basin's Water Reliability 2020 Water Star program encourages children in elementary school to save 20 gallons a day, reducing our dependence on imported water while reducing runoff to the ocean. All children visiting our facilities for tours will receive a water star conservation kit complete with fix-it tickets, a water star badge, shower timer, faucet aerator, and other water-saving reminders to take home and share with their families, along with a custom activity book.
- Splash Science (Traveling Tidepool): In collaboration with the SEA Lab in Redondo Beach, a program of the Los Angeles Conservation Corps, a traveling tide pool van complete with built-in touch tanks visits schools within West Basin's service area. The program encourages students to interact with live marine animals at their school site. This program was developed in accordance with State curriculum standards, taking fourth graders on a journey through California's water systems.
- Water is Life Student Art Contest: This annual art contest inspires young people to learn and tell visual stories about the value of water and the importance of using it wisely. The *Water is Life* art contest invites participation from students in elementary, middle and high school and provides prizes to the Grand Prize winners and Honorable Mention Awardees. Winning artwork is selected in anticipation of May's Water Awareness Month. Artwork is used in West Basin's outreach efforts to educate the public about the value of water.
- 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. West Basin typically sponsors four teams from its service area each year, on a first come, first served basis. Beginning in the fall, students spend an entire school year working together to build their boats with the final race taking place over Solar Cup weekend in May.

Public Information

West Basin's Water Reliability 2020 public outreach program received significant awards in 2011-2012, including the national PRSA Silver Anvil Award and the Los Angeles Chapter's PRISM Award, for its success in increasing public awareness of West Basin. The outreach program provides briefings for community leaders and the public, including in-person briefings, community talks, mainstream media, social media, e-newsletters, website, events, and publications for those interested in learning about

West Basin’s groundbreaking work. Also included in public outreach are water use efficiency programs, conservation tips, and public tours. The focus of all of West Basin’s outreach, Water Reliability 2020, is to educate the public about reducing our dependence on imported water and increasing the amount of water we produce locally. Public support will play a significant role in its success.



The Public Information team regularly updates the community with news about the water supply situation, the water industry in general, and West Basin’s programs through some of the tools listed here:

- Website and electronic media: www.westbasin.org is a center point for West Basin’s outreach, including Water Reliability 2020, Board of Directors and Committee meetings, and other helpful tools such as an animated water recycling process, virtual tour, education updates, GIS mapping program to help customers find their water provider, and a free children’s Water Star Detective video game that teaches water efficiency in a fun way.
- Publicity: Media outreach is a priority, including local, regional and national press, magazines, book authors, electronic media, and other public forums. Wire distribution and social media remain significant tools for West Basin’s outreach.
- Events: West Basin staff and directors participate in events throughout the year to share water reliability and water efficiency messages with the public. Water Harvest is West Basin’s annual water education festival in the fall each year that reaches thousands of people in one day.
- Tours and Talks: Both the ECLWRF and Demonstration Facility regularly host foreign delegations, elected officials, water industry representatives, and various organizations to share technical expertise and “best practices” in water recycling and ocean-water desalination technologies. We additionally offer Public Tours and Water 101 Classes every other month to introduce the community to water supply issues locally and around the globe.
- Construction outreach: Construction outreach efforts support West Basin’s capital improvement projects and include community meetings and specialized outreach to ensure that neighborhoods are well informed of the nature and timeline of construction activities.

Government Affairs

West Basin leads an aggressive legislative and 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 legislative objectives include:

- | | | |
|------------------------|--------------------------------|---------------------------------|
| ▪ Legislative Advocacy | ▪ Funding & Regulatory Support | ▪ <i>Legislator of the Year</i> |
| ▪ Coalition Building | | ▪ Information Sharing |

Financial Information

ACCOUNTING SYSTEM

As required by Generally Accepted Accounting Principles (GAAP) 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

Public agencies develop budgets as both a performance tool and to demonstrate accountability to its stakeholders. West Basin's budget is developed in accordance with the priorities, goals and objectives established by the Board of Directors through its Strategic Plan and customer surveys. The process begins with a series of interviews with the Board of Directors, management, key staff, and stakeholders. The Strategic Plan provides direction for planning, budgeting, implementation, evaluation and reporting. Semi-annually, the Board of Directors reviews the Strategic Plan through a scorecard where the goals and objectives are measured against individual target dates, percent completion, and comments that support the direction taken by the Board of Directors and staff.

The budget is also used as a communication tool. Interested parties, such as bond holders, credit rating agencies, and customers can review the budget to obtain a wide variety of information on West Basin's short- and long-term strategic planning, financial policies, and the current and future fiscal stability. For West Basin, the budget shows how the agency invests its revenues derived from user fees and fixed revenue sources to support its mission, goals and programs.

The General Manager communicates the goals and objectives with his senior staff to ensure that the budget includes the monetary requirements necessary to achieve the goals and objectives set within the Strategic Plan.

West Basin is not required to adopt a budget and therefore does not appropriate its fund. However, as a good business practice, West Basin prepares, adopts, monitors, and reports budgeted information.

CREDIT RATING AND DEBT COVERAGE

The latest credit rating from Moody's and Standard & 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. West Basin has recently made significant improvements in its policies. The Board has adopted a new Designated Funds Policy and periodically makes improvements to its award-winning Investment Policy. Each of these efforts contributes to a solid management focus on fiscal policies and metrics and has assisted West Basin in receiving strong ratings and obtaining low-cost financing for 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 as a result of lower-than-budgeted Barrier sales caused by poor water quality and L.A. County operational issues in addition to higher than anticipated legal expenses. Since that time, West Basin has created its budget to exceed required debt coverage on both parity and subordinate debt.

To maintain its financial strength, West Basin developed a Long-Range Financial Plan (LRFP). The LRFP uses the current Fiscal Year budget and incorporates multi-year revenue and expense assumptions used to address anticipated operating and capital expenditures, resulting in a dynamic financial model for West Basin. The capital expenditures are based on the CIMP and updated estimates for the 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 budget assumptions to actual expenditures 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. For the Fiscal Year ending June 30, 2012, imported water sales totaled \$115 million while recycled water sales amounted to \$29.3 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, adopted at a Regular Board Meeting. 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 in designated funds can be shifted or re-allocated at any time at the Board of Directors’ direction. The Board of Directors adopted a new Designated Funds Policy in Fiscal Year 2011-12 and identified the following designated funds: Operating Liquidity Fund, Operating Contingency Fund, Emergency Repairs Fund, Capital Contingency Fund, Rehabilitation & Replacement Fund, System Expansion Fund and Rate Stabilization 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 their designated purpose. Currently, West Basin’s only restricted funds are the Bond Reserve Funds.



WEST BASIN STAFF SERVICES

In FY 2011-12, West Basin employed 38 full-time positions, of which 23 are in operations, planning, communications and engineering and 15 are 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, 2011

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. Danison

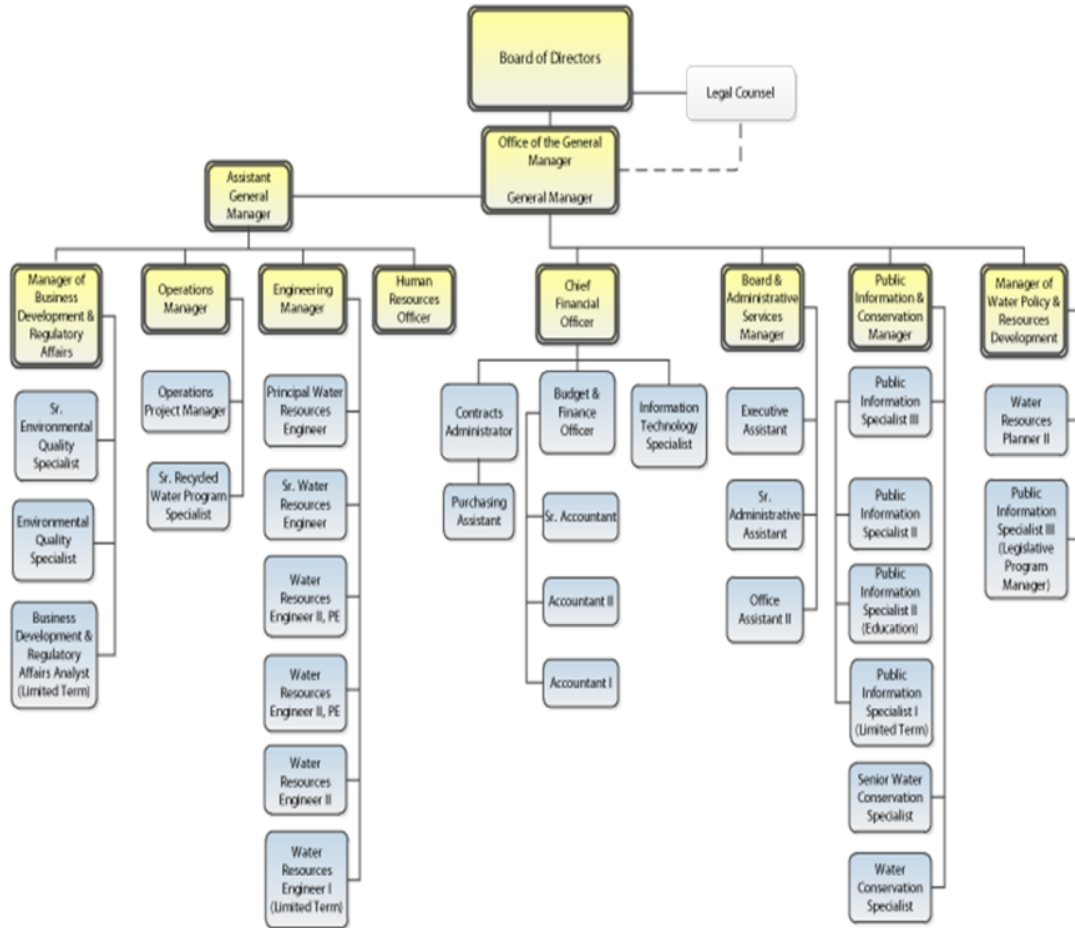
President

Jeffrey R. Emer

Executive Director

ORGANIZATION CHART

WEST BASIN MUNICIPAL WATER DISTRICT
July 2012



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, 2012, 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, 2011 and, in our report dated November 18, 2011, 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, 2012, 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.

Accounting principles generally accepted in the United States of America require that *management's discussion and analysis* be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Board of Directors
West Basin Municipal Water District
Page Two

Our audit was conducted for the purpose of forming an opinion on 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. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion or provide any assurance on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 2, 2012 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 Hollman Melara P.C.

Irvine, California
November 2, 2012

**WEST BASIN MUNICIPAL WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2012**

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the West Basin Municipal Water District ("West Basin" or "District") provides an introduction to the financial statement of the District for the Fiscal Year ended June 30, 2012. 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 \$14 million, or 7% from the prior year.
- The District's recycling water revenue increased to \$29 million from \$26 million in the prior year, while recycling water expenses decreased to \$24 million from \$25 million in the prior year.
- During the year, the District terminated one of the interest rate swaps resulting in \$4.9 million realized gain.
- During the year, the District issued three refunding revenue bonds to be used for various recycling expansion projects. The refunding transactions resulted in overall savings of \$5.8 million (net present value savings of \$4.6 million) for the District due to lower interest rates of the new bonds.
- Capital contributions to the District were approximately \$11 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 of 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 29 through 53.

