

# 2018

## COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2018

**PREPARED BY:**  
FINANCE DEPARTMENT  
MARGARET MOGGIA, CPA  
EXECUTIVE MANAGER OF FINANCE

**WEST BASIN MUNICIPAL WATER DISTRICT**

17140 S. AVALON BLVD. | CARSON, CA 90746 | WESTBASIN.ORG





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# INTRODUCTORY







November 26, 2018

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

**17140 S. Avalon Blvd.  
Carson, CA 90746  
310.217.2411  
[www.westbasin.org](http://www.westbasin.org)**

### BOARD OF DIRECTORS

Donald L. Dear  
*President*

Scott Houston  
*Vice President*

Gloria D. Gray  
*Treasurer*

Harold C. Williams  
*Secretary*

Carol W. Kwan  
*Member*

### COMMITTED TO

Water Reliability

Water Quality

Sound Financial and  
Resource Management

Customer Service

Environmental  
Stewardship

West Basin Municipal Water District (West Basin) staff is pleased to present the Comprehensive Annual Financial Report (CAFR) for the Fiscal Year 2017-2018, which ended June 30, 2018.

The CAFR is intended to provide the Board of Directors, West Basin's customers, the public and interested parties with a broad financial outlook of West Basin. This report is also prepared for the purpose of meeting California law requiring special districts to submit an audited annual financial report to the State Controller within six months after the end of the fiscal year. Since West Basin issued bonds to finance its operations, by debt covenants, West Basin must file a CAFR within 270 days after the end of each fiscal year to the Municipal Securities Rulemaking Board website.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to West Basin for its CAFR for the fiscal year that ended on June 30, 2017. This was the 11th consecutive year that West Basin has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year. West Basin believes that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

West Basin staff prepared this financial report in conjunction with the Independent Auditors' Report issued by Davis Farr LLP, a certified public accounting firm. Davis Farr has issued an unmodified (or "clean") opinion on West Basin's financial statements for the year ending on June 30, 2018. The independent auditors' report is located at the front of the financial section of this report. Management's Discussion and Analysis (MD&A) immediately follows the independent auditors' report and provides a narrative introduction, overview and analysis of the basic financial statement. MD&A and the Notes to the Financial Statements complement 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.

# ABOUT WEST BASIN MUNICIPAL WATER DISTRICT

West Basin Municipal Water District (West Basin), an innovative and award-winning public agency, is a special district of the State of California that wholesales imported drinking water, produces recycled water and provides water-use efficiency and water education programs to approximately 885,000 residents within a 185-square mile service area. Located in the heart of Southern California's coastal plain, it has a Mediterranean climate, characterized by warm, dry summers and wet, cool winters with moderate precipitations.

West Basin is governed by a Board of five directors who are elected by the public in alternating four-year terms. West Basin is a member agency of the Metropolitan Water District of Southern California (MWD), a cooperative of twenty-six member agencies including cities and water agencies. West Basin sells the imported water it purchases from MWD to cities, water agencies and private water companies in coastal Los Angeles County.

Recycled water is the cornerstone of West Basin's efforts to increase water reliability by augmenting local supplies. The District's award-winning Edward C. Little Water Recycling Facility in El Segundo, California and its satellites are the only facility network in the world that produces five types of customer-tailored, "designer" waters. The system produces quality water for: irrigation; industrial cooling towers; high and low pressure boiler feeds; and seawater barrier water for groundwater replenishment purposes. West Basin provides recycled water to more than 350 industrial, commercial and public facilities in the service area.

To protect our local groundwater aquifer from seawater intrusion, West Basin currently provides highly purified recycled water to the Water Replenishment District of Southern California (WRD) for injection into the West Coast seawater barrier. The seawater barrier protects and augments local groundwater supplies. While the groundwater pumping is not a direct sale of West Basin, it is another source of water for some customers to pump within our mutual service area.

In August 2017, West Basin's Board of Directors approved an updated Strategic Business Plan. In addition, West Basin is executing its Water Reliability Program with the goal of building a more diverse, locally controlled and reliable water supply. This includes reducing dependence on imported water through continued water conservation, increased water recycling and the continued exploration of ocean water desalination as a new, drought-proof supply of drinking water.

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



West Basin's Edward C. Little Water Recycling Facility in El Segundo, Calif.



Students take a field trip to tour the Edward C. Little Water Recycling Facility in El Segundo, Calif.



West Basin distributes free rain barrels to the community through their conservation program.

## BOARD OF DIRECTORS



**HAROLD C. WILLIAMS**  
**SECRETARY**

**Division I:** Carson, Palos Verdes Estates, Rancho Palos Verdes, Rolling Hills, Rolling Hills Estates, and unincorporated LA County areas of Rancho Dominguez



**GLORIA D. GRAY**  
**TREASURER**

**Division II:** Inglewood, and unincorporated LA County areas of Lennox, South Ladera Heights, West Athens, and Westmont



**CAROL W. KWAN**  
**MEMBER**

**Division III:** Hermosa Beach, Lomita, Manhattan Beach, Redondo Beach, and a portion of Torrance



**SCOTT A. HOUSTON**  
**VICE PRESIDENT**

**Division IV:** Culver City, El Segundo, Malibu, West Hollywood, and unincorporated LA County areas of Del Aire, Lennox, Marina del Rey, North Ladera Heights, Topanga, View Park, Windsor Hills, and Wiseburn