Financial Analysis of the District

1) Statement of Net Assets

Condensed Statement of Net Assets

	<u>2012</u>	<u>2011</u>	<u>Change</u>
Assets			
Current unrestricted assets	\$ 97,052,646	\$ 82,344,814	\$ 14,707,832
Current restricted assets	37,288,836	17,733,480	19,555,356
Capital asset, net	466,904,415	426,687,149	40,217,266
Other assets	8,771,931	7,229,951	1,541,980
Total assets	<u>610,017,828</u>	<u>533,995,394</u>	<u>76,022,434</u>
Liabilities			
Current liabilities	46,530,950	40,124,159	6,406,791
Long term liabilities	348,859,964	293,435,753	55,424,211
Total Liabilities	<u>395,390,914</u>	<u>333,559,912</u>	<u>61,831,002</u>
Net Assets:			
Invested in capital assets, net of related debt	152,041,660	142,313,644	9,728,016
Unrestricted	62,585,254	58,121,838	4,463,416
Total Net Assets	<u>\$ 214,626,914</u>	<u>\$ 200,435,482</u>	<u>\$ 14,191,432</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 \$215 million and \$200 million as of June 30, 2012 and 2011, respectively.

A large portion of the District's net assets (\$152 million and \$142 million as of June 30, 2012 and 2011, 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>2012</u>	<u>2011</u>	<u>Change</u>
Revenue			
Operating revenues			
Water	\$ 114,973,744	\$ 106,427,113	\$ 8,546,631
Water recycling revenue	29,258,124	26,382,155	2,875,969
Water conservation and monitoring	841,457	741,055	100,402
Desalting revenue	1,073,749	801,332	272,417
Total operating revenues	<u>146,147,074</u>	<u>134,351,655</u>	<u>11,795,419</u>
Non-Operating revenues			
Standby charges	9,631,773	9,898,501	(266,728)
Investment Income	1,323,378	1,215,535	107,843
Realized gain on swap termination	4,916,234	-	4,916,234
Other non-operating revenues	563,725	6,052,632	(5,488,907)
Total non-operating revenues	<u>16,435,110</u>	<u>17,166,668</u>	<u>(731,558)</u>
Total revenue	<u>162,582,184</u>	<u>151,518,323</u>	<u>11,063,861</u>
Expenses			
Operating expenses			
Source of supply	99,019,067	94,855,060	4,164,007
Water recycling costs	23,594,939	25,277,282	(1,682,343)
Depreciation and amortization	18,283,392	18,267,800	15,592
Communications and monitoring	4,940,155	4,642,948	297,207
Water resource planning	1,193,711	892,731	300,980
Desalting operations	900,652	668,219	232,433
Total operating expenses	<u>147,931,916</u>	<u>144,604,040</u>	<u>3,327,876</u>
Non-Operating expenses			
Miscellaneous expenses	0	26,926	(26,926)
Loss on disposition of assets	16,614	426,260	(409,646)
Interest expense	11,002,424	12,038,152	(1,035,728)
Total non-operating expenses	<u>11,019,038</u>	<u>12,491,338</u>	<u>(1,472,300)</u>
Total expenses	<u>158,950,954</u>	<u>157,095,378</u>	<u>1,855,576</u>
Net Income (loss) before capital contributions	<u>3,631,230</u>	<u>(5,577,055)</u>	<u>9,208,285</u>
Capital contributions	<u>10,560,202</u>	<u>13,196,398</u>	<u>(2,636,196)</u>
Change in net assets	<u>14,191,432</u>	<u>7,619,343</u>	<u>6,572,089</u>
Net assets-Beinning of year, as restated	<u>200,435,482</u>	<u>192,816,139</u>	<u>7,619,343</u>
Net assets-End of year	<u>\$ 214,626,914</u>	<u>\$ 200,435,482</u>	<u>\$ 14,191,432</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 \$14.2 million and \$7.6 million for the Fiscal Years ending June 30, 2012 and 2011, respectively.

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

In 2012, the District's total revenues increased by \$11 million, primarily due to an increase in potable water sales revenues of \$8.5 million and increase in recycled water revenue of \$2.9 million. The increase in potable water revenues is the result of the increase in water rates in the year.

The District purchases potable water from Metropolitan Water District (MWD) and sets its rate based on the rate from MWD. In 2012, the potable rate increased by \$60 per acre foot or 6.9% during the Fiscal Year. As a result, the District paid \$4.2 million more to MWD to purchase the potable water.

The recycled water sales increased by 2,000 acre-feet from 28,000 acre-feet in 2011 to 30,000 AF in 2012, at the same time period, the District managed to reduce the recycling operation and maintenance costs at the water recycling facility by \$ 1.7 million.

The capital contributions are from three major categories, the fixed payments from major recycled water customers of \$7.2 million, the contributed facilities from the U.S. Army Corps of Engineers of \$2.4 million and other grants and cash contribution of \$922 thousand.

3) Capital Assets

At June 30, 2012, the District investment in capital assets totaled \$623.8 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 \$57.6 million over the prior year. The following is a summary of capital assets:

	<u>2012</u>	<u>2011</u>	<u>change</u>
Land	\$ 25,211,646	\$ 25,211,646	-
Discharge Capacity	621,189	621,189	-
Water Facilities	487,053,689	474,202,050	12,851,639
Building and Improvements	3,291,643	2,721,478	570,165
Potable Distribution System	1,241,681	1,241,681	-
Education Center	548,067	548,067	-
Furniture, Fixtures, and Equipment	2,532,760	2,520,215	12,545
Construction in Progress	103,279,199	59,080,794	44,198,405
Total Capital Assets	<u>\$ 623,779,874</u>	<u>\$ 566,147,120</u>	<u>\$ 57,632,754</u>

A significant portion of the current year's construction in progress is attributable to the District's Phase V expansion of the water recycling facility, as well as the District's continued efforts in Ocean-water Desalination. In addition, West Basin invested in 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 liabilities

As of June 30, 2012, the District had \$358 million in long-term liabilities, including certificates of participation, refunding revenue bonds and interest rate swaps. The District paid down \$94.5 million from the principal of its long-term debts in Fiscal Year 2012 through refunding and cash payments. The District re-financed an additional \$144.8 million in revenue bonds. The net effort is an additional \$50 million in borrowing. Note 5 in the Notes to Basic Financial Statements disclose the detail of all Long-Term debt.

The District terminated one of the swaps in August, 2011, which is noted in Note 9 (Swap transaction agreements) of the Notes to Basic Financial Statements.

The following is a summary for the years 2012 and 2011:

	<u>2012</u>	<u>2011</u>	<u>Change</u>
Compensated absences	\$ 978,606	\$ 900,738	\$ 77,868
State of California Loan	-	1,440,344	(1,440,344)
Certificates of Participation	207,025,000	300,050,000	(93,025,000)
Refunding revenue bonds	144,790,000	-	144,790,000
Interest Rate Swaps	5,448,633	8,728,674	(3,280,041)
Total Long Term Debt	<u>\$ 358,242,239</u>	<u>\$ 311,119,756</u>	<u>\$ 47,122,483</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, please contact Margaret Moggia, Chief Financial Officer, at West Basin.

**WEST BASIN MUNICIPAL WATER DISTRICT
STATEMENT OF NET ASSETS**

June 30, 2012

(With comparative totals for June 30, 2011)

ASSETS

	2012	2011
CURRENT ASSETS		
Unrestricted assets:		
Cash and cash equivalents (note 2)	\$ 26,537,544	\$ 18,558,034
Investments (note 2)	40,879,984	35,563,136
Accounts receivable	28,495,902	26,889,353
Accrued interest receivable	415,647	328,572
Inventory	430,792	439,004
Prepaid expenses	292,777	566,715
Total unrestricted assets	97,052,646	82,344,814
Restricted assets (note 3):		
Cash and cash equivalents (note 2)	22,724,564	3,502,739
Investments (note 2)	14,227,681	13,614,100
Accrued interest receivable	324,983	324,984
Custodial cash (note 2)	11,608	291,657
Total restricted assets	37,288,836	17,733,480
TOTAL CURRENT ASSETS	134,341,482	100,078,294
NONCURRENT ASSETS		
Capital assets, net (note 4)	466,904,415	426,687,149
Net OPEB asset (note 7)	653,350	653,350
Deferred outflows - interest rate swap (note 9)	5,448,633	3,812,440
Unamortized bond issuance costs:		
2003 refunding revenue certificates of participation	250,489	682,611
2008 adjustable rate refunding revenue certificates of participation	181,000	193,000
2008 refunding revenue certificates of participation	1,674,677	1,762,433
2010 adjustable rate revenue certificates of participation	61,717	126,117
2011A refunding revenue bonds	159,318	
2011B refunding revenue bonds	177,091	
2012A refunding revenue bonds	165,656	
TOTAL NONCURRENT ASSETS	475,676,346	433,917,100
TOTAL ASSETS	\$ 610,017,828	\$ 533,995,394

(Continued)

**WEST BASIN MUNICIPAL WATER DISTRICT
STATEMENT OF NET ASSETS**

June 30, 2012

(With comparative totals for June 30, 2011)

(CONTINUED)

LIABILITIES AND NET ASSETS

	2012	2011
CURRENT LIABILITIES		
Accounts payable and accrued expense	27,956,207	23,619,763
Accrued interest payable	5,860,461	5,174,676
Current portion of long-term liabilities (note 5)	12,714,282	11,329,720
TOTAL CURRENT LIABILITIES	46,530,950	40,124,159
LONG-TERM LIABILITIES (note 5)		
Compensated absences	978,606	900,738
2003 refunding revenue certificates of participation	41,995,000	115,245,000
2008 adjustable rate refunding revenue certificates of participation	32,090,000	34,035,000
2008 refunding revenue certificates of participation	122,940,000	124,970,000
2010 adjustable rate revenue certificates of participation	10,000,000	25,800,000
2011A refunding revenue bonds	34,190,000	
2011B refunding revenue bonds	50,325,000	
2012A refunding revenue bonds	60,275,000	
State of California loan payable		1,440,344
Interest rate swaps (note 9)	5,448,633	8,728,674
Subtotal	358,242,239	311,119,756
Less: Unamortized bond premiums (discounts)	16,895,998	4,072,715
Deferred amount on refunding	(13,563,991)	(10,426,998)
Total	361,574,246	304,765,473
Less current portion above	(12,714,282)	(11,329,720)
TOTAL LONG-TERM LIABILITIES	348,859,964	293,435,753
TOTAL LIABILITIES	395,390,914	333,559,912
NET ASSETS:		
Invested in capital assets, net of related debt	152,041,660	142,313,644
Unrestricted	62,585,255	58,121,838
TOTAL NET ASSETS	\$ 214,626,914	\$ 200,435,482

WEST BASIN MUNICIPAL WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Year ended June 30, 2012

(With comparative totals for the year ended June 30, 2011)

	2012	2011
OPERATING REVENUES:		
Water	\$ 114,973,744	\$ 106,427,113
Water recycling revenue	29,258,124	26,382,155
Water conservation and monitoring	841,457	741,055
Desalting revenue	1,073,749	801,332
TOTAL OPERATING REVENUES	146,147,074	134,351,655
OPERATING EXPENSES:		
Source of supply	99,019,067	94,855,060
Water recycling costs	23,594,939	25,277,282
Depreciation and amortization	18,283,392	18,267,800
Communications and monitoring	4,940,155	4,642,948
Water resource planning	1,193,711	892,731
Desalting operations	900,652	668,219
TOTAL OPERATING EXPENSES	147,931,916	144,604,040
OPERATING INCOME (LOSS)	(1,784,842)	(10,252,385)
NONOPERATING REVENUES (EXPENSES):		
Standby charges	9,631,773	9,898,501
Investment income	1,323,378	1,215,535
Realized gain on swap termination	4,916,234	
Change in fair value of swap instrument (nonhedged)		5,033,336
Miscellaneous income	287,463	560,659
Non-capital grant income	276,262	458,637
Miscellaneous expense		(26,926)
Loss on disposition of assets	(16,614)	(426,260)
Interest expense	(11,002,424)	(12,038,152)
TOTAL NONOPERATING REVENUES (EXPENSES)	5,416,072	4,675,330
NET INCOME BEFORE CAPITAL CONTRIBUTIONS	3,631,230	(5,577,055)
CAPITAL CONTRIBUTIONS:		
Capital grants and contribution (cash)	922,112	1,681,844
Capital-recovery charges	7,240,560	6,886,648
Contributed facilities	2,397,530	4,627,906
TOTAL NONOPERATING REVENUES (EXPENSES)	10,560,202	13,196,398
CHANGE IN NET ASSETS	14,191,432	7,619,343
NET ASSETS - BEGINNING OF YEAR, AS RESTATED (note 10)	200,435,482	192,816,139
NET ASSETS - END OF YEAR	\$ 214,626,914	\$ 200,435,482

WEST BASIN MUNICIPAL WATER DISTRICT
STATEMENT OF CASH FLOWS
Year ended June 30, 2012
(With comparative totals for the year ended June 30, 2011)

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 154,459,760	\$ 143,941,742
Cash paid to suppliers of goods and services	(120,605,252)	(121,959,506)
Cash paid to employees for services	(4,346,809)	(3,669,240)
	<u>29,507,699</u>	<u>18,312,996</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Grants received	<u>276,262</u>	<u>458,637</u>
NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES	<u>276,262</u>	<u>458,637</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on long-term liabilities	(86,072,332)	(10,447,683)
Cash paid to bond escrow for refundings	(72,344,176)	-
Acquisition and construction of capital assets	(55,251,838)	(27,082,049)
New issuance of long-term liabilities	217,653,762	15,800,000
Interest paid on long-term liabilities	(10,316,639)	(11,988,623)
Capital grants received	922,112	1,681,844
Capital recovery charges	7,240,560	6,886,648
	<u>1,831,449</u>	<u>(25,149,863)</u>
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of investments	34,358,164	36,881,321
Purchase of investments	(39,795,398)	(44,429,015)
Interest received	743,110	1,143,592
	<u>(4,694,124)</u>	<u>(6,404,102)</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	26,921,286	(12,782,332)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>22,352,430</u>	<u>35,134,762</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ <u><u>49,273,716</u></u>	\$ <u><u>22,352,430</u></u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO AMOUNTS REPORTED ON STATEMENT OF NET ASSETS		
Cash and cash equivalents	\$ 26,537,544	\$ 18,558,034
Restricted cash and cash equivalents	22,724,564	3,502,739
Restricted custodial cash	11,608	291,657
	<u>49,273,716</u>	<u>22,352,430</u>
Cash and cash equivalents at end of year	\$ <u><u>49,273,716</u></u>	\$ <u><u>22,352,430</u></u>

(Continued)

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

Year ended June 30, 2012

(With comparative totals for the year ended June 30, 2011)

(Continued)

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>2012</u>	<u>2011</u>
Operating income (loss)	\$ (1,784,842)	\$ (10,252,385)
Standby charges	9,631,773	9,898,501
Depreciation and amortization	18,283,392	18,267,800
Nonoperating miscellaneous revenue	287,463	560,659
Nonoperating miscellaneous expenses	-	(26,926)
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	(1,606,549)	(830,306)
(Increase) decrease in inventory	8,212	(18,296)
(Increase) decrease in prepaid expense	273,938	(39,009)
Increase (decrease) in accounts payable	4,336,444	636,933
Increase (decrease) in compensated absences	<u>77,868</u>	<u>116,025</u>
 NET CASH PROVIDED BY		
(USED FOR) OPERATING ACTIVITIES	<u>\$ 29,507,699</u>	<u>\$ 18,312,996</u>
 NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
 Contributed facilities	<u>\$ 2,397,530</u>	<u>\$ 4,627,906</u>
 Gain (loss) on disposition of assets	<u>\$ (16,614)</u>	<u>\$ (426,260)</u>
 Unrealized gain (loss) from investments	<u>\$ (493,194)</u>	<u>\$ (125,885)</u>
 Revenue created by the change in the nonhedged swap fair value	<u>\$ -</u>	<u>\$ 5,033,336</u>
 Termination of swap by application of counterparty funds pursuant to agreement	<u>\$ 4,665,996</u>	<u>\$ -</u>

WEST BASIN MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
Year ended June 30, 2012

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

Organization and description of the District - The West Basin Municipal Water District ("West Basin" or "District") was incorporated on December 17, 1947, and 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. The District is governed by a five member Board of Directors elected by the voters in the service area to a 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's 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 are financed or recovered primarily through user fees and charges or debt backed by fees and charges.

The District uses "accrual basis 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 two (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; and
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; and
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, 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:

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

Depreciation aggregated \$17,415,487 for the year ended June 30, 2012.

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

(1) Summary of significant accounting policies (Continued)

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 \$867,905 for the year ended June 30, 2012.

Classification of liabilities - Certain liabilities that 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, 2012 are as follows:

Capital grants and contributions (cash)	\$ 922,112
Capital-recovery charges	7,240,560
Contributed Facilities-U.S. Army Corps of Engineers	2,397,530
Total	\$ 10,560,202

Capital grants and contributions (cash) - The District receives grants from Department of Water Reclamation, LADWP and other agencies for several ongoing projects.

Capital-recovery charges (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.

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

Risk management - The District is a member of the Association of California Water Agencies Joint Powers Insurance Authority ("Insurance Authority"). The Insurance Authority is a risk-pooling self-insurance authority, created under Government Code Sections 6500 et. seq.

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

(1) Summary of significant accounting policies (Continued)

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, 2012 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 \$208,526,929). 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 \$2,000,000 per occurrence and has purchased excess insurance coverage up to \$58,000,000.

Auto liability - The Insurance Authority has pooled self-insurance up to \$2,000,000 per occurrence and has purchased excess insurance coverage up to \$58,000,000.

Public officials' liability - The Insurance Authority has pooled self-insurance up to \$2,000,000 and has purchased excess insurance coverage up to \$58,000,000.

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

At June 30, 2012, 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, 2012:

	<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	\$33,724,236	\$ -	\$ -	\$33,724,236
Money market mutual funds	3,860,097	-	-	3,860,097
Deposits with financial institutions	1,556,643	-	-	1,556,643
Investments:				
United States agency securities	10,400,391	30,075,973	-	40,476,364
United States treasury securities	985,548	3,305,841	-	4,291,389
Corporate notes	920,755	939,384	-	1,860,139
Commercial Paper	4,998,413	-	-	4,998,413
Guaranteed investment contracts	<u>-</u>	<u>-</u>	<u>13,614,100</u>	<u>13,614,100</u>
 Total cash and investments	 <u>\$56,446,083</u>	 <u>\$34,321,198</u>	 <u>\$13,614,100</u>	 <u>\$104,381,381</u>

Financial Statement Classification:

Current assets:

Cash and cash equivalents	\$26,537,544
Investments	40,879,984

Restricted assets:

Cash and cash equivalents	22,724,564
Investments	14,227,681
Custodial cash	<u>11,608</u>

Total Cash and Investments \$104,381,381

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

Investment (as cash equivalents)	\$10,132,740
Local agency investment fund	33,724,236
Money market mutual funds	3,860,097
Deposits with financial institutions	1,556,643
Total cash and cash equivalents	\$49,273,716

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

(2) Cash and investments (Continued)

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:

<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, and no more than 5% of the portfolio may be invested in any one issuer. For Commercial paper, the District allows that 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.

**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 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

Disclosures relating to interest rate risk – Interest rate risk is the risk that changes in market interest rates that 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, 2012.

On August 3, 2011, the District executed a trade to terminate a swap agreement with Bank of New York Mellon and Rice Derivatives Holdings. The fair market value of the swap at the time of termination was \$4,916,234. The District received \$250,238 with the termination of the swap.

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

(2) Cash and investments (Continued)

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 the 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	AA+
U.S. treasury securities	AA+
LAIF	Not Rated
Money market mutual funds	Not Rated
Corporate notes	A and AA+
Commercial paper	A-1 and A-1+
Held by bond trustee:	
Money market mutual funds	A-1+ and AAA
Guaranteed investment contracts	Not Rated

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

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	\$13,884,484
Federal Home Loan Banks	U.S. agency securities	4,016,555
Federal Home Loan Mortgage Association	U.S. agency securities	<u>22,575,325</u>
		<u>\$40,476,364</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 non-negotiable guaranteed investment contract issued by FSA Capital Management Services that mature on August 1, 2030 and August 1, 2027, respectively.

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

(2) Cash and investments (Continued)

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 that are recorded on an amortized cost basis.