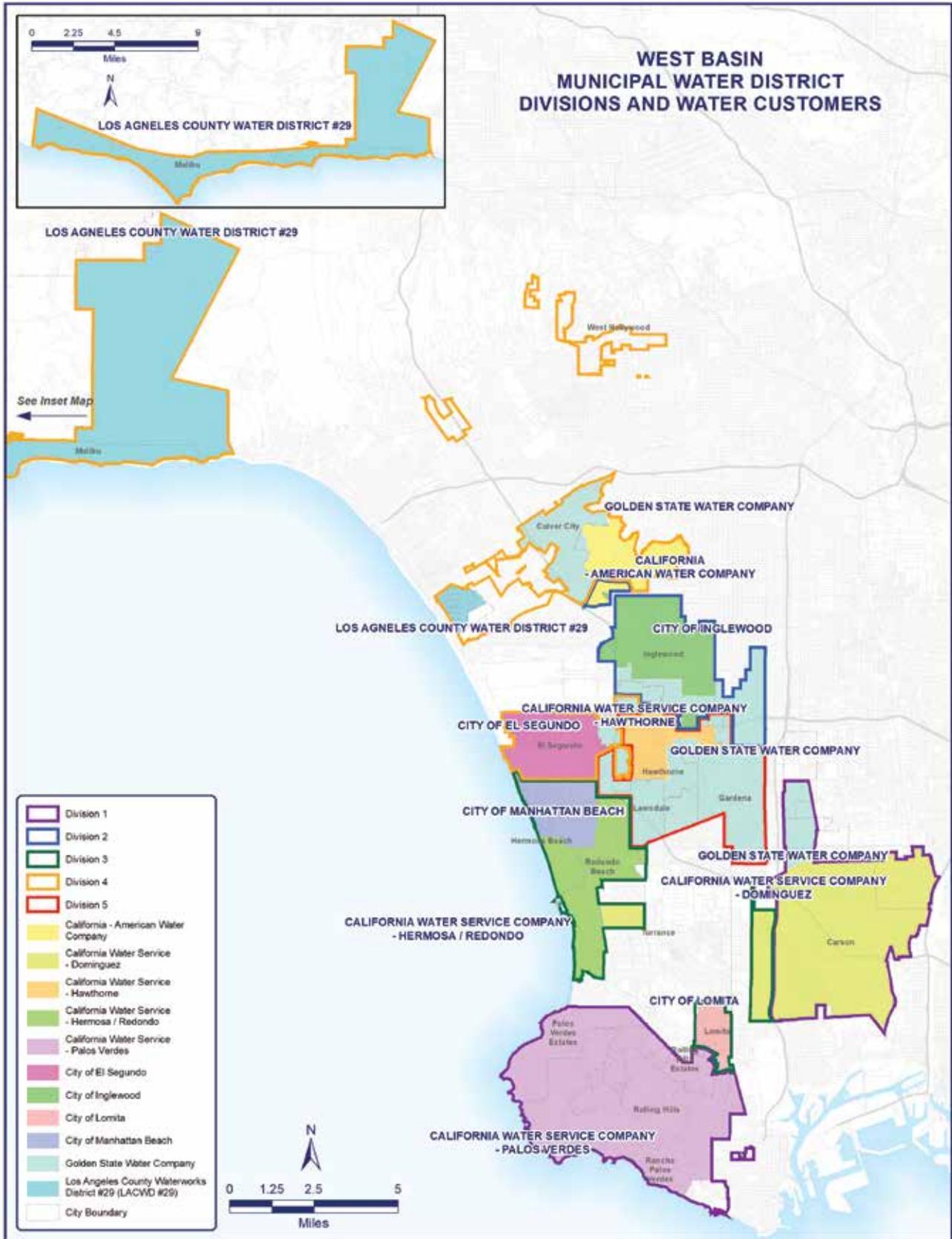
**DONALD L. DEAR**  
**PRESIDENT**

**Division V:** Gardena, Hawthorne, Lawndale, and unincorporated LA County area of El Camino Village

# SERVICE AREA

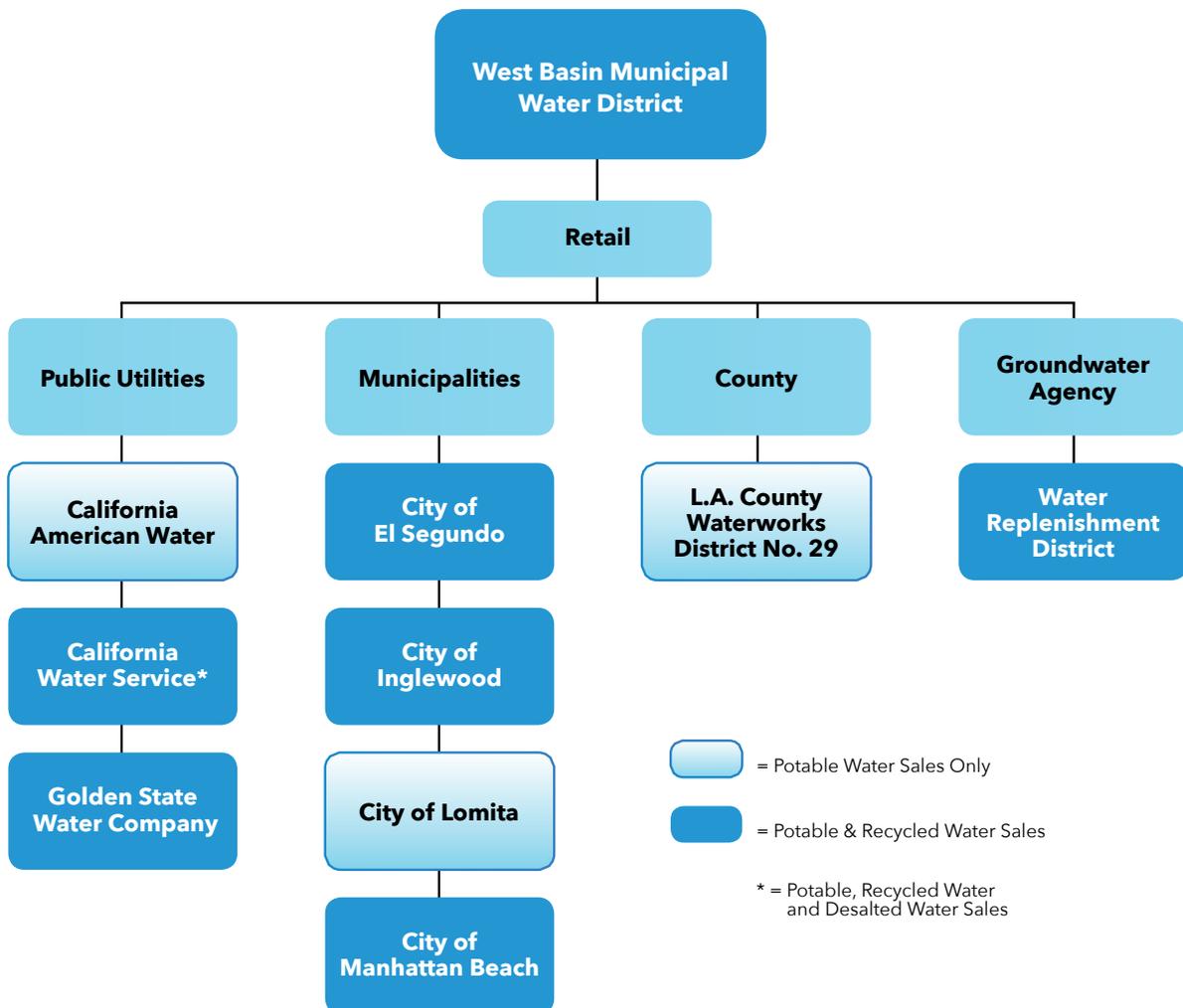
## Division Boundaries

West Basin Municipal Water District serves a diverse population in 17 cities and parts of unincorporated coastal Los Angeles County.



# DISTRICT STATISTICS AND CUSTOMER BASE

Formed	<b>December 17, 1947</b>
Estimated Population	<b>885,001</b>
Area Served	<b>185 square miles</b>
Water Portfolio	<b>Potable, Recycled &amp; Desalted</b>
Average Residential Parcel Size	<b>9,240 square feet</b>
Lowest Median Income	<b>\$14,685 - Westmont</b>
Highest Median Income	<b>Over \$250,000 - Manhattan Beach Palos Verdes Peninsula</b>



# HISTORY

**As early as 1918, the levels in local groundwater basins were dropping so low that salt water from the ocean was seeping in and contaminating groundwater.** Lawns in coastal Los Angeles were dying from salty water, and well water was so salty it was often undrinkable. In the 1940s, studies showed that the local groundwater aquifer was being depleted at a much faster rate than it was being recharged or refilled. Each year, the aquifer was being over drafted by millions of gallons - more water was taken out than was put back in.

At that time, one solution was to supply the region with imported water through MWD. In 1947, West Basin was formed by a vote of the people to serve as a wholesale agency to distribute water throughout its service area. In 1948, West Basin became a member agency of MWD, an agency that imported water from the Colorado River, and later would also import water from Northern California. For several decades since that time, West Basin served its customer agencies and communities solely as a wholesaler of imported water.

As a result of the extreme drought of the late 1980s and early 1990s, West Basin leaders decided to diversify the agency's water portfolio to include conservation and water reuse to provide a more reliable supply of water for future generations. Early efforts included building the world's most unique water recycling facility that would convert treated sewage into different types of high-quality recycled water suitable for groundwater recharge, irrigation, 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, reducing energy use by importing less water from hundreds of miles away, reducing the amount of treated sewage discharged to the ocean, and use of sewage as a sustainable water resource. The drought of the early 1990s also increased awareness about water conservation and resulted in West Basin's addition of conservation as a new water supply alternative. West Basin currently offers free indoor and outdoor programs for residents and businesses to reduce their consumption of water and maximize water use efficiency.

Today, West Basin is an international water industry leader, hosting visitors from around the globe. West Basin is focused on providing value to its customers and delivering water reliability for the region through a diverse supply of water that includes imported, recycled, desalted and conserved water.



The Edward C. Little Water Recycling Facility has produced more than 200 billion gallons of recycled water.



West Basin's water supply portfolio includes imported water from the Colorado River.



West Basin hosts various events throughout the year, including an annual Water Harvest festival for the community.

# MAJOR INITIATIVES

Highlighted below are major initiatives during fiscal year 2017-2018:

## WATER SUPPLY RELIABILITY

- Successfully completed five (5) free Rain Barrel Distribution Events and distributed 2,000 rain barrels.
- Conducted nearly 100 water-saving audits of commercial kitchen facilities through the Cash 4 Kitchens program.
- Conducted six (6) California Friendly Landscape Training, Turf Removal, and “Hands-on-Workshops” and classes.
- Completed CEQA and 30% design for the Palos Verdes Recycled Water Pipeline Project.
- Completed the ECLWRF Phase IV Microfiltration Optimization project, to increase annual Barrier water production and ensure reliability to both the Barrier and Chevron Boiler feed systems.
- Completed the construction of the Northrop Grumman Recycled Water Service Pipeline to deliver approximately 78 AFY of recycled water for irrigation and cooling tower use at the campus located on the southwest quadrant of the intersection between Aviation Boulevard and Marine Avenue.
- Released a draft EIR for Ocean Water desalination on March 27, 2018 and concluded the public comment period on June 25, 2018.

## SOUND FINANCIAL & RESOURCE MANAGEMENT

- Updated Administrative Code (Small and Local Business Enterprise) to increase the business outreach program to reflect both small and local businesses, establish a target, reporting requirements and contractor/consultant requirements.
- Provided a legal and financial analysis to implement a new fixed revenue service charge based on the water restructuring study to have revenue stability.
- Conducted 9/80 work schedule Feasibility Study through a qualified consultant.
- Conducted Risk Transfer Training for staff in compliance with meeting department risk management obligations.
- Conducted 10-hour Occupational Safety and Health Administration (OSHA) Training for applicable staff.
- Initiated a pipeline condition assessment program to evaluate the health of the pipelines within the treatment facilities.

## WATER QUALITY

- Completed laboratory analysis required to comply with Federal Safe Drinking Water Act and California Title 22 Drinking Water regulations such as analyses of all inorganic, organic compounds, and radioactivity.
- Provided purveyor workshops to help coordinate between water companies on important water quality and compliance issues.
- Helped purveyors establish sampling plans and approvals from the EPA for the Unregulated Contaminant Monitoring Requirement (UCMR) Program.

## CUSTOMER SERVICE

- Offered free, public water education programs including: public and school tours of the ECLWRF; a speakers bureau; a new Lunch and Learn series that launched in 2018; and continued operation of the Water Education Center (WEC) in Redondo Beach, California.
- Completed Hyperion Pump Station shutdown with minimal impacts to customers.
- Provided engineering support to customers that required temporary potable backup during the Hyperion Pump Station shutdown.

## ENVIRONMENTAL STEWARDSHIP

- Completed a Draft Environmental Impact Report (EIR) as well as supporting documents as part of California’s Environmental Quality Act (CEQA) to quantify all impacts associated with the construction and operation of an ocean water desalination facility and the auxiliary facilities.
- Completed design of the Chemical Containment R&R Project to ensure chemicals used in West Basin’s recycled water program are prevented thoroughly contained and prevented from release into the environment.

# FINANCIAL INFORMATION

## ACCOUNTING SYSTEM

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

## INTERNAL CONTROLS

West Basin's management is responsible for the establishment and maintenance of internal accounting controls that ensure assets are safeguarded and financial transactions are properly recorded and adequately documented. To ensure that the costs of controls do not exceed the benefits obtained, management uses cost estimates and judgments to attain reasonable assurance as to the adequacy of such controls. Recent audits have not uncovered any weakness in internal control that would cause concern when Recommendation for Improvements is made.

## BUDGET PROCESS AND CONTROLS

Public agencies develop budgets as a performance tool to measure accountability to its stakeholders. For West Basin, the budget is developed based on meeting the priorities, goals and objectives established by the Board of Directors through its Strategic Business Plan (Plan), which was developed through a series of interviews with the Board of Directors, management, and key staff in addition to interviews with key stakeholders. The Plan provides direction for planning, budgeting, implementation, evaluation and reporting. The Plan is a "living" document in that it does not have a termination date, but it is constantly changing and evolving as the needs of West Basin change and evolve.

The budget is also used as a communication tool. Interested parties, such as bond holders, credit rating agencies, and its customers can review the budget to obtain a wide variety of information on West Basin's short- and long-term strategic planning and financial policies, as well as the current and future fiscal stability. For West Basin, the budget further demonstrates West Basin's commitment to fiscal responsibility and transparency of its operations. The budget shows how the agency

will invest its revenues derived from user fees and fixed revenue sources to support its mission and programs.

The General Manager communicates the goals and the current year budget objectives to staff to ensure the budget includes the financial requirements necessary to achieve these goals and objectives. To ensure completion, the goals are also incorporated into each individual employee's performance goals. Furthermore, the high-level goals are also included in the monthly board memos to reflect the commitment to meet the Board's directives.