(3) Restricted assets

Restricted assets were provided by, and are to be used for, the following at June 30, 2012:

<u>Funding source</u>	<u>Use</u>	
Refunding certificates of participation, Refunding revenue bonds and interest earned	Bond Payment	\$18,716,194
Refunding revenue bonds	Construction	18,561,034
Custodial receipts	Custodial costs	<u>11,608</u>
		<u>\$37,288,836</u>

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, 2012:

	<u>Balance at July 1, 2011</u>	<u>Additions</u>	<u>Transfers Deletions</u>	<u>Balance at June 30, 2012</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	621,189	-	-	621,189
Construction-in-progress	<u>59,080,794</u>	<u>57,471,776</u>	<u>(13,273,371)</u>	<u>103,279,199</u>
Total capital assets, not being depreciated	<u>84,913,629</u>	<u>57,471,776</u>	<u>(13,273,371)</u>	<u>129,112,034</u>
Capital assets, being depreciated:				
Building – Carson	2,343,574	-	-	2,343,574
Building improvement	377,904	570,165	-	948,069
Potable distribution system	1,241,681	-	-	1,241,681
Education center	548,067	-	-	548,067
Recycling facilities	468,903,045	13,246,182	-	482,149,227
Groundwater desalting facility	5,299,005	-	(394,543)	4,904,462
Machinery and equipment	2,123,786	-	-	2,123,786
Furniture and fixtures	<u>396,429</u>	<u>12,545</u>	<u>-</u>	<u>408,974</u>
Total capital assets, being depreciated	<u>481,233,491</u>	<u>13,828,892</u>	<u>(394,543)</u>	<u>494,667,840</u>
Less accumulated depreciation:				
Building – Carson	(367,160)	(93,743)	-	(460,903)
Building improvement	(22,012)	(56,462)	-	(78,474)
Potable distribution system	(31,042)	(62,084)	-	(93,126)
Ocean desalination education center	(30,448)	(60,897)	-	(91,345)
Recycling facilities	(136,282,830)	(16,717,733)	-	(153,000,563)
Groundwater desalting facility	(1,611,986)	(220,516)	9,988	(1,822,514)
Machinery and equipment	(831,402)	(175,183)	-	(1,006,585)
Furniture and fixtures	<u>(283,092)</u>	<u>(38,857)</u>	<u>-</u>	<u>(321,949)</u>
Total accumulated depreciation	<u>(139,459,972)</u>	<u>(17,425,475)</u>	<u>9,988</u>	<u>(156,875,459)</u>
Total capital assets, being depreciated, net	<u>341,773,519</u>	<u>(3,596,583)</u>	<u>(384,555)</u>	<u>337,792,381</u>
Total capital assets, net	<u>\$426,687,148</u>	<u>\$53,875,193</u>	<u>\$(13,657,926)</u>	<u>\$466,904,415</u>

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

(5) Long-term liabilities

The following amounts of long term liabilities were outstanding June 30, 2012:

	Balance (as restated) July 1, 2011	Additions	Deletions	Balance at June 30, 2012	Current Portion
2003A Refunding Revenue Certificates of Participation	\$115,245,000	\$ -	\$(73,250,000)	\$41,995,000	\$7,025,000
2008A Adjustable Rate Refunding Revenue Certificate of Participation	34,035,000	-	(1,945,000)	32,090,000	2,025,000
2008B Refunding Revenue Certificate of Participation	124,970,000	-	(2,030,000)	122,940,000	3,020,000
2010A Adjustable Rate Revenue Certificates of Participation	25,800,000	63,951,164	(79,751,164)	10,000,000	-
2011A Refunding Revenue Bonds	-	34,190,000	-	34,190,000	340,000
2011B Refunding Revenue Bonds	-	60,275,000	-	60,275,000	-
2012A Refunding Revenue Bonds	-	50,325,000	-	50,325,000	-
State of California Loan Payable	<u>1,440,344</u>	<u>-</u>	<u>(1,440,344)</u>	<u>-</u>	<u>-</u>
Subtotal	<u>301,490,344</u>	<u>208,741,164</u>	<u>(158,416,508)</u>	<u>351,815,000</u>	<u>12,410,000</u>
Unamortized Discount and Premium	4,072,715	14,880,690	(2,057,407)	16,895,998	-
Deferred Amount on Refunding	(10,426,998)	(4,256,556)	1,119,563	(13,563,991)	-
Compensated Absences	900,738	400,087	(322,219)	978,606	304,282
Interest rate swaps	<u>8,728,674</u>	<u>1,636,193</u>	<u>(4,916,234)</u>	<u>5,448,633</u>	-
Total	<u>\$304,765,473</u>	<u>\$221,401,578</u>	<u>\$(164,592,805)</u>	<u>\$361,574,246</u>	<u>\$12,714,282</u>

2003A refunding revenue certificates of participation - In October 2003, the Financing Corporation issued \$156,085,000 Refunding Revenue Certificates of Participation ("2003 Refunding Revenue Certificates of Participation") 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. During the Fiscal Year, the District refunded \$66,465,000 of the 2003A Refunding Revenue Certificates.

The 2003A Refunding Revenue Certificates have interest rates from 4.0% to 5.25% with maturities through August 2030. The amount of bonds outstanding at June 30, 2012 totaled \$41,995,000.

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

(5) Long-term liabilities (Continued)

2008A 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 ("2008A Adjustable Rate Refunding Revenue Certificates") to assist the District in refinancing certain facilities of the District previously financed and refinanced from the proceeds of the 2004 and 2007 Adjustable Rate Refunding Revenue Certificates, to fund a reserve fund, and to pay costs of delivery of the 2008A Adjustable Rate Refunding Revenue Certificates.

Both 2008A-1 and 2008A-2 have interest rates that are remarketed on a weekly basis (0.24% at June 30, 2012). The amount of bonds outstanding at June 30, 2012 totaled \$32,090,000.

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

The 2008B 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, 2012 totaled \$122,940,000.

2010A 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 of .17% at June 30, 2012. The District also pays a facility fee on the unutilized portion of the Certificate, which is based on the fixed rate. The amount of certificates outstanding at June 30, 2012 totaled \$10,000,000.

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

(5) Long-term liabilities (Continued)

2011A refunding revenue bonds - In September 2011, the District issued \$34,190,000 Refunding Revenue Bonds ("2011A Refunding Revenue Bonds") to assist the District in refinancing a portion of certain facilities of the District previously financed and refinanced from the proceeds of the 2003A Refunding Revenue Certificates of Participation, to refinance certain facilities of the District previously financed from the proceeds of the State of California loan, and to pay costs of delivery of the 2011A Refunding Revenue Bonds.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$4,196,508. This difference, reported in the accompanying financial statements as a deduction from the related debt, is being charged to operations through the year 2016 using the straight-line method. The difference between the cash flows required to service the old debt and cash flows required to service the new debt was \$3,142,982. The economic gain (difference between the present values of the old and new debt service payments) resulting from the transaction was \$2,732,840.

The 2011A Refunding Revenue Bonds have interest rates ranging from 2.0% to 5.0% with maturities through August 2024. The amount of bonds outstanding at June 30, 2012 totaled \$34,190,000.

2011B refunding revenue bonds - In November 2011, the District issued \$60,275,000 Refunding Revenue Bonds ("2011B Refunding Revenue Bonds") to assist the District in refinancing a portion of certain facilities of the District previously financed and refinanced from the proceeds of the 2003 Refunding Revenue Certificates of Participation, to refinance certain facilities of the District previously financed from the proceeds of the 2010A Adjustable Rate Revenue Certificates of Participation, to fund capitalized interest, to fund a reserve fund and to pay costs of delivery of the 2011B Refunding Revenue Bonds.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$1,156,882. This difference, reported in the accompanying financial statements as a deduction from the related debt, is being charged to operations through the year 2026 using the straight-line method. The difference between the cash flows required to service the old debt and cash flows required to service the new debt was \$910,537. The economic gain (difference between the present values of the old and new debt service payments) resulting from the transaction was \$678,666.

The 2011B Refunding Revenue Bonds have interest rates ranging from 4.0% to 5.0% with maturities through August 2036. The amount of bonds outstanding at June 30, 2012 totaled \$60,275,000.

2012A refunding revenue bonds - In April 2012, the District issued \$50,325,000 Refunding Revenue Bonds ("2012A Refunding Revenue Bonds") to assist the District in refinancing a portion of certain facilities of the District previously financed from the proceeds of the 2003 Refunding.

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

(5) Long-term liabilities (Continued)

Revenue Certificates of Participation, to refinance certain facilities of the District previously financed from the proceeds of the 2010A Adjustable Rate Revenue Certificates of Participation, to fund capitalized interest, to fund a portion of a reserve fund and to pay costs of delivery of the 2012A Refunding Revenue Bonds.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$2,338,024. This difference, reported in the accompanying financial statements as a deduction from the related debt, is being charged to operations through the year 2029 using the straight-line method. The difference between the cash flows required to service the old debt and cash flows required to service the new debt was \$1,696,825. The economic gain (difference between the present values of the old and new debt service payments) resulting from the transaction was \$1,139,285.

The 2012A Refunding Revenue Bonds have interest rates ranging from 3.0% to 5.0% with maturities through August 2029. The amount of bonds outstanding at June 30, 2012 totaled \$50,325,000.

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 the City of 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, 2012 the State of California had disbursed \$5,000,000 to the District under the loan contract.

In September 2011, the District paid-off the outstanding balance of the loan payable.

Defeased Debt Outstanding - In the current year, the District defeased certain certificates of participation by placing the proceeds of certain revenue bonds in an irrevocable trust to provide for all future debt service payments on the old certificates of participation. Accordingly, the trust account assets and the liabilities for the defeased debt are not included in the District's financial statements. On June 30, 2012, \$66,465,000 of 2003A Refunding Revenue Certificates of Participation outstanding are considered defeased.

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 Fiscal Year 2032. For the year ended June 30, 2012, debt coverage (net revenues divided by senior debt service) for senior debt was approximately 2.34. Debt coverage (net revenues divided by total debt service) for all debt was approximately 1.52.

Debt service requirements of the Certificates of Participation (not including the 2010 Adjustable rate revenue certificates of participation) subsequent to June 30, 2012 are as follows:

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

(5) Long-term liabilities (Continued)

	<u>Certificates of Participation</u>			<u>Refunding Revenue Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Hedging Derivatives, Net</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$12,070,000	\$9,812,087	\$1,034,150	\$340,000	\$4,059,311	\$27,315,548
2014	12,785,000	8,516,780	966,218	350,000	6,767,150	29,385,148
2015	13,360,000	7,994,744	892,529	2,415,000	6,756,650	31,418,923
2016	14,000,000	7,424,442	818,170	2,490,000	6,684,200	31,416,812
2017	10,725,000	6,677,273	736,352	2,200,000	6,588,350	26,926,975
2018	6,250,000	6,257,966	656,034	6,105,000	6,500,350	25,769,350
2019	6,485,000	6,063,068	571,095	6,345,000	6,256,150	25,720,313
2020	6,750,000	5,727,019	483,586	6,580,000	6,012,700	25,553,305
2021	7,005,000	5,539,817	390,197	6,810,000	5,794,250	25,539,264
2022	7,275,000	5,207,717	295,695	7,125,000	5,493,750	25,397,162
2023	7,770,000	4,906,198	243,902	7,480,000	5,137,500	25,537,600
2024	8,425,000	4,534,674	199,833	7,780,000	4,776,000	25,715,507
2025	8,805,000	4,130,586	153,747	8,150,000	4,387,000	25,626,333
2026	9,230,000	3,708,909	106,985	8,720,000	4,010,500	25,776,394
2027	9,700,000	3,270,497	57,450	8,915,000	3,574,500	25,517,447
2028	10,085,000	2,796,342	8,205	9,435,000	3,149,250	25,473,797
2029	9,105,000	2,311,025	-	9,910,000	2,677,500	24,003,525
2030	9,555,000	1,860,000	-	10,410,000	2,182,000	24,007,000
2031	17,110,000	1,382,250	-	4,080,000	1,661,500	24,233,750
2032	10,535,000	526,750	-	4,285,000	1,457,500	16,804,250
2033	-	-	-	4,500,000	1,243,250	5,743,250
2034	-	-	-	4,725,000	1,018,250	5,743,250
2035	-	-	-	4,960,000	782,000	5,742,000
2036	-	-	-	5,210,000	534,000	5,744,000
2037	-	-	-	5,470,000	273,500	5,743,500
	<u>\$197,025,000</u>	<u>\$98,648,144</u>	<u>\$7,614,148</u>	<u>\$144,790,000</u>	<u>\$97,777,111</u>	<u>\$545,854,403</u>

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

(6) Defined benefit pension plan

Public Employees Retirement System (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, 2012 is 14.992% 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, 2010, 2011, and 2012 were \$690,472, and \$802,587 and 932,696, respectively, and were equal to the required employer 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, 2011 to June 30, 2012 has been determined by an actuarial valuation of the plan as of June 30, 2009.

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>
6/30/10	\$ 458,329	100%	\$-0-
6/30/11	522,633	100%	-0-
6/30/12	608,017	100%	-0-

Effective with the June 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, including the District's, were established for the June 30, 2003 valuation.

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

(6) Defined benefit pension plan (Continued)

Public Agency Retirement Services (PARS):

The District has established a defined benefit, single-employer retirement plan that provides a pension benefit for full-time Directors who retire from the District after July 1, 2002, who are at least age 50 with five (5) or more years of continuous service, and who have not been a CalPERS member prior to January 1, 2003. PARS also provides for a supplemental retirement benefit to full-time Directors who retire from the District after July 1, 2002, who have assumed office on or after January 1, 1995, who are at least age 55 with 12 or more years of continuous service, and who are not eligible for another District retiree benefit. 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 starts at 2% of the highest average annual salary for a one-year period of employment with the District at age 50, increases by 0.1% for each year after age 50, capped at 3% at 60. This benefit is increased by a 2% annual Cost of Living Adjustment (COLA) after retirement. The Supplemental benefit is a \$5,000 annual benefit, which is increased by the all-urban CPI (U.S. city average). The District contributes to each benefit on behalf of the eligible Directors.

The actuarial assumptions used for the report are listed in below:

<u>Asset Valuation Method:</u>	Smoothed market value
<u>Discount rate:</u>	5.5%, a decrease from the 6.0% assumed previously
<u>Mortality:</u>	Post-retirement mortality rates are from the CalPERS' 1997-2007 Experience Study
<u>General Inflation:</u>	3%
<u>Aggregate payroll Increase:</u>	3.25%
<u>Termination:</u>	None assumed
<u>Salary Scale:</u>	Individual payroll increases are the lesser of 5% and inflation
<u>Retirement Age:</u>	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 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 11 years remaining as of 2011/12
- Gains and losses are amortized over 15 years (closed)
- Plan changes, assumption and method changes are amortized over 20 years (closed)
- 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)	Funded 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	151.2%
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, 2012 is based on an actuarial valuation as of June 30, 2012. For the Fiscal Year ending June 30, 2012, 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 \$110,270 to the plan.

**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 multi-year 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 (amounts in \$000's)

Fiscal Year Ending June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Obligation (Asset)
2010	\$ 82	100%	0
2011	104	94%	6,362
2012	104	106%	0

(7) Other postemployment benefits (OPEB)

Plan Description: West Basin 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 five 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 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 (OPEB)**

Annual OPEB Cost and Net OPEB Obligation. The District's annual Other Post Employment 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	\$ 471,960
Interest on net OPEB obligation	(49,001)
Adjustment to annual required contribution	<u>49,001</u>
Annual OPEB cost (expense)	471,960
Contributions made (including premiums paid)	<u>(471,960)</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)

This table summarizes the District's annual OPEB costs, annual OPEB contribution, cash directly paid to retired employees, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation from FY 2010 to FY 2012.

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Annual OPEB Contributed/Paid</u>	<u>% of Annual OPEB Contributed/Paid</u>	<u>Net OPEB Obligation (Asset)</u>
6/30/2010	\$295,941	\$352,136	119%	\$(56,195)
6/30/2011	305,558	305,558	100%	-
6/30/2012	471,960	471,960	100%	-
Total	<u>\$ 1,073,459</u>	<u>\$ 1,129,654</u>	<u>105%</u>	<u>\$ (56,195)</u>

Between FY 2008 and FY 2009, the District Annual OPEB Cost was \$241,702 and \$286,000; in FY 2009, the District paid \$1,124,856 to the OPEB fund. This resulted in the additional Net OPEB asset of (\$597,154) at the end of the FY 2009.

Funding Status and Funding Progress. As of July 1, 2011, the most recent actuarial valuation date, the plan was 49% funded. The table below shows the Funding Progress.

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued 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%
7/1/11	2,180,681	4,466,071	2,285,390	49%	3,647,096	62.66%

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
(continued on next page)

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

(7) Other postemployment benefits (Continued)

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.

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 7.5% 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 9.5% for medical plan premiums initially, reduced by decrements of 0.5 percent per year to an ultimate rate of 5% after the ninth year. All the rates included a 3.25% 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.

(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, 2012, the total unpaid amount on these contracts is approximately \$40,000,000. These commitments may be funded from restricted assets.

(9) Swap transaction agreements

In June 2004, the 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, the 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 (\$3,590,511) based on the market interest rates as of June, 30, 2012.

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

(9) Swap transaction agreements (Continued)

Also in April 2005, the 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, the 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 (\$1,858,122) based on the market interest rates as of June, 30, 2012.

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 \$4,916,234. The District received \$250,247 with the termination of the swap. Pursuant to the settlement agreement with the counterparty, counterparty funds were applied towards the settlement of the agreement.

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2012, 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, 2012</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	\$ (1,255)	Debt	\$ (3,591)	\$17,850
Pay-fixed interest rate swap	Deferred outflow	\$ (381)	Debt	\$ (1,858)	\$13,900

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).

**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, 2012, along with the credit rating of the associated counterparty (amounts in thousands).

<u>Type</u>	<u>Objective</u>	<u>Notional Amount</u>	<u>Effective Date</u>	<u>Maturity Date</u>	<u>Terms</u>	<u>Counterparty Credit Rating*</u>
Pay-fixed interest rate swap	Hedge of the variable rate interest exposure relating to the Refunding Revenue Certificates of Participation Series 2008A-1.	\$17,850	5/22/08	8/01/27	Pay 3.662%; receives 65% of the BBA-LIBOR	A-
Pay-fixed interest rate swap	Hedge of the variable rate interest exposure relating to the Refunding Revenue Certificates of Participation Series 2008A-2.	\$13,900	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% 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, 2012, the interest rate on the District's hedged variable-rate debt was 0.24%, while 65% of LIBOR was approximately 0.16 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, 2012, the District would owe \$5,448,633 if its three swaps were terminated.

(10) Prior Period Adjustment:

The beginning net assets were restated to correct the improper recording of an asset for construction in progress contributed by the U.S. Army Corps of Engineers during the Fiscal Year ended June 30, 2008. The effect of the restatement to the beginning net assets as of July 1, 2010 is as follows:

Net assets at beginning of year, as previously reported	\$194,010,427
To adjust construction in progress	<u>(1,194,288)</u>
Net assets at beginning of year, as restated	<u>192,816,139</u>

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STATISTICAL SECTION

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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 financial statements, note disclosures, and required supplementary information say about the District's overall financial health.

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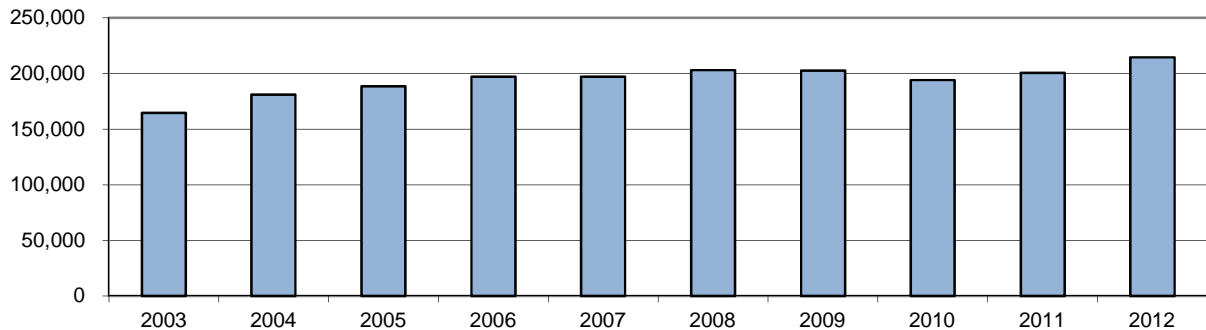
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WEST BASIN MUNICIPAL WATER DISTRICT

**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
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	142,314	58,122	200,436 (2)
2012	152,042	62,585	214,627

**Net Assets
(In thousands)**



(1) Fiscal Year 2010 beginning Net Assets were restated due to the deduction of 3.6 million in Construction-In-Progress account and per GASB No. 53 requirements, the fair value of the non-hedged swap (\$15.7M) at the end of the Fiscal Year 2009 was recorded in Fiscal Year 2010.

(2) Fiscal Year 2011 beginning Net Assets were restated in Fiscal Year 2012 to reflect the deduction of \$1.2 million in Construction-In-Progress account in Fiscal Year 2008.

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 Revenue (Loss)			Non-Operating Revenue (loss)			
	Operating Revenues (1)	Operating Expenses (2)	Operating Revenue (Loss)	Standby Charges	Invest- ment Income	Realized Gain (Swap Termination) (3)	Grant Income Miscellaneous Inc (Exp) Loss on disposal (4)
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
2012	146,147	147,932	(1,785)	9,632	1,323	4,916	546

(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) One interest rate swap is terminated resulting in 4.9M realized gain.

(4) In FY 2006, there is \$1.5 million loss from the disposition of capital assets.

(5) Due to the debt refinancing in FY 2008, the interest expense increased in FY 2009. The interest expense dropped in FY 2012 due to refinancing.

(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. West Basin terminated this type of the swap in FY 2012.

(7) Further detail is shown on Table 5 - "Capital Contributions by Source" with explanations of nature of these contributions.

(continued)

Source: Finance Dept.