West Basin is not required to adopt a budget and therefore does not appropriate funds. However, as a good business practice, West Basin does prepare, adopt, monitor, and report budgeted information.

## LONG-TERM FINANCIAL PLANNING

To maintain its financial strength, West Basin developed a Long-Range Financial Model. The model uses the current fiscal year budget, incorporates multiple year revenue and expense assumptions used to address anticipated operating and capital expenditures, and result in a dynamic financial model for West Basin. The capital recycled water expenditures are based on the Capital Improvement Program and estimates for the Ocean-water Desalination program costs. In addition, the model provides the basis for certain criteria to be incorporated into financial policy development, such as debt management, swap and designated fund levels. West Basin continues to monitor its assumptions to actual to ensure it remains a financially healthy organization.

## CREDIT RATING AND DEBT COVERAGE

In September 2016, Moody's and Standards & Poor's reaffirmed West Basin bonds as 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's Board of Directors has approved a number of financial policies to effectively manage the agency. A copy of these policies can be found on West Basin's website at [www.westbasin.org](http://www.westbasin.org). Other non-financial policies are maintained by West Basin through its Administrative Code and are reviewed periodically to ensure compliance with legal statutes. These efforts lend to a solid management focus on fiscal policies and metrics and have assisted West Basin to receive strong credit ratings and allow West Basin to obtain low-cost financing for its capital projects. Please refer to Table 17 of the Statistical Section for the 10-year historical information on West Basin's debt coverage.

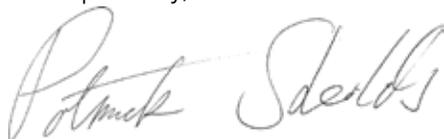
## DESIGNATED FUNDS

West Basin maintains two major types of funds, either restricted or unrestricted. Restricted funds consist of custodial accounts and bond reserves that are subject to the conditions of the respective bond financing documents. The unrestricted reserves are then designated by the Board of Directors and are reviewed annually as further described in the board-approved policy.

Designated Funds are a strong indicator of an agency's financial health. West Basin's Designated Funds Policy is sometimes referred to as a Reserve Policy and was designed to ensure West Basin has adequate funds to protect its financial health and the furtherance of West Basin's mission.

The policy does not specifically state a target amount but staff has established an internal target approach in its Long-Range Financial Plan to fund West Basin's Designated Funds. The policy allows for the fluidity of a target and will change each year based on the anticipated expenditures. The target amounts are based on West Basin's experience, the current operating budget and capital improvement program. The sum of all the core components provide an overall target amount that serves as a trigger for the Board of Directors to consider options when funding levels fall near or below the overall target.

Respectfully,



Patrick Shields  
General Manager

## SOURCE OF REVENUE

West Basin primarily receives its source of revenue from imported and recycled water sales. Imported water sales and charges totaled \$155 million for the fiscal year ending June 30, 2018, while recycled water sales amounted to \$49 million for the same period. More detailed information regarding West Basin's revenues is presented in the statistical section Table 6: Payors-Potable Water Sales and Table 7: Payors-Recycled Water Sales.

## WATER RATES

West Basin establishes rates and charges annually through a resolution by the Board of Directors. The statistical section provides more detailed information about the rates under Table 11: Average Water Rates Per Acre-Foot (Last 10 Fiscal Years) and Table 12: Imported Water Rates.

## WEST BASIN STAFF SERVICES

West Basin currently employs 56 full-time employees, 37 of whom work in the operations, planning, communications and engineering departments and 19 work in accounting or administration.

## ACKNOWLEDGMENTS

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 and recognize members of the finance staff who contributed to this report.



Margaret Moggia  
Executive Manager of Finance



Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**West Basin Municipal Water District  
California**

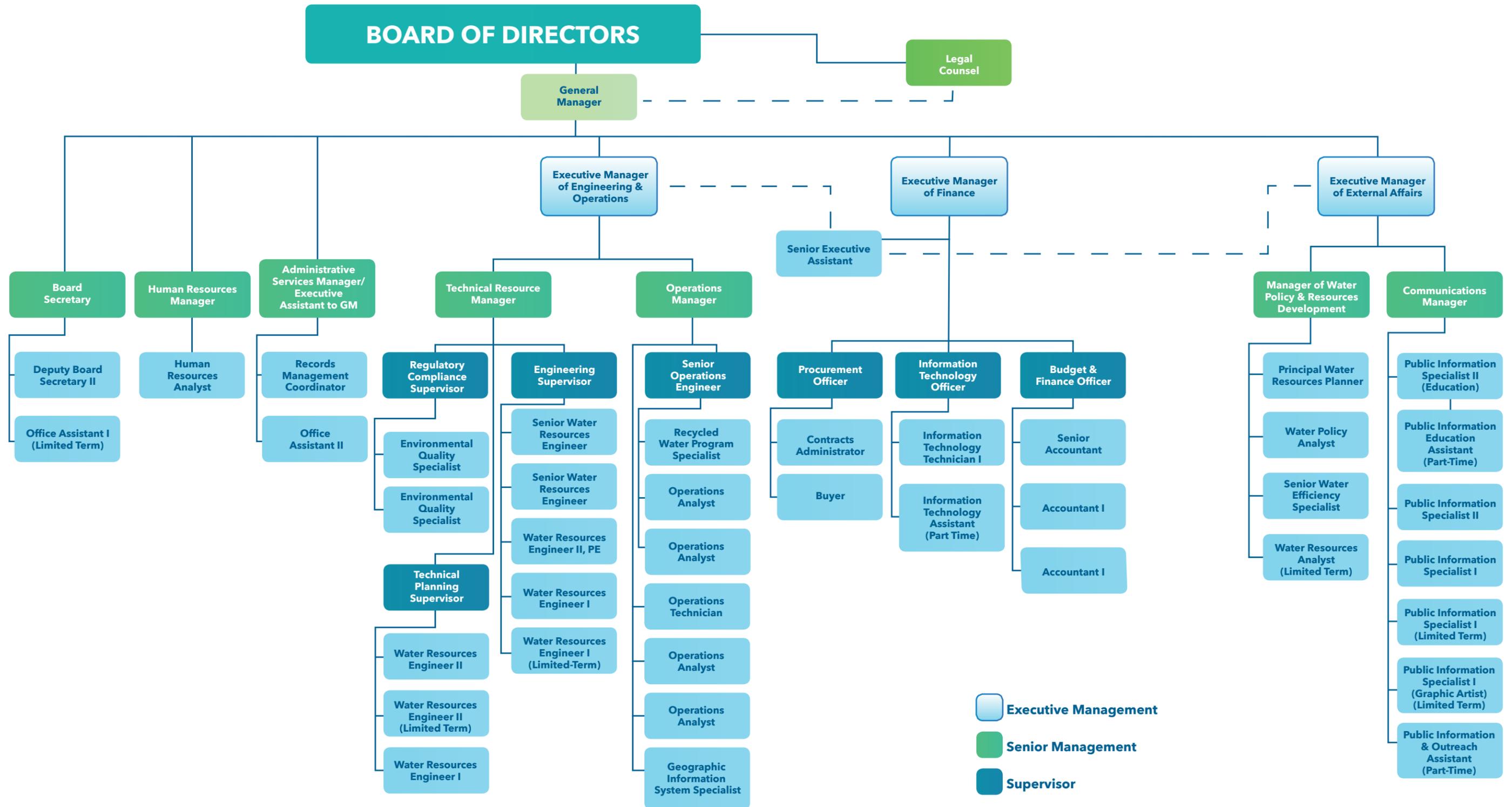
For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2017**

*Christopher P. Morrill*

Executive Director/CEO

The organizational chart shows the full-time and part-time budgeted positions for FY 2018-19.



Effective 6/1/2018

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# FINANCIAL





# INDEPENDENT AUDITOR'S REPORT



Davis Farr LLP  
2301 Dupont Drive | Suite 200 | Irvine, CA 92612  
Moire: 949.474.2020 | Fax: 949.263.5520

Board of Directors  
West Basin Municipal Water District  
Carson, California

## Independent Auditor's Report

### Report on the Financial Statements

We have audited the accompanying financial statements of the West Basin Municipal Water District (District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of June 30, 2018, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Emphasis of Matter

As described further in note 8 to the financial statements, during the year ended June 30, 2018, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions. As a result, the financial statements for the year ended June 30, 2018 reflect a certain prior period adjustment as described further in note 12 to the financial statements.

During the year ended June 30, 2018, the District implemented GASB Statement No. 89 Accounting for Interest Cost Incurred Before the End of a Construction Period.

Our opinion is not modified with respect to these matters.

### **Report on Summarized Comparative Information**

We have previously audited the District's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 9, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension required supplementary schedules and other post-employment benefit required supplementary schedules 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 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 about 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.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section and the statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

### **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated November 26, 2018 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance.



Irvine, California  
November 26, 2018

# MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2018

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the West Basin Municipal Water District (or "West Basin") provides an introduction to the financial statement of West Basin for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with the transmittal letter in the introductory section, the basic financial statements and related notes which follow this section.