WEST BASIN MUNICIPAL WATER DISTRICT

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

(In Thousands)
(continued)

Nonoperating Revenue (loss)

Fiscal Year Ended June 30,	Interest Expense	Change in fair value of swap (nonhedged)	Total Nonoperating Revenue (Loss)	Income (Loss) Before Contributions	Capital Contributions	Change in Net Assets
	(5)	(6)			(7)	
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)	10,332	4,489
2009	(13,848)	-	(811)	(13,032)	9,069	(3,963)
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
2012	(11,002)	-	5,413	3,631	10,560	14,191

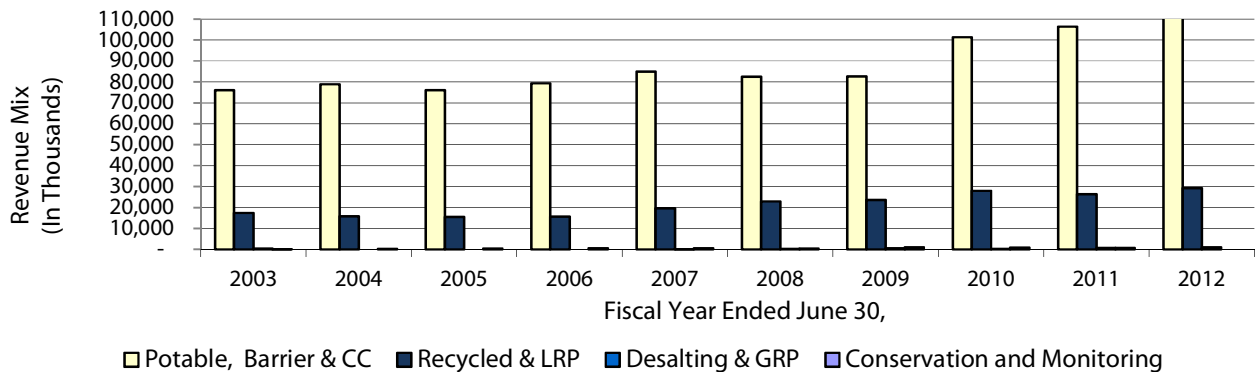
WEST BASIN MUNICIPAL WATER DISTRICT

**Table 3
OPERATING REVENUES BY SOURCE
LAST TEN FISCAL YEARS**

(In Thousands)

Fiscal Year Ended June 30,	Water Sales			Conservation & Monitoring	Total
	Potable, Barrier & CC	Recycled & LRP	Desalting & GRP		
	(1)	(2)	(3)		
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	28,012	334	912	130,623
2011	106,427	26,382	802	741	134,352
2012	114,974	29,258	1,074	841	146,147

- (1) Includes non-interruptible, seasonal storage, seawater barrier and Capacity Charge (CC).
In Fiscal Year 2010, non-interruptible and seawater barrier water rate increased 21% over the prior year.
- (2) Includes recycled sales and incentives from Metropolitan Water District of Southern California Local Resource Programs (LRP) which offers \$250 incentive per acre-foot of the recycled water sold. Explanation of the fluctuations in recycled water sales is on Table 10 - "Recycled Water Sales in Acre-Feet".
- (3) Includes desalting water sales and incentives from Metropolitan Water District of Southern California Groundwater Recovery Program (GRP) which offers \$250 incentive per acre-foot of the desalting water sold. Explanation of the fluctuations in desalting water sales is on Table 8 - "All Water Deliveries in Acre-Feet".



Source:
Finance Dept.

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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	Communications and Monitoring
	(1)	(2)	(3)	
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
2012	99,019	23,595	901	4,940

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

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

(3) Represents District's costs to operate and maintain its desalting facility.

(4) Increases/decreases in general and administrative (G & A) expenses were in accordance with budgeted amounts. In 2006 and 2007, the increase in general and administrative expenses relate to significant legal expenses. Starting in 2008, the District changed its allocation methodology and began allocating all G & A costs to direct programs.

(5) The decrease in 2008 was the result of organizational restructuring. The project and labor costs for conservation projects were reassigned to Communications and Monitoring. The decrease in 2011 reflects the District's effort of reducing its operating cost.

(continued)

Source: Finance Department

WEST BASIN MUNICIPAL WATER DISTRICT

Table 4

OPERATING EXPENSES BY SOURCE

LAST TEN FISCAL YEARS

(In Thousands)

(continued)

<u>Fiscal Year Ended June 30,</u>	<u>General and Administrative</u>	<u>Water Resource Planning</u>	<u>Depreciation and Amortization</u>	<u>Total Operating Expenses</u>
	(4)	(5)		
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
2012	-	1,194	18,283	147,932

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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
	(1)	(2)	(3)	(4)	
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	10,337
2008	8,229	2,061	-	42	10,332
2009	7,140	1,068	409	452	9,069
2010	7,172	7,572	126	449	15,319
2011	6,887	4,628	1,239	442	13,196
2012	7,241	2,398	94	827	10,560

- (1) 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.
- (2) 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. The District received \$33M in total at the end of the Fiscal Year 2012. A prior period adjustment for Fiscal Year 2009 was made in FY 2010 to reflect a correction to the Army Corps contribution for the amount of \$3.5 million, it is reflected as a restatement of Net Assets in 2010. Another prior period adjustment for Fiscal Year 2008 was made in FY 2012 to reflect a correction to the U.S. Army Corps contribution for the amount of \$1.2 million, it is reflected as a restatement of Net Assets in 2011.
- (3) 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 Barrier, Conservation and Desalination projects.
- (4) Other - The District received contributions from other agencies such as Los Angeles Department of Water & Power, bp, Southern California Edison, Metropolitan Water District of Southern California and etc. In FY 2007, Southern California Edison provided a \$1.7M incentive to the District for the installation of solar panels.

Source: Finance Department

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

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

2012		
CUSTOMER	in US \$	%
California Water Service (CalWater)	55,686	49.4%
Golden State Water Company (GSWC) (1)	14,953	13.3%
City of El Segundo	10,929	9.7%
Los Angeles County Water Works (LA County)	8,734	7.8%
Water Replenishment District (WRD)	8,050	7.1%
City of Inglewood	7,616	6.8%
City of Manhattan Beach	3,449	3.1%
City of Lomita	2,319	2.1%
California American Water Company (CAWC)	883	0.8%
Total	\$ 112,619	100.0%

2003		
CUSTOMER	in US \$	%
California Water Service (CalWater)	33,474	45.0%
Southern California Water Company (SCWC) (1)	13,245	17.8%
Water Replenishment District (WRD)	9,271	12.5%
Los Angeles County Water Works (LA County)	5,226	7.0%
City of El Segundo	4,438	6.0%
City of Inglewood	3,500	4.7%
City of Manhattan Beach	2,859	3.8%
City of Lomita	1,421	1.9%
California American Water Company (CAWC)	986	1.3%
Total	\$ 74,420	100.0%

(1) In Fiscal Year 2006 Southern California Water Company changed their name to Golden State Water Co.

Source: Finance Department

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

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

		2012	
Name		in US \$	%
City of El Segundo		6,967	30.9%
California Water Service (CalWater)		5,423	24.0%
City of Torrance		4,981	22.1%
Water Replenishment District (WRD)		3,611	16.0%
L.A. Dept of Water & Power		636	2.8%
City of Inglewood		491	2.2%
City of Manhattan Beach		212	0.9%
Golden State Water Company (GSWC)	(1)	257	1.1%
Inglewood Unified School District	(2)	-	0.0%
	Total	\$ 22,578	100.0%

		2003	
Name		in US \$	%
City of El Segundo		3,623	34.4%
Water Replenishment District (WRD)		2,904	27.6%
City of Torrance		1,993	18.9%
California Water Service (CalWater)		1,573	15.0%
City of Inglewood		160	1.5%
L.A. Dept of Water & Power		96	0.9%
Southern California Water Company (SCWC)	(1)	89	0.8%
City of Manhattan Beach		74	0.7%
Inglewood Unified School District		9	0.1%
	Total	\$ 10,521	100.0%

(1) In Fiscal Year 2006 Southern California Water Company changed their name to Golden State Water Co.

(2) In Fiscal Year 2012 Inglewood Unified School District purchased recycled water directly through the City of Inglewood and no longer is a direct customer to the District.

Source: Finance Department

WEST BASIN MUNICIPAL WATER DISTRICT
Table 8
ALL WATER DELIVERIES IN ACRE-FEET
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 Co. Dominguez by West Basin, recycled water delivered to the retail agencies by West Basin and groundwater pumped by retail agencies from the West Coast Basin for the last ten Fiscal Years.

Fiscal Year Ended June 30,	Potable Water					Total Potable Water	Recycled	Desalting	All Water Deliveries
	Non- Interruptible	Ground- water (1)	Saltwater Barrier (2)	Seasonal Water (3)					
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	213,708	
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	102,611	44,215	13,534	-	160,360	26,419	882	187,661	
2012	105,309	38,152	8,057	-	151,518	27,659	958	180,135	

- (1) 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, seawater 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.
- (2) 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. In FY 2012, sales decreased due to well and pipeline repairs performed by Los Angeles County.
- (3) Seasonal Water includes (a) Seasonal Storage Long-term; (b) Seasonal Shift; (c) Seasonal Shift Contract, as applicable. In 2003, 2006 and 2007, MWD offered more seasonal water, therefore increasing deliveries on this type of water.
- (4) In 2009, recycled water sales were lower due to poor source water issues. This result in corresponding increase in potable water sold to the seawater barrier.
- (5) Throughout FY 2004-2007, the Desalter underwent a number of capital projects to address aging infrastructure and water quality issues.

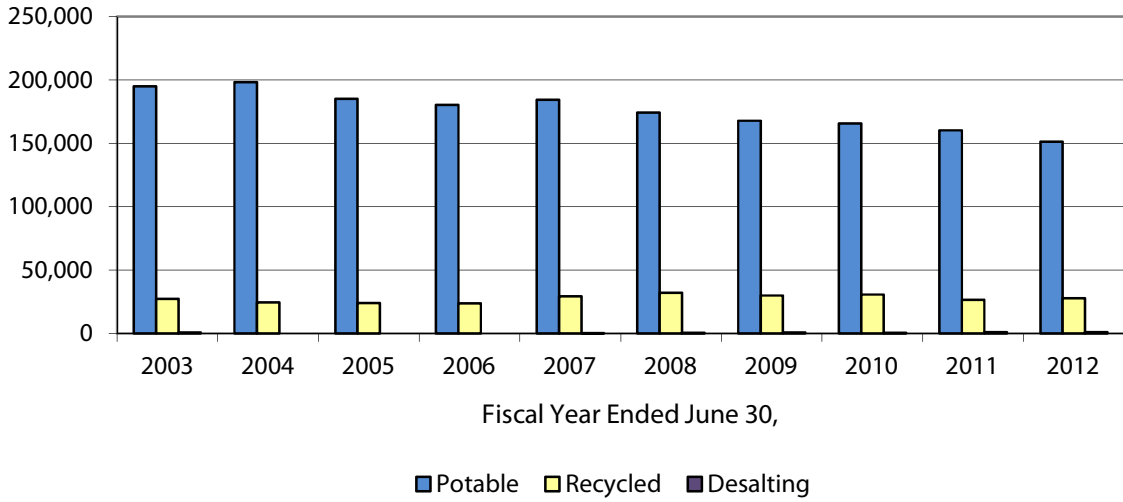
Continued-see graphs on the next page.

Source: Finance Department

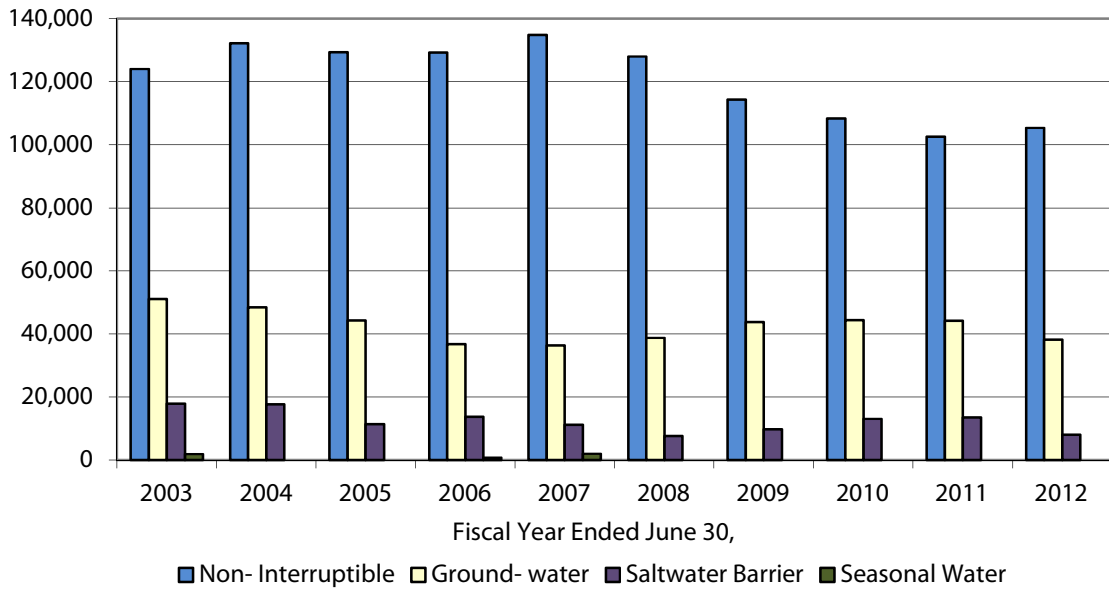
**WEST BASIN MUNICIPAL WATER DISTRICT
ALL WATER DELIVERIES IN ACRE-FEET
LAST TEN FISCAL YEARS**

(Continued)

POTABLE, RECYCLED AND DESALTING WATER DELIVERIES IN ACRE-FEET



POTABLE WATER DELIVERIES IN ACRE-FEET



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.

	2003	2004	2005	2006	2007
California American Water Company (CAWC)	1,892	1,451	1,384	682	2,272
California Water Service (CalWater)	68,741	72,395	70,014	69,999	74,498
City of El Segundo	16,645	17,074	16,360	15,767	17,062
City of Inglewood	7,312	7,549	6,884	7,816	8,882
City of Lomita	2,734	2,813	2,676	2,576	2,720
City of Manhattan Beach	6,003	5,972	5,893	6,419	6,037
City of Torrance	7,473	6,581	6,921	6,409	6,037
Golden State Water Company (GSWC)	25,800	28,024	29,377	29,689	28,270
Inglewood Unified School District	30	67	60	57	68
Los Angeles County Water Works (LA County)	10,056	10,478	9,748	9,533	10,836
L.A. Dept of Water & Power	277	394	283	257	335
Water Replenishment District (WRD) (1)	24,631	21,672	15,185	18,174	20,266
Total (2)	171,594	174,470	164,785	167,378	177,283

(1) Sales decreased due to replacement of the pressure reducing valves during FY 2005, poor source water quality in FY 2008 and well & pipeline repairs in FY 2012.

(2) Overall sales decreased from FY 2008 to 2012 due to local residents' response towards conservation/water efficiency programs to address drought conditions.

(Continued)

Source: Finance Department

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

	2008	2009	2010	2011	2012
California American Water Company (CAWC)	1,725	1,436	809	712	902
California Water Service (CalWater)	73,917	68,164	65,422	61,127	62,797
City of El Segundo	16,950	17,773	19,666	16,522	17,848
City of Inglewood	8,339	7,817	7,173	7,545	8,327
City of Lomita	2,583	2,420	2,290	2,096	2,336
City of Manhattan Beach	5,566	5,073	3,565	3,359	3,757
City of Torrance	6,389	5,876	6,445	5,785	6,352
Golden State Water Company (GSWC)	22,935	18,280	16,634	16,352	15,399
Inglewood Unified School District	56	63	56	-	-
Los Angeles County Water Works (LA County)	10,654	9,886	8,750	8,331	8,802
L.A. Dept of Water & Power	360	444	619	763	876
Water Replenishment District (WRD)	18,738	17,426	20,851	20,854	14,587
	168,212	154,658	152,280	143,446	141,983

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

The Table below shows recycled water accounts and sales for the last ten Fiscal Years identified by four largest purchasers and others.

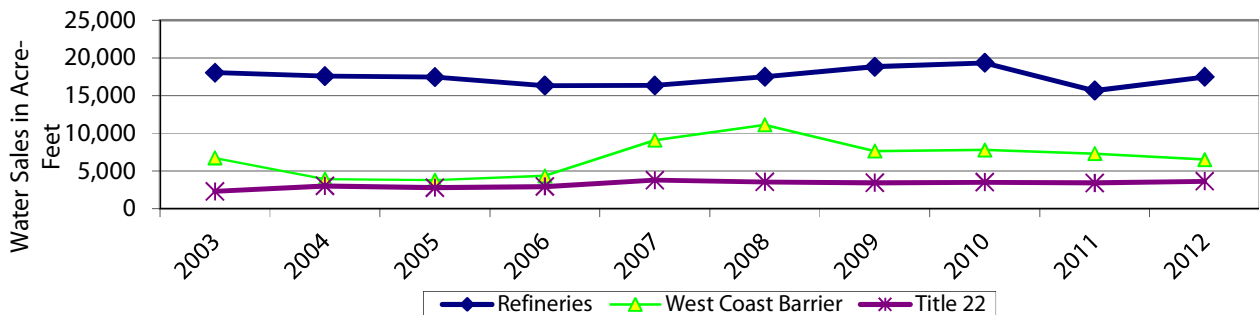
Fiscal Year Ended June 30,	Number of Accounts	Chevron Refinery	Mobil Refinery	Bp Amoco Refinery	Total Refineries	West Coast Barrier	Title 22 Irrigation	Total
	(1)	(2)	(2)	(2)	(3)	(4)		
2003	201	7,728	7,301	3,009	18,038	6,754	2,322	27,114
2004	205	7,957	6,350	3,276	17,583	3,935	3,035	24,553
2005	207	7,563	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	3,425	26,419
2012	384	6,397	6,060	5,019	17,476	6,530	3,653	27,659

(1) In February 2009, 100 new recycled water irrigation sites were connected.

(2) Chevron refinery is located in the city of El Segundo, ExxonMobil refinery is located in Torrance, and BP Amoco is located in Carson.

(3) Recycled Water Sales include deliveries to refineries for nitrification, boiler feed, reverse osmosis industrial, and Reverse Osmosis Ultra. In FY 2011, sales to all refineries were decreased due to water quality issues.

(4) Sales declined in FY 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.



Source: Finance Department

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

Type of Water	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<i>Purchased from MWD (1)</i>										
Non-interruptible	\$519	\$515	\$528	\$541	\$560	\$591	\$650	\$773	\$898	\$994
Saltwater Barrier	519	515	528	541	560	591	650	773	898	994
Seasonal Storage-LT	334	326	344	362	382	411	454	547	645	721
Seasonal Shift	401									
<i>West Basin Treatment Plants (2)</i>										
Recycled- T22	\$295	\$303	\$303	\$312	\$337	\$367	\$438	\$600	\$686	\$775
Recycled- T22 OSA	335	343	343	354	379	409	480	642	728	817
Recycled- Barrier	430	430	430	430	421	440	458	501	540	553
Recycled- RO Industrial	533	549	549	568	596	633	722	913	914	1003
Recycled- RO Ultra	705	725	725	750	788	837	954	1195	1270	1359
Recycled- RO Nitrified	275	283	283	292	317	347	418	577	666	755
<i>West Basin Desalting Plant (3)</i>										
Desalted Water	\$409	\$409	\$451	\$472	\$491	\$517	\$608	\$723	\$746	\$792

1) 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 1, 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 seawater 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

* MWD - Metropolitan Water District of Southern California

* LT - Long-term

2) 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.

* T22 - Title 22

* OSA - Outside Service Area

* RO - Reverse Osmosis

3) 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, 2011 AND 2012

The Tables below delineate the Fiscal Years ended June 30, 2011 and 2012 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, 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
Fiscal Year Ended June 30, 2012				
<i>July 1, 2011 to December 31, 2011</i>				
Non-Interruptible & Barrier (Tier 1)	\$744	\$125	\$95	\$964
Non-Interruptible & Barrier (Tier 2)	869	125	95	\$1,089
Non-Interruptible & Barrier (Tier 2)	601	-	95	\$696
Seasonal Storage Long-term				
<i>January 1, 2012 to June 30, 2012</i>				
Non-Interruptible & Barrier (Tier 1)	\$794	\$135	\$95	\$1,024
Non-Interruptible & Barrier (Tier 2)	920	135	95	\$1,150
Seasonal Storage Long-term	651	-	95	\$746

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, state loan and refunding revenue bonds.

Fiscal Year Ended June 30,	OUTSTANDING DEBT			CAPITAL ASSETS			Debt/ Capital Assets
	Certificate of Participation & Revenue Bonds	State Loan	Total LT Debt	Capitalized Assets (1)	Construction- in-Progress (2)	Total Capital Assets	
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	18,932	496,031	0.61
2009	293,400	2,036	295,436	483,019	29,362	512,381	0.58
2010	294,395	1,743	296,138	496,722	39,395	536,117	0.55
2011	300,050	1,440	301,490	507,066	59,081	566,147	0.53
2012	351,815	-	351,815	520,501	103,279	623,780	0.56

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

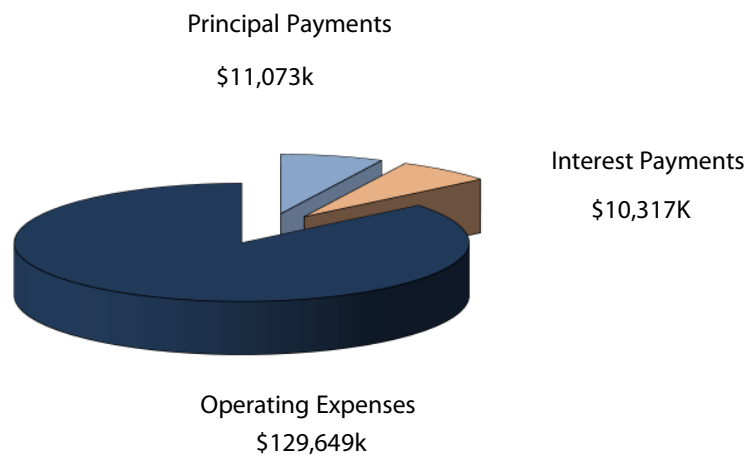
(2) Amounts include all of the District's Construction-in-Progress projects. Adjustments are made in Fiscal Year 2008 and 2009 to reflect the decreases in value of contributed projects from the U.S. Army Corps of Engineers.