## MAJOR FINANCIAL ACTIVITIES

- West Basin implemented Government Accounting Standard Board (GASB) Statement No. 75, Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions (OPEB) at the end of fiscal year 2018. As of June 30, 2018, West Basin's Net Pension Liability for the OPEB program is \$298,276. With the implementation, West Basin restated the beginning Net Position in fiscal year 2018 from \$255,653,300 to \$256,179,223.
- West Basin selected to early implement Government Accounting Standard Board (GASB) Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period at the end of fiscal year 2018. Due to this implementation, interest expense increased from \$8,160,897 in fiscal year 2017 to \$11,418,266 in fiscal year 2018. In fiscal year 2017, West Basin had capitalized \$4,087,034 interest to various construction projects.
- West Basin implemented Government Accounting Standard Board (GASB) Statement No. 68 at the end of fiscal year 2015 for both their Public Employees' Retirement System (PERS) and Public Agency Retirement Services (PARS) programs. As of June 30, 2018, West Basin's Net Pension Liability for PERS program reduced from \$1,926,502 in fiscal year 2017 to \$745,354 in fiscal year 2018 due to the additional payment of \$1,613,249 paid at the end of the fiscal year 2017. West Basin's Net Pension Asset for the PARS program increased from \$270,312 in fiscal year 2017 to \$286,597 in fiscal year 2018.
- In fiscal year 2018, West Basin's potable water and monitoring revenue is \$155,311,898 and the potable water and monitoring expense is \$125,744,683. It resulted in net revenue of \$29,567,215.
- In fiscal year 2018, West Basin's water recycling revenue increased by \$4,042,800 when compared to the prior year. At same time, water recycling cost only increased by \$822,935 resulting in an increase in net revenue of \$4,865,735.
- On October 27, 2016, pursuant to GASB 53, West Basin terminated hedge accounting and the balance of the deferral account was cleared on the termination date. Change in fair value of the swaps from the refunding date is reported in the Statement of Revenues, Expenses and Changes in Net Position as investment revenue or loss. On June 30, 2018, the change during the fiscal year resulted in a revenue gain of \$806,167.
- In fiscal year 2018, a total of \$12,021,293 in capital assets that were no longer in service were disposed (see Note 5 to Notes to Financial Statements) and Loss on disposition of assets for the amount of \$3,988,383 was recorded.
- In fiscal year 2018, Capital Contribution decreased by \$4,849,288 when compared to the prior year. This is due to one of the existing contract is expired and there are no major capital grants received for the fiscal year.
- In fiscal year 2018, West Basin added a new expense category (Project Planning) into the face of the financial statement. Costs such as feasibility studies, district wide studies and canceled construction project costs are all being recorded as a lump-sum here. The total cost for fiscal year 2018 is \$652,512.
- West Basin has a positive Change in Net Position of \$14,251,047 in fiscal year 2018.

June 30, 2018

## **REQUIRED FINANCIAL STATEMENTS**

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

The Statement of Net Position includes all of West Basin's Assets, Deferred Outflows of Resources, Liabilities and Deferred Inflows of Resources with the difference between the four reported as Net Position. Net Position is displayed in the following categories: Net Investment in Capital Assets and Unrestricted Net Position. This statement provides the basis for evaluating the capital structure of West Basin and assessing the liquidity and financial flexibility of West Basin.

The Statement of Revenues, Expenses and Changes in Net Position present information that shows the results of West Basin 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 West Basin's operations over the past year and determines whether West Basin has recovered its costs through user fees and other charges.

The Statement of Cash Flows provides information regarding West Basin's cash receipts, cash disbursements and net changes in cash resulting from operating, non-capital financing, capital financing and investing 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 26 through 53.

## **REQUIRED SUPPLEMENTARY INFORMATION**

The required supplementary information provides additional information for West Basin's PARS and PERS programs. It can be found on pages 54 through 59.

# FINANCIAL ANALYSIS OF WEST BASIN

June 30, 2018

## 1 STATEMENT OF NET POSITION

Condensed Statement of Net Position

	<u>2018</u>	<u>2017</u>	<u>Change</u>
<b>Assets</b>			
Current unrestricted assets	\$ 110,821,672	\$ 105,803,862	\$ 5,017,810
Current restricted assets	4,594,733	4,577,842	16,891
Capital asset, net	459,241,772	454,351,212	4,890,560
Other assets	2,645,679	1,338,934	1,306,745
<b>Total assets</b>	<u>577,303,856</u>	<u>566,071,850</u>	<u>11,232,006</u>
<b>Deferred Outflows Of Resources</b>	<u>16,885,453</u>	<u>19,659,695</u>	<u>(2,774,242)</u>
<b>Liabilities</b>			
Current liabilities	51,027,080	42,791,981	8,235,099
Long term liabilities	271,279,188	286,652,568	(15,373,380)
<b>Total Liabilities</b>	<u>322,306,268</u>	<u>329,444,549</u>	<u>(7,138,281)</u>
<b>Deferred Inflows Of Resources</b>	<u>1,452,771</u>	<u>633,696</u>	<u>819,075</u>
<b>Net Position</b>			
Net investment in capital assets	197,595,039	180,967,033	16,628,006
Unrestricted	72,835,231	74,686,267	(1,851,036)
<b>Total Net Position</b>	<u>\$ 270,430,270</u>	<u>\$ 255,653,300</u>	<u>\$ 14,776,970</u>

## STATEMENT OF NET POSITION

Net Position measures West Basin's financial health or financial position. Over time, increases or decreases in West Basin's net position are indicators 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 Position shows that Assets and Deferred Outflows of West Basin exceeded liabilities and Deferred Inflows by \$270,430,270 and \$255,653,300 as of June 30, 2018 and 2017, respectively.

A large portion of West Basin's net position (\$197,595,039 and \$180,967,033 as of June 30, 2018 and 2017, respectively) reflects the West Basin's net investment in capital assets (net of accumulated depreciation) less any related debts used to acquire those assets that are still outstanding. West Basin uses these capital assets to provide services to customers; consequently, these assets are not available for future spending.

June 30, 2018

## 2 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Condensed Statements of Revenue, Expenses and Changes in Net Position

	<u>2018</u>	<u>2017</u>	<u>Change</u>
<b>Revenue</b>			
Operating Revenues			
Water & Monitoring	\$ 155,311,898	\$ 145,047,691	\$ 10,264,207
Water recycling revenue	49,444,484	45,401,684	4,042,800
Water conservation	91,145	393,100	(301,955)
Desalting revenue	75,665	280,659	(204,994)
Total operating revenues	<u>204,923,192</u>	<u>191,123,134</u>	<u>13,800,058</u>
Non-Operating revenues			
Standby charges	10,038,300	9,613,891	424,409
Investment Income	848,486	457,990	390,496
Other non-operating revenues	1,285,530	4,419,718	(3,134,188)
Total non-operating revenues	<u>12,172,316</u>	<u>14,491,599</u>	<u>(2,319,283)</u>
<b>Total revenue</b>	<u>217,095,508</u>	<u>205,614,733</u>	<u>11,480,775</u>
<b>Expenses</b>			
Operating expenses			
Source of supply and monitoring	125,744,684	118,289,291	7,455,393
Water recycling costs	34,828,243	35,651,178	(822,935)
Depreciation and amortization	25,187,784	25,285,729	(97,945)
Public information and education	3,201,324	2,754,077	447,247
Water policy and conservation	3,256,891	3,001,038	255,853
Project planning	652,512	0	652,512
Desalting operations	475,068	592,014	(116,946)
Total operating expenses	<u>193,346,506</u>	<u>185,573,327</u>	<u>7,773,179</u>
Non-Operating expenses			
Loss on disposition of assets	3,988,383	1,568,533	2,419,850
Interest expense	11,418,266	8,160,897	3,257,369
Total non-operating expenses	<u>15,406,649</u>	<u>9,729,430</u>	<u>5,677,219</u>
<b>Total expenses</b>	<u>208,753,155</u>	<u>195,302,757</u>	<u>13,450,398</u>
<b>Net Income (loss) before capital contributions</b>	<u>8,342,353</u>	<u>10,311,976</u>	<u>(1,969,623)</u>
<b>Capital Contributions</b>	<u>5,908,694</u>	<u>10,757,982</u>	<u>(4,849,288)</u>
<b>Change in Net Position</b>	<u>14,251,047</u>	<u>21,069,958</u>	<u>(6,818,911)</u>
<b>Net position - Beginning of year (Restated, Note 12)</b>	<u>256,179,223</u>	<u>234,583,342</u>	<u>21,595,881</u>
<b>Net position - End of year</b>	<u>\$ 270,430,270</u>	<u>\$ 255,653,300</u>	<u>\$ 14,776,970</u>

June 30, 2018

## 2 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (CONT.)

The Statement of Revenues, Expenses and Changes in Net Position shows how West Basin's net position changed during the fiscal year. Net position increased by \$14,251,047 for the fiscal year ending June 30, 2018.

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

- In 2018, West Basin's Total Operating Revenue increased by \$13,800,058 from the prior year. The increase of \$10,264,207 from water and monitoring and the increase of \$4,042,800 from water recycling revenue are the results of both the increase in the water rates and total sales in acre feet.
- In 2018, Water conservation revenues decreased due to the reduction of the conservation activities that West Basin participated during the year.
- In 2018, West Basin's Total Non-Operating Revenue decreased by \$2,319,283 as the prior year Total Non-Operating Revenue includes a miscellaneous income of \$3,624,204 from a one-time contract negotiation with Water Replenishment District of Southern California.
- In 2018, West Basin Total Operating Expenses increased by \$7,773,179. This was primarily due to the increase in potable water rates from Metropolitan Water District (MWD) and the cost of producing more recycled water.
- In 2018, West Basin Total Non-Operating Expenses increased by \$5,677,219. This was primarily due to the earlier implementation of GASB Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period at the end of fiscal year 2018. In fiscal year 2017, West Basin was able to capitalize \$4,087,034 from interest expense to construction accounts. Also in this category, Loss on disposition of assets is increased from \$1,568,533 in fiscal year 2017 to \$3,988,383 in fiscal year 2018. Please see Notes 5 for additional details about the disposal of the assets.
- Overall, Net Income (loss) Before Capital Contributions shows a positive result of \$8,342,353 for fiscal year 2018.
- The Capital Contributions include the fixed payments from major recycled water customers and from other governmental agencies. In 2018, one of the existing customer contracts expired and West Basin does not receive any capital grants from other agencies; therefore the total contributions decreased from \$10,757,982 in 2017 to \$5,908,694 in 2018.
- Net Position-Beginning of Year is restated and increases by \$525,923 due to the implementation of GASB No. 75, please see Notes 12 for additional details.

## 3 CAPITAL ASSETS

On June 30, 2018, West Basin Investment in Capital Assets totaled \$721,544,388. 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. The following is a summary of Capital Assets:

	<u>2018</u>	<u>2017</u>	<u>Change</u>
Land	\$ 25,211,646	\$ 25,211,646	\$ 0
Discharge Capacity	621,189	621,189	0
Water Facilities	577,578,463	576,963,611	614,852
Building and Improvements	4,070,060	4,152,176	(82,116)
Potable Distribution System	1,241,681	1,241,681	0
Education Center	548,067	548,067	0
Furniture, Fixtures, and Equipment	2,488,739	2,699,337	(210,598)
Construction in Progress	109,784,543	88,061,249	21,723,294
Total Capital Assets	<u>\$ 721,544,388</u>	<u>\$ 699,498,956</u>	<u>22,045,432</u>

June 30, 2018

West Basin continues its internal review of the capital asset accounts at year-end. Capital assets that were either no longer in service or disposed of in the current year were disposed at the year-end. In 2018, the capital asset additions totaled to \$45,976,846 and the capital asset deletions and transfers totaled to \$23,931,414. This resulted in a total increase in capital assets of \$22,045,432.