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
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
2012	11,073	10,317	21,390	129,649	0.16

* 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 both revenues to the District. The District uses them to pay the debts incurred for the constructions and improvements of its recycled water facilities. For the past ten years, all of West Basin's bonds were issued to finance the recycled water projects. 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
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%
2012	9,632	7,241	16,873	21,390	79%

- (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 payments 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)

	2003	2004	2005	2006	2007
Changes in Net Assets (1)	\$8,176	\$11,399	\$16,394	\$7,488	\$8,726
Add: Interest Expense	7,770	7,179	10,195	10,593	9,101
Add: Depreciation/Amortization	9,053	8,200	8,340	8,309	10,343
Less: Non-cash items (2)	(577)	(1,898)	(3,125)	(4,671)	(2,517)
Net Revenues for Coverage	<u>\$24,422</u>	<u>\$24,880</u>	<u>\$31,804</u>	<u>\$21,719</u>	<u>\$25,653</u>
Parity Debt Service (3)	14,096	12,263	15,869	16,094	16,185
Reserve Fund Earnings	(682)	(1,338)	(1,868)	(1,177)	(825)
Total Net Senior Debt Service	<u>\$13,414</u>	<u>\$10,925</u>	<u>\$14,001</u>	<u>\$14,917</u>	<u>\$15,360</u>
Debt Coverage	1.82	2.28	2.27	1.46	1.67
Subordinate Debt Service (3)	4,261	2,606	3,281	7,246	8,445
Reserve Fund Earnings	(35)	(19)	(5)	(1)	(2)
Total Net Subordinate Debt Service	<u>\$ 4,226</u>	<u>\$ 2,587</u>	<u>\$ 3,276</u>	<u>\$ 7,245</u>	<u>\$ 8,443</u>
Debt Coverage (4)	2.60	5.39	5.43	0.94	1.22
All-In Debt Coverage	1.38	1.84	1.84	0.98	1.09
Cash Available for Additional Subordinate Debt Service, Capital Projects and Other Purposes	\$6,782	\$11,368	\$14,527	\$(443)	\$1,850

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

(2) Non-cash items represent grant funding from the U.S Army Corps of Engineers 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 non-routine litigation settlements.

(3) In FY 2012, parity and subordinate debt service was reduced by capitalized interest.

(4) 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.

(Continued)

Source: Finance Department

WEST BASIN MUNICIPAL WATER DISTRICT

Table 16

DEBT COVERAGE

LAST TEN FISCAL YEARS

(In thousands, except for Debt Coverage)
(continued)

	2008	2009	2010	2011	2012
Changes in Net Assets (1)	\$4,489	\$(388)	\$10,657	\$7,619	\$14,191
Add: Interest Expense	9,808	13,848	12,498	12,038	11,002
Add: Depreciation/Amortization	13,323	16,190	17,078	18,268	18,283
Less: Non-cash items (2)	(4,021)	(5,022)	(11,579)	(9,109)	(6,805)
Net Revenues for Coverage	\$23,599	\$24,628	28,654	28,816	36,671
Parity Debt Service (3)	16,345	16,595	16,078	16,517	16,115
Reserve Fund Earnings	(799)	(767)	(762)	(762)	(763)
Total Net Senior Debt Service	\$15,546	\$15,828	\$15,316	\$15,755	15,352
Debt Coverage	1.53	1.51	1.82	1.78	2.34
Subordinate Debt Service (3)	6,157	6,897	7,624	7,968	8,817
Reserve Fund Earnings	(12)	(2)	-	-	-
Total Net Subordinate Debt Service	\$6,145	\$6,895	\$7,624	\$7,968	\$8,817
Debt Coverage (4)	1.31	1.17	1.66	1.54	2.33
All-In Debt Coverage	1.10	1.08	1.25	1.21	1.52
Cash Available for Additional Subordinate Debt Service, Capital Projects and Other Purposes	\$1,908	\$1,905	\$5,714	\$5,093	\$12,502

WEST BASIN MUNICIPAL WATER DISTRICT
Table 17
TEN LARGEST EMPLOYERS WITHIN WEST BASIN SERVICE AREA
CALENDAR YEAR 2011 AND FIVE YEARS PRIOR

Employer	2011 (1)		2006 (2)	
	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	5,645	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

Total Employment Within West Basin's Service Area (3):

Not Available

Percentage of Each Employer of Total Employment Within West Basin Service Area (3):

Not Available

(1) Most current available data.

(2) Employer information is not readily available prior to 2006.

(3) West Basin service area includes 17 cities and part of unincorporated coastal Los Angeles County, the total employment within our service area is not available; therefore, West Basin can't provide each employer's percentage of the total employment.

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)
2003	833,187	9,767,145	322,267,247	32,995	7.0%
2004	837,542	9,793,263	338,203,048	34,534	6.5%
2005	839,285	9,786,373	357,186,377	36,498	5.4%
2006	839,385	9,737,955	385,724,212	39,610	4.8%
2007	839,134	9,700,359	400,366,343	41,273	5.1%
2008	838,888	9,735,147	417,454,378	42,881	7.5%
2009	840,260	9,787,400	394,980,563	40,356	11.6%
2010	853,377	9,826,773	410,674,615	41,791	12.5%
2011	857,545	-	-	-	12.7%
2012	861,545	-	-	-	11.2%

(1) Data obtained from West Basin 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 2011 and 2012 not available.

(3) Data obtained from the State of California Employment Development Department for Los Angeles County. 2012 information is as of August.

WEST BASIN MUNICIPAL WATER DISTRICT DEMOGRAPHICS

Service Area

Estimated Total Population Served	861,545
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
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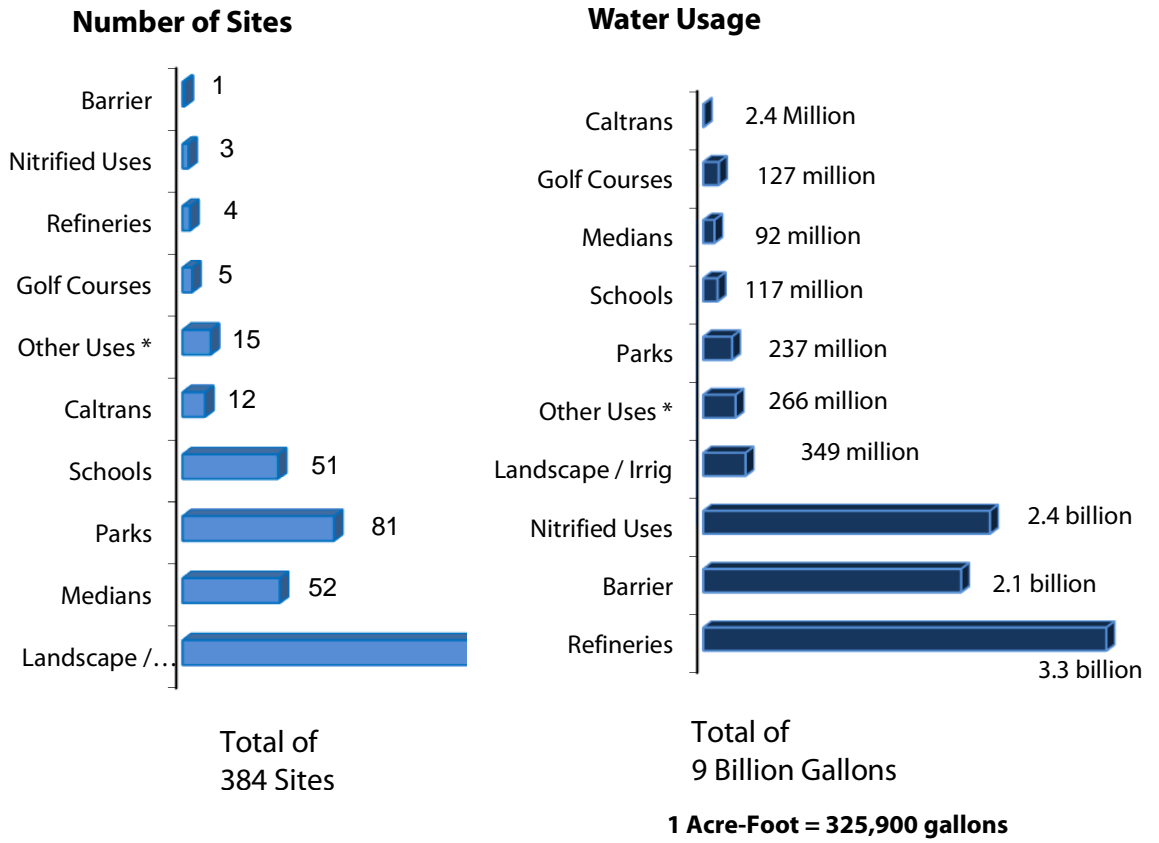
West Basin's customers are comprised of Cities and Retail Water Agencies that purchase Potable Non-Interruptible Water and Recycled Water for further sales to the end-user or use in the Seawater Barrier.

Annual Water Deliveries (approximate)

Non-Interruptible Water (including groundwater)	152,476 acre-feet
Recycled Water	27,659 acre-feet

Source: Water Policy and Resource Development Department

**WEST BASIN MUNICIPAL WATER DISTRICT
RECYCLED WATER USERS
FISCAL YEAR ENDED JUNE 30, 2012**



Other Uses * { Cemetery use: 139 million
Multi-industrial / irrigation use: 25 million
Construction use: 199 thousand
Street Sweeping use: n/a
College use: 102 million
Draining / Sump Pumps use: 10 thousand

Source: Finance Department

**WEST BASIN MUNICIPAL WATER DISTRICT
GENERAL OPERATING INFORMATION
FISCAL YEAR ENDED JUNE 30, 2012**

Number of Budgeted Full-Time Personnel

2003	28
2004	28
2005	30
2006	30
2007	33
2008	33
2009	33
2010	34
2011	36
2012	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	8
Engineer in Training	1
Certified Public Accountant	3
Licensed Attorneys	2
Master's Degree	11
State Water Certification	
Distribution Operator	2
Treatment Plant Operator	3

Capital Assets (In Thousands)

	Recycling Facilities	Desalting	Machinery & Equipment	Construction- in- Progress(3)	Admin. Facility (2)	West Basin Capital Assets	Financing Authority (2)	Total Fixed Assets (1)
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	18,932	4,014	496,031	-	496,031
2009	474,281	3,700	1,025	29,362	4,014	512,382	-	512,382
2010	486,401	3,794	2,491	39,395	4,035	536,116	-	536,116
2011	493,065	5,299	3,761	59,081	4,941	566,147	-	566,147
2012	506,311	4,904	3,775	103,279	5,511	623,780	-	623,780

(1) Excludes accumulated depreciation

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

(3) Adjustments are made in Fiscal Year 2008 and 2009 to reflect the decreases in value of contributed projects from the U.S. Army Corps of Engineers.

The District invested \$506 million in recycling facilities as of June 30, 2012. Cumulative recycled water produced and sold by these facilities was 408,877 acre-feet from inception of operations up to June 30, 2012.

Source: Finance Department