Additional information regarding capital assets can be found in Note 5 in Notes to Basic Financial Statements.

#### **4 LONG-TERM LIABILITIES**

As of June 30, 2018, West Basin had \$282,966,525 in Total Long-Term Liabilities, including compensated absences, long term debts, net pension liability, net OPEB liability and interest rate swaps. Note 6 in the Notes to Basic Financial Statements disclose the detail of all Long-Term debt.

West Basin has one refunding revenue certificates of participation (2008B). In 2008, the revenue certificates of participation were issued in the amount of \$128,665,500. In 2016, the certificates were partially refunded by the 2016A Refunding Revenue Bond. The total outstanding balance of the 2008B certificates as of June 30, 2018 is \$3,960,000 and will be paid off in August, 2018.

West Basin has four separate refunding revenue bonds (series 2011A, series 2011B, series 2012A and serious 2016A). The total outstanding balance for the four bonds is \$275,327,812 as of June 30, 2018.

West Basin's net pension liability is \$745,354 for this year. There was a significant decrease from \$1,926,502 in 2017 due to an additional payment of \$1,613,249 made in June 2017. The Net Pension Liability shown on the Financial Statement is only for West Basin's PERS program. West Basin's PARS program shows Net Pension Asset of \$286,597, a slight increase from \$270,312 in 2017. Please see Note 7 in the Notes to Basic Financial Statements for details.

West Basin's OPEB liability is \$298,976 for fiscal year 2018.

West Basin has two outstanding swaps at the end of the fiscal year with the total notional amount of \$19 million. Due to the issuance of 2016A Refunding Revenue Bonds on October 27, 2016, these two swaps are no longer associated with 2010A Adjustable Rate Revenue Certificate of Participation. West Basin terminated hedge accounting and the balance of the deferral account was cleared on the termination date. On June 30, 2018, the change from the refunding date resulted in a revenue gain of \$806,167. Note 10 in the Notes to Basic Financial Statements disclose the detail of the swaps.

The following is a summary of the Long-Term Liabilities for the years 2018 and 2017:

	<b>2018</b>	<b>2017</b>	<b>Change</b>
Compensated Absences	\$1,393,953	\$1,490,118	(\$96,165)
Refunding Certificates of Participation	3,972,589	7,948,659	(3,976,070)
Refunding Revenue Bonds	275,327,812	284,428,156	(9,100,344)
Net Pension Liability	745,354	1,926,502	(1,181,148)
Net OPEB Liability	298,976		298,976
Interest Rate Swaps	1,227,841	2,034,008	(806,167)
Total Long Term Liabilities	<u>\$282,966,525</u>	<u>\$297,827,443</u>	<u>(\$14,860,918)</u>

#### **CONDITION AFFECTING CURRENT FINANCIAL POSITION**

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

#### **CONTACTING WEST BASIN'S EXECUTIVE MANAGER OF FINANCE**

This financial report is designed to provide our citizens, customers, investors, and creditors with an overview of West Basin's financial operations and overall financial condition. If you have questions about this report or need additional financial information, please contact Margaret Moggia, Executive Manager of Finance, at West Basin.

# WEST BASIN MUNICIPAL WATER DISTRICT STATEMENT OF NET POSITION

June 30, 2018 (With Comparative totals for June 30, 2017)

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Unrestricted assets:		
Cash and cash equivalents (note 2)	\$ 40,336,644	\$ 42,476,923
Investments (note 2)	36,005,623	28,350,003
Accounts receivable	33,172,099	33,952,542
Accrued interest receivable	402,814	187,561
Inventory	626,232	617,285
Prepaid expenses	<u>278,260</u>	<u>219,548</u>
Total unrestricted assets	<u>110,821,672</u>	<u>105,803,862</u>
Restricted assets:		
Cash and cash equivalents (note 4)	4,174,935	4,184,717
Custodial cash (note 4)	<u>419,798</u>	<u>393,125</u>
Total restricted assets	<u>4,594,733</u>	<u>4,577,842</u>
<b>TOTAL CURRENT ASSETS</b>	<u>115,416,405</u>	<u>110,381,704</u>
<b>NONCURRENT ASSETS</b>		
Other receivable	2,359,082	1,068,622
Capital assets, not depreciable (note 5)	135,617,378	113,894,084
Capital assets, net of depreciation (note 5)	323,624,394	340,457,128
Net pension asset (note 7)	<u>286,597</u>	<u>270,312</u>
<b>TOTAL NONCURRENT ASSETS</b>	<u>461,887,451</u>	<u>455,690,146</u>
<b>TOTAL ASSETS</b>	<u>577,303,856</u>	<u>566,071,850</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflows - pension contributions (note 7)	737,118	2,302,416
Deferred outflows - pension actuarial (note 7)	1,290,794	2,549,360
Deferred outflows - OPEB contributions (note 8)	596,625	-
Deferred outflows - OPEB actuarial (note 8)	782,181	-
Deferred amount on refunding	<u>13,478,735</u>	<u>14,807,919</u>
<b>TOTAL DEFERRED OUTFLOWS</b>	<u>16,885,453</u>	<u>19,659,695</u>

(Continued)

# WEST BASIN MUNICIPAL WATER DISTRICT STATEMENT OF NET POSITION

June 30, 2018 (With Comparative totals for June 30, 2017)

## LIABILITIES AND NET POSITION

	<u>2018</u>	<u>2017</u>
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expense	34,369,665	26,463,778
Accrued interest payable	4,970,078	5,153,328
Current portion of long-term liabilities (note 6)	11,687,337	11,174,875
TOTAL CURRENT LIABILITIES	<u>51,027,080</u>	<u>42,791,981</u>
<b>LONG-TERM LIABILITIES (note 6)</b>		
Compensated absences	1,393,953	1,490,118
2008B refunding revenue certificates of participation	3,972,589	7,948,659
2011A refunding revenue bonds	30,949,580	35,099,100
2011B refunding revenue bonds	62,931,367	63,256,639
2012A refunding revenue bonds	45,801,798	48,462,414
2016A refunding revenue bonds	135,645,067	137,610,003
Net pension liability (note 7)	745,354	1,926,502
Net OPEB liability (note 8)	298,976	-
Interest rate swaps (note 10)	1,227,841	2,034,008
Subtotal	<u>282,966,525</u>	<u>297,827,443</u>
Less: current portion above	<u>(11,687,337)</u>	<u>(11,174,875)</u>
TOTAL LONG-TERM LIABILITIES	<u>271,279,188</u>	<u>286,652,568</u>
TOTAL LIABILITIES	<u>322,306,268</u>	<u>329,444,549</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows - pension actuarial (note 7)	1,046,770	633,696
Deferred inflows - OPEB actuarial (note 8)	406,001	-
TOTAL DEFERRED INFLOWS	<u>1,452,771</u>	<u>633,696</u>
<b>NET POSITION</b>		
Net investment in capital assets	197,595,039	180,967,033
Unrestricted	<u>72,835,231</u>	<u>74,686,267</u>
TOTAL NET POSITION	<u>\$ 270,430,270</u>	<u>255,653,300</u>

# WEST BASIN MUNICIPAL WATER DISTRICT

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

Year ended June 30, 2018 (with comparative totals for the year ended June 30, 2017)

	<u>2018</u>	<u>2017</u>
<b>OPERATING REVENUES</b>		
Water and monitoring	\$155,311,898	145,047,691
Water recycling revenue	49,444,484	45,401,684
Water conservation	91,145	393,100
Desalting revenue	75,665	280,659
TOTAL OPERATING REVENUES	<u>204,923,192</u>	<u>191,123,134</u>
<b>OPERATING EXPENSES</b>		
Source of supply and monitoring	125,744,684	118,289,291
Water recycling costs	34,828,243	35,651,178
Depreciation	25,187,784	25,285,729
Public information and education	3,201,324	2,754,077
Water policy and conservation	3,256,891	3,001,038
Project planning	652,512	-
Desalting operations	475,068	592,014
TOTAL OPERATING EXPENSES	<u>193,346,506</u>	<u>185,573,327</u>
OPERATING INCOME (LOSS)	<u>11,576,686</u>	<u>5,549,807</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Standby charges	10,038,300	9,613,891
Investment income	848,486	457,990
Miscellaneous income	153,726	3,701,152
Noncapital grants	325,637	5,448
Change in fair value of interest rate swap	806,167	713,118
Loss on disposition of assets	(3,988,383)	(1,568,533)
Interest expense	(11,418,266)	(8,160,897)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(3,234,333)</u>	<u>4,762,169</u>
NET INCOME BEFORE CAPITAL CONTRIBUTIONS	<u>8,342,353</u>	<u>10,311,976</u>
<b>CAPITAL CONTRIBUTIONS</b>		
Capital contributions	5,908,694	10,757,982
CHANGE IN NET POSITION	<u>14,251,047</u>	<u>21,069,958</u>
<b>NET POSITION - BEGINNING OF YEAR</b> <b>(as restated, note 12)</b>	<u>256,179,223</u>	<u>234,583,342</u>
<b>NET POSITION - END OF YEAR</b>	<u><b>\$270,430,270</b></u>	<u><b>\$255,653,300</b></u>

# WEST BASIN MUNICIPAL WATER DISTRICT STATEMENT OF CASH FLOWS

Year ended June 30, 2018 (with comparative totals for the year ended June 30, 2017)

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 204,413,175	\$ 187,631,111
Cash paid to suppliers of goods and services	(136,530,703)	(140,085,044)
Cash paid for employee services and benefits	(11,802,331)	(12,675,120)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>56,080,141</u>	<u>34,870,947</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Grants received	<u>325,637</u>	<u>5,448</u>
NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES	<u>325,637</u>	<u>5,448</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Principal paid on long-term liabilities	(10,610,000)	(36,598,780)
Acquisition and construction of capital assets	(34,066,727)	(23,837,625)
Issuance of long-term liabilities	-	138,489,241
Interest paid on long-term liabilities	(12,738,746)	(12,120,273)
Cash paid to refunding escrow agent	-	(106,201,156)
Capital grants received	-	863,473
Capital contributions	<u>5,908,694</u>	<u>8,253,460</u>
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(51,506,779)</u>	<u>(31,151,660)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Sale of investments	17,998,617	22,280,790
Purchase of investments	(25,908,071)	(23,608,649)
Interest received	<u>887,067</u>	<u>561,404</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>(7,022,387)</u>	<u>(766,455)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,123,388)	2,958,280
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>47,054,765</u>	<u>44,096,485</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 44,931,377</u>	<u>\$ 47,054,765</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO AMOUNTS REPORTED ON THE STATEMENT OF NET POSITION:		
Cash and cash equivalents	\$ 40,336,644	\$ 42,476,923
Restricted cash and cash equivalents	4,174,935	4,184,717
Restricted custodial cash	<u>419,798</u>	<u>393,125</u>
Cash and cash equivalents at end of year	<u>\$ 44,931,377</u>	<u>\$ 47,054,765</u>

(Continued)

# WEST BASIN MUNICIPAL WATER DISTRICT STATEMENT OF CASH FLOWS

Year ended June 30, 2018 (with comparative totals for the year ended June 30, 2017)

	<u>2018</u>	<u>2017</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>		
Operating income (loss)	\$ 11,576,686	\$ 5,549,807
Standby charges	10,038,300	9,613,891
Depreciation	25,187,784	25,285,729
Nonoperating miscellaneous income (expense)	153,726	3,701,152
 <b>CHANGE IN ASSETS AND LIABILITIES:</b>		
(Increase) decrease in accounts receivable	(510,017)	(3,492,023)
(Increase) decrease in inventory	(8,947)	(29,767)
(Increase) decrease in prepaid expense	(58,712)	35,497
(Increase) decrease in net pension asset	(16,285)	(116,828)
(increase) decrease in deferred outflows-pension	2,823,864	(2,204,312)
(increase) decrease in deferred outflows-OPEB	(968,593)	-
Increase (decrease) in accounts payable	7,905,887	(4,328,956)
Increase (decrease) in compensated absences	(96,165)	214,950
Increase (decrease) in net pension liability	(1,181,148)	615,375
Increase (decrease) in net OPEB liability	414,686	-
Increase (decrease) in deferred inflows - pension actuarial	413,074	26,432
Increase (decrease) in deferred inflows - OPEB actuarial	406,001	-
 NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	 <u>\$ 56,080,141</u>	 <u>\$ 34,870,947</u>
 <b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:</b>		
Gain (loss) on disposition of assets	<u>\$ (3,988,382)</u>	<u>\$ (1,568,533)</u>
Capital contribution	<u>\$ -</u>	<u>\$ 1,641,049</u>
Unrealized gain (loss) from investments	<u>\$ (253,834)</u>	<u>\$ (150,211)</u>

# NOTES TO FINANCIAL STATEMENTS

For The Year Ended June 30,2018

## 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Organization and description of West Basin** - West Basin Municipal Water District (West Basin) was incorporated on December 17, 1947, which operates under the authority of Division 20 of the California Water Code for the purpose of providing water and related services to the properties within West Basin. West Basin is governed by a five-member Board of Directors who are elected to a four-year term by the voters.

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

**Basis of accounting** - West Basin financial statements are comprised of the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, the Statement of Cash Flows and the notes to the financial statements.

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

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

West Basin distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with water operations. Revenues not meeting this definition are reported as non-operating revenues.

**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.

**Cash and cash equivalents** - For purposes of the statements of cash flows, West Basin 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 cost, these inventories are not held for resale.

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

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

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

## 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 acquisition cost 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 are \$10,000 or more are capitalized. Other costs incurred for repairs and maintenance is expensed as incurred. Depreciation is calculated on the straight-line method over the following estimated useful lives:

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

Depreciation aggregated \$25,187,784 for the year ended June 30, 2018.

Construction in progress includes demonstration facilities that were constructed to test and validate the desalination methodologies to be used in the completed facility. These costs are considered by management to be integral and necessary to the successful completion and installation of the desalination facilities.

**Amortization** - Bond premiums and the deferred amount on refunding are being amortized on the straight line method over periods not to exceed debt maturities. Amortization expense aggregated \$1,137,230 for the year ended June 30, 2018.

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

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

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

**Capital contributions** - Capital contributions of \$5,908,694 include capital contributions, and capital recovery charges for the fiscal year ended June 30, 2018.

Capital grants and contributions - West Basin receives grants from other entities/agencies for several ongoing projects.

Capital-recovery charges (recycling operations) - West Basin receives fixed payments from major recycled water customers, which are intended to cover the cost of recycled water facilities owned by West Basin, but that were exclusively constructed to meet their recycling needs.

**Risk management** - West Basin is a member of the Association of California Water Agencies Joint Powers Insurance Authority ("Insurance Authority"). The Insurance Authority is a risk-pooling self-insurance authority, created under provisions of California Government Code Sections 6500 et. seq. The purpose of the Authority is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage. The ACWA-JPIA board is composed of representatives from a number of water districts, including the West Basin Municipal Water District.

For The Year Ended June 30, 2018

## 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

At June 30, 2018, West Basin participated in the self-insurance programs of the Insurance Authority as follows:

Property loss - The Insurance Authority has pooled self-insurance up to \$100,000 per occurrence and has purchased excess insurance coverage up to \$500,000,000 (total insurable value of \$265,712,736). West Basin 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 \$5,000,000 per occurrence and has purchased excess insurance coverage up to \$55,000,000.

Auto liability - The Insurance Authority has pooled self-insurance up to \$5,000,000 per occurrence and has purchased excess insurance coverage up to \$55,000,000.

Public officials' liability - The Insurance Authority has pooled self-insurance up to \$5,000,000 and has purchased excess insurance coverage up to \$55,000,000.

Fidelity bond - The Insurance Authority has pooled self-insurance up to \$100,000. West Basin has a \$1,000 deductible. At June 30, 2018, West Basin also had insurance coverage with Alliant Insurance for crime up to \$3,000,000 with a \$2,500 deductible.

**Pensions** - For purposes of measuring the net pension liability or asset, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by the CalPERS Financial Office and PARS Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. CalPERS audited financial statements are publicly available reports that can be obtained at the CalPERS' website under Forms and Publications.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For the CalPERS report, the following timeframes are used:

Valuation Date (VD)	June 30, 2016
Measurement Date (MD)	June 30, 2017
Measurement Period (MP)	July 1, 2016 to June 30, 2017

For the PARS report, the following timeframes are used:

Valuation Date (VD)	June 30, 2016, rolled forward to June 30, 2017
Measurement Date (MD)	June 30, 2017
Measurement Period (MP)	July 1, 2016 to June 30, 2017

**Other Post-employment Benefits (OPEB)** - For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of West Basin's plan (OPEB Plan), the assets of which are held by the California Employers' Retiree Benefit Trust (CERBT), and additions to/deductions from the OPEB Plan's fiduciary net position have been determined by an independent actuary. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

For The Year Ended June 30, 2018

## 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Generally accepted accounting principles require that the reported results must pertain to liability and fiduciary net position information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date (VD)	June 30, 2017
Measurement Date (MD)	June 30, 2017
Measurement Period (MP)	July 1, 2016 to June 30, 2017

**Deferred outflows/inflows of resources** - In addition to assets, the statement of net position will sometimes report a separate section of deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expenses/expenditures) until then. West Basin has five items that qualify for reporting in this category: the deferred outflows on pension contributions, the deferred outflows on OPEB contributions, the deferred outflows - pension actuarial, the deferred outflows - OPEB actuarial and the deferred amounts on debt refundings.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and will not be recognized as inflow of resources (revenue) until that time. West Basin has two items that qualifies for reporting in this category: deferred inflow - pension actuarial and deferred inflows - OPEB actuarial.

**Fair value measurements** - Certain assets and liabilities are required to be reported at fair value. The fair value framework provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are described as follows:

**Level 1** - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

**Level 2** - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly and fair value is determined through the use of models or other valuation methodologies including:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in markets that are inactive;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

**Level 3** - Inputs to the valuation methodology are unobservable and significant to the fair value measurement. These unobservable inputs reflect West Basin's own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). These unobservable inputs are developed based on the best information available in the circumstances and may include West Basin's own data.

For The Year Ended June 30, 2018

## 2 CASH AND INVESTMENTS

Financial Statement Classification:

Unrestricted assets:	
Cash and cash equivalents	\$40,336,644
Investments	36,005,623
Restricted assets:	
Cash and cash equivalents	4,174,935
Custodial cash	<u>419,798</u>
Total Cash and Investments	<u><u>\$80,937,000</u></u>

Cash and investments held by West Basin were comprised of the following at June 30, 2018:

	<b>Maturity in Year</b>			<b>Total</b>
	<b>1 Year Or Less</b>	<b>1 - 5 Years</b>	<b>More than 5 Years</b>	
Local agency investment fund	\$34,720,078	\$ -	\$ -	\$34,720,078
Money market mutual funds	4,174,933	-	-	4,174,933
Deposits with financial institutions	6,036,366	-	-	6,036,366
U.S. agency securities	4,638,469	2,741,270	-	7,379,739
U.S. treasury securities	4,885,717	6,257,067	-	11,142,784
State municipal obligations	-	319,238	-	319,238
Commercial paper	1,585,580	-	-	1,585,580
Corporate notes	1,176,318	6,980,869	-	8,157,187
Certificates of deposit	2,669,569	3,511,729	-	6,181,298
Supranationals	<u>-</u>	<u>1,239,797</u>	<u>-</u>	<u>1,239,797</u>
Total cash and investments	<u><u>\$59,887,030</u></u>	<u><u>\$21,049,970</u></u>	<u><u>\$ -</u></u>	<u><u>\$80,937,000</u></u>

### Investments authorized by the California government code and West Basin's investment policy

- The table below identifies the investment types that are authorized for West Basin 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 West Basin, rather than the general provision of the California Government Code or West Basin's investment policy.

For The Year Ended June 30, 2018

## 2 CASH AND INVESTMENTS (CONTINUED)

<u>Authorized Investment Type</u>	<u>Authorized by Investment Policy</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer*</u>
U.S. treasury obligations	Yes	5 year	None	None
U.S. agency securities	Yes	5 year	None	None
Bankers acceptances	Yes	180 days	15%	5%
California municipal obligations	Yes	5 year	10%	5%
State municipal obligations	Yes	5 year	10%	5%
Commercial paper	Yes	270 days	25%	10%
Certificates of deposit	Yes	5 year	30%	5%
Repurchase agreements	No	1 year	None	None
Reverse repurchase agreements	No	92 days	20% of base value	None
Medium-term notes	Yes	5 year	30%	5%
Mutual funds	No	N/A	20%	10%
Money market mutual funds	Yes	N/A	20%	10%
Mortgage pass-through securities	No	5 year	20%	None
LAIF	Yes	N/A	None	None
Supranationals	Yes	5 year	30%	None

\*Based on State law or investment policy requirements, whichever is more restrictive.

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Investment in One Issuer</u>
Cash	None	None	None
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
Certificates of deposit	360 days	None	None
LAIF	None	None	None
State Municipal Obligations	None	None	None

**Disclosures relating to interest rate risk** - Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

For The Year Ended June 30, 2018

## 2 CASH AND INVESTMENTS (CONTINUED)

In accordance with the Investment Policy, West Basin manages its exposure to interest rate risk 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 West Basin's investments to market interest rate fluctuations is provided in the previous table that shows the distribution of West Basin's investments by maturity as of June 30, 2018.

**Disclosure 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, West Basin 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>Minimum Legal Rating</u>	<u>Rating as of Year End</u>
		<u>Standard &amp; Poor's</u>
U.S. agency securities	N/A	AA+
U.S. treasury securities	N/A	AA+
State municipal obligations	A	AA-
LAIF	N/A	Not Rated
Money market mutual funds	N/A	A-1+
Commercial paper	A-1	A-1, A A+, AA-, AAA-
Corporate notes	A	BBB+, A-1, A-, A, A+, AA-, AA, AA+, AAA
Supranationals	AA	AAA

**Concentration of credit risk** - Concentration of credit is the risk of loss attributed to the magnitude of West Basin'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	\$ 3,730,787
Federal Home Loan Bank	U.S. Agency Securities	1,858,023

For The Year Ended June 30, 2018

## 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, West Basin 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) West Basin 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 West Basin'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** - West Basin 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 West Basin's investment in this pool is reported in the accompanying financial statements at amounts based upon West Basin's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF which are recorded on an amortized cost basis. The weighted average maturity of the LAIF portfolio as of June 30, 2018 is 193 days.

## 3 FAIR VALUE MEASUREMENT

West Basin categorizes certain assets and liabilities within the fair value hierarchy established by generally accepted accounting principles. West Basin has the following recurring fair value measurements as of June 30, 2018:

	Fair Value Hierarchy			
	Level 1	Level 2	Level 3	Total
U.S. agency securities	\$ -	\$ 7,379,739	\$ -	\$ 7,379,739
U.S. treasury securities	11,142,784	-	-	11,142,784
State municipal obligations	-	319,238	-	319,238
Supranationals	-	1,239,797	-	1,239,797
Negotiable CDs	-	6,181,298	-	6,181,298
Corporate notes	-	8,157,187	-	8,157,187
Commercial paper	-	1,585,580	-	1,585,580
Interest rate swaps	-	(1,227,841)	-	(1,227,841)
Total assets and liabilities reported at fair value	\$ 11,142,784	\$23,634,998	\$ -	\$ 34,777,782

For The Year Ended June 30, 2018

#### 4 RESTRICTED ASSETS

Restricted assets were provided by, and are to be used for, the following at June 30, 2018:

<u>Funding source</u>	<u>Use</u>	<u>Amount</u>
Refunding Revenue Bonds	Reserve Requirement	\$4,174,935
Custodial Account	Custodial costs	419,798
		<u>\$4,594,733</u>

#### 5 CAPITAL ASSETS

The investment in capital assets consists of the following at June 30, 2018:

	<u>Balance at July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2018</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>88,061,249</u>	<u>33,633,413</u>	<u>(11,910,119)</u>	<u>109,784,543</u>
Total capital assets, not being depreciated	<u>113,894,084</u>	<u>33,633,413</u>	<u>(11,910,119)</u>	<u>135,614,378</u>
Capital assets, being depreciated:				
Building - Carson	2,343,574	-	-	2,343,574
Building improvement	1,808,602	21,925	(104,041)	1,726,486
Potable distribution system	1,241,681	-	-	1,241,681
Ocean desalination education center	548,067	-	-	548,067
Recycling facilities	572,884,410	12,261,496	(11,646,644)	573,499,262
Groundwater desalting facility	4,079,201	-	-	4,079,201
Machinery and equipment	2,423,921	58,236	(240,550)	2,241,607
Furniture and fixtures	<u>275,416</u>	<u>1,776</u>	<u>(30,060)</u>	<u>247,132</u>
Total capital assets, being depreciated	<u>585,604,872</u>	<u>12,343,433</u>	<u>(12,021,295)</u>	<u>585,927,010</u>
Less accumulated depreciation:				
Building - Carson	(929,618)	(93,743)	-	(1,023,361)
Building improvement	(604,080)	(110,208)	104,041	(610,247)
Potable distribution system	(403,546)	(62,084)	-	(465,630)
Ocean desalination education center	(395,826)	(60,897)	-	(456,723)
Recycling facilities	(238,904,435)	(24,358,841)	7,658,261	(255,605,015)
Groundwater desalting facility	(2,170,166)	(179,864)	-	(2,350,030)
Machinery and equipment	(1,503,085)	(310,878)	240,550	(1,573,413)
Furniture and fixtures	<u>(236,988)</u>	<u>(11,269)</u>	<u>30,060</u>	<u>(218,197)</u>
Total accumulated depreciation	<u>(245,147,744)</u>	<u>(25,187,784)</u>	<u>8,032,912</u>	<u>(262,302,616)</u>
Total capital assets, being depreciated, net	<u>340,457,128</u>	<u>(12,844,351)</u>	<u>(3,988,383)</u>	<u>323,624,394</u>
Total capital assets, net	<u>\$454,351,212</u>	<u>\$20,789,062</u>	<u>\$(15,898,502)</u>	<u>\$459,241,772</u>

For The Year Ended June 30, 2018

## 6 LONG-TERM DEBT

The following amounts of long-term debts were outstanding June 30, 2018:

	<u>Balance at July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2018</u>	<u>Current Portion</u>
2008B Refunding Revenue Certificate of Participation	\$ 7,948,659	\$ -	\$(3,976,070)	\$ 3,972,589	\$3,960,000
2011A Refunding Revenue Bonds	35,099,100	-	(4,149,520)	30,949,580	3,965,000
2011B Refunding Revenue Bonds	63,256,639	-	(325,272)	62,931,367	-
2012A Refunding Revenue Bonds	48,462,414	-	(2,660,616)	45,801,798	2,380,000
2016A Refunding Revenue Bonds	137,610,003	-	(1,964,936)	135,645,067	695,000
<b>Subtotal</b>	<u>292,376,815</u>	<u>-</u>	<u>(13,076,414)</u>	<u>279,300,401</u>	<u>11,000,000</u>
Compensated Absences	1,490,118	919,144	(1,015,309)	1,393,953	687,337
<b>Total</b>	<u>\$ 293,866,615</u>	<u>\$919,144</u>	<u>\$(14,091,405)</u>	<u>\$280,694,354</u>	<u>\$11,687,337</u>

**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 West Basin in financing and refinancing certain facilities of West Basin previously financed and refinanced from the proceeds of the 2003B 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 original 2008B Refunding Revenue Certificates had interest rates ranging from 3.0% to 5.0% with maturities through August 2031. In 2016, the certificates were partially refunded by the 2016A Refunding Revenue Bond. The outstanding balance of the 2008B certificates is presented in the accompanying statement of net position net of unamortized discounts and premiums as follows:

Bonds outstanding	\$ 3,960,000
Unamortized premium	12,589
<b>Net liability</b>	<b><u>\$ 3,972,589</u></b>

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

The 2011A Refunding Revenue Bonds have interest rates from the original issue date ranging from 2.0% to 5.0% with maturities through August 2024. This liability is presented in the accompanying statement of net position net of unamortized discounts and premiums as follows:

Bonds outstanding	\$ 28,945,000
Unamortized premium	2,004,580
<b>Net liability</b>	<b><u>\$ 30,949,580</u></b>

For The Year Ended June 30, 2018

## 6 LONG-TERM DEBT (CONTINUED)

**2011B refunding revenue bonds** - In November 2011, West Basin issued \$60,275,000 Refunding Revenue Bonds ("2011B Refunding Revenue Bonds") to assist West Basin in refinancing a portion of certain facilities of West Basin previously financed and refinanced from the proceeds of the 2003A Refunding Revenue Certificates of Participation, to refinance certain facilities of West Basin 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 2011B Refunding Revenue Bonds have interest rates from the original issue date ranging from 4.0% to 5.0% with maturities through August 2036. This liability is presented in the accompanying statement of net position net of unamortized discounts and premiums as follows:

Bonds outstanding	\$ 60,275,000
Unamortized premium	2,656,367
<b>Net liability</b>	<b><u>\$ 62,931,367</u></b>

**2012A refunding revenue bonds** - In April 2012, West Basin issued \$50,325,000 Refunding Revenue Bonds ("2012A Refunding Revenue Bonds") to assist West Basin in refinancing a portion of certain facilities of West Basin previously financed from the proceeds of the 2003A Refunding Revenue Certificates of Participation, to refinance certain facilities of West Basin 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 2012A Refunding Revenue Bonds have interest rates from the original issue date ranging from 3.0% to 5.0% with maturities through August 2029. This liability is presented in the accompanying statement of net position net of unamortized discounts and premiums as follows:

Bonds outstanding	\$ 41,670,000
Unamortized premium	4,131,798
<b>Net liability</b>	<b><u>\$ 45,801,798</u></b>

**2016A refunding revenue bonds** - On October 27, 2016, the District issued Series 2016A Refunding Revenue Bonds in the amount of \$112,875,000 to advance refund the callable portions (approximately \$98 million) of the 2008B Refunding Revenue Certificates of Participation and repay the outstanding balance of the 2010A Adjustable Rate Revenue Certificates of Participation.

The 2016A Refunding Revenue Bonds have interest rates ranging from 3.0% to 5.0% with maturities through August 2036. This liability is presented in the accompanying statement of net position net of unamortized discounts and premiums as follows:

Bonds outstanding	\$ 112,195,000
Unamortized premium	23,450,067
<b>Net liability</b>	<b><u>\$ 135,645,067</u></b>

**Debt Coverage** - West Basin has pledged revenues, net of specified operating expenses, as security for debt service associated with indebtedness incurred to finance various capital facilities of West Basin. The bonds are payable solely from net revenues and are payable through fiscal year 2037. For the year ended June 30, 2018, debt coverage (net revenues divided by total debt service) for all debt was approximately 2.31.

For The Year Ended June 30, 2018

## 6 LONG-TERM DEBT (CONTINUED)

**Debt Service Requirements** - The Certificates of Participation and Refunding Revenue Bonds (not including the 2010 Adjustable rate revenue certificates of participation) debt service requirements subsequent to June 30, 2018, are as follows:

	<u>Certificates of Participation</u>		<u>Refunding Revenue Bonds</u>		<u>Total</u>
	<u>Total COPs</u>		<u>Total Refunding Rev Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2018/19	\$ 3,960,000	\$ 158,400	\$ 7,040,000	\$ 11,701,300	\$ 22,859,700
2019/20	-	-	11,425,000	11,437,000	22,862,000
2020/21	-	-	11,835,000	11,024,750	22,859,750
2021/22	-	-	12,325,000	10,523,250	22,848,250
2022/23	-	-	12,825,000	9,959,000	22,784,000
2023/24	-	-	13,670,000	9,330,250	23,000,250
2024/25	-	-	14,330,000	8,646,750	22,976,750
2025/26	-	-	15,210,000	7,961,250	23,171,250
2026/27	-	-	15,730,000	7,200,750	22,930,750
2027/28	-	-	16,585,000	6,434,750	23,019,750
2028/29	-	-	17,420,000	5,605,500	23,025,500
2029/30	-	-	18,290,000	4,734,500	23,024,500
2030/31	-	-	12,355,000	3,820,000	16,175,000
2031/32	-	-	12,970,000	3,202,250	16,172,250
2032/33	-	-	9,230,000	2,553,750	11,783,750
2033/34	-	-	9,700,000	2,092,250	11,792,250
2034/35	-	-	10,190,000	1,607,250	11,797,250
2035/36	-	-	10,705,000	1,097,750	11,802,750
2036/37	-	-	11,250,000	562,500	11,812,500
	\$ 3,960,000	\$ 158,400	\$243,085,000	\$119,494,800	\$366,698,200

## 7 DEFINED BENEFIT PENSION PLANS

The District has two pension plans one with CalPERS and one with PARS. The information below includes the aggregate total pension related items for both plans.

	<u>CalPERS</u>	<u>PARS</u>	<u>Total</u>
Net pension liability	\$ 745,354	\$ -	\$ 745,354
Net pension asset	-	286,597	286,597
Deferred outflows of resources - pension	1,917,548	110,364	2,027,912
Deferred inflows of resources - pension	945,282	101,488	1,046,770
Pension expense	2,735,328	41,295	2,776,623

## 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

### CalPERS Plan:

**Plan Description** - All qualified employees are eligible to participate in West Basin's separate Miscellaneous (all other) Employee Pension Plans, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and Local Government resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefits provisions, assumptions and membership information that can be found on the CalPERS website.

**Benefits Provided** - CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. The Plans' provisions and benefits in effect at June 30, 2018, are summarized as follows:

	<u>Tier I</u>	<u>PEPRA</u>
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	3% @ 60	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50-60	52-67
Required employee contribution rates	8%	6.5%
Required employer contribution rates	12.764%	6.730%

**Contribution description** - Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS' annual actuarial valuation process. For public agency cost-sharing plans covered by either the Miscellaneous or Safety risk pools, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2017 (the measurement date), the active employee contribution rate is 8% percent of annual pay, and the average employer's contribution rate is 13.545% of annual payroll for Tier I employees. For PEPRA employees the active employee contribution rate is 6.5% percent annual pay and the average employer's contribution rate is 6.908% of annual payroll. Employer contributions rates may change if plan contracts are amended. It is the responsibility of the employer to make necessary accounting adjustments to reflect the impact due to any Employer Paid Member Contributions or situations where members are paying a portion of the employer contribution.

West Basin's contributions to the Plan for the year ended June 30, 2018 were as follows:

	<u>Miscellaneous</u>
Contributions - Employer	\$ 659,118
Contributions - Employee (Paid by Employer)	284,656

For The Year Ended June 30, 2018

## 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

### Actuarial methods and assumptions used to determine total pension liability

For the measurement period ending June 30, 2017 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2016 total pension liability determined in the June 30, 2016 valuation. The June 30, 2017 total pension liabilities were based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions	
Discount Rate	7.15%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table <sup>1</sup>	Derived using CalPERS' Membership Data for all funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the fiscal years 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

**Change of assumption** - In 2017, the accounting discount rate reduced from 7.65 percent to 7.15 percent.

**Discount rate** - The discount rate used to measure the total pension liability was 7.15 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, the test revealed that the assets would not run out. Therefore, the current 7.15 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.15 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained on CalPERS' website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

For The Year Ended June 30, 2018

## 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class.

<b>Asset Class</b>	<b>New Strategic Allocation</b>	<b>Real Return Years 1 - 10<sup>1</sup></b>	<b>Real Return Years 11+<sup>2</sup></b>
Global Equity	47.0%	4.90%	5.38%
Global Fixed Income	19.0	0.80	2.27
Inflation Sensitive	6.0	0.60	1.39
Private Equity	12.0	6.60	6.63
Real Estate	11.0	2.80	5.21
Infrastructure and Forestland	3.0	3.90	5.36
Liquidity	2.0	(0.40)	(0.90)

<sup>1</sup>An expected inflation of 2.5% used for this period

<sup>2</sup>An expected inflation of 3.0% used for this period

**Subsequent Events** - In February 2018, the CalPERS Board approved the reduction of the amortization period from 30 years to 20 years effective June 30, 2019.

### **Allocation of net pension liability and pension expense to individual employers**

The following table shows West Basin's proportionate share of the net pension liability over the measurement period:

	<b>Increase (Decrease)</b>		
	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (c) = (a) - (b)</b>
Balance at: 6/30/2017	\$ 12,506,981	\$ 10,580,479	\$ 1,926,502
Balance at: 6/30/2018	15,582,499	14,837,145	745,354
Net Changes during 2017-18	3,075,518	4,256,666	(1,181,148)

The net pension liability of the plan is measured as of June 30, 2017, and the total pension liability for the plan used to calculate the net pension liability was determined by an actuarial valuation of June 30, 2016. The proportion of the net pension liability was based on a projection of West Basin's long term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. West Basin's proportionate share of the net pension liability for the plan as of June 30, 2016 and 2017 measurement date was as follows:

For The Year Ended June 30, 2018

## 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

	<u>Miscellaneous Plan</u>
Proportion - June 30, 2017	.05546%
Proportion - June 30, 2018	.01891%
Change - Increase (Decrease)	(.03655%)

**Sensitivity of the net pension liability to changes in the discount rate** - The following presents the net pension liability of the Plan as of the Measurement Date, calculated using the discount rate of 7.15 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage-point lower (6.15 percent) or one percentage-point higher (8.15 percent) than the current rate:

	<u>Discount Rate - 1%</u> <u>(6.15%)</u>	<u>Current Discount Rate</u> <u>(7.15%)</u>	<u>Discount Rate + 1%</u> <u>(8.15%)</u>
Plan's Net Pension Liability (Asset)	\$ (2,888,678)	\$ 745,354	\$ 1,029,786

### **Amortization of deferred outflows and deferred inflows of resources**

Under GASB 68, actuarial gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred inflows and deferred outflows to be recognized in future pension expense.

The amortization period differs depending on the source of the gain or loss:

Net difference between projected and actual earnings on pension plan investments	Five-year straight-line amortization
All other amounts	Straight-line amortization over the expected average remaining service lifetime (EARSL) of all members that are provided with pensions (active, inactive, and retired) as of the beginning of the measurement period

The Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments is amortized over a five-year period on a straight-line basis. One-fifth is recognized in pension expense during the measurement period, and the remaining Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments at the measurement date is to be amortized over the remaining four-year period. The Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments in the Schedule of Collective Pension Amounts represents the unamortized balance relating to the current measurement period and the prior measurement period on a net basis.

Deferred outflows of resources and deferred inflows of resources relating to Differences Between Expected and Actual Experience, Changes of Assumptions and employer-specific amounts should be amortized over the EARSL of members provided with pensions through the Plan. The EARSL for the Plan for the June 30, 2017 measurement date is 3.8 years, which was obtained by dividing the total services years by the total number of participants (active, inactive, and retired) in the Plan. Inactive employees and retirees have remaining service lifetimes equal to 0. Total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

For The Year Ended June 30, 2018

## 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

### Pension expense and deferred outflows and deferred inflows of resources related to pensions

For the year ended June 30, 2018, West Basin recognized a pension expense of \$2,735,328 for the Plan. As of June 30, 2018, West Basin reports deferred outflows of resources and deferred inflows of resources related to pensions as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to the measurement date	\$ 659,118	\$ -
Differences between actual contributions made and proportionate share of contributions	225,066	-
Change in employer's proportion	230,846	(820,621)
Differences between expected and actual experience	5,240	(75,080)
Changes of assumptions	650,224	(49,581)
Net difference between projected and actual earnings on pension plan investments	147,054	-
Adjustment due to differences in proportions	-	-
<b>Total</b>	<u>\$ 1,917,548</u>	<u>\$ 945,282</u>

\$659,118 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Amounts reported as deferred outflows and deferred inflows of resources in the previous chart will be recognized in future pension expense as follows:

<u>Measurement Period Ended June 30:</u>	<u>Deferred Outflows/(Inflows) of Resources</u>
2018	\$231,691
2019	138,376
2020	30,390
2021	(87,309)
2022	-
Thereafter	-

#### PARS Plan:

West Basin has established a defined benefit, single-employer retirement plan that provides a pension benefit for full time elected or appointed Directors:

**Tier I:** Members retired from West Basin after July 1, 2002 and assumed office prior to January 1, 2013, who are at least age 50 with 5 or more years of continuous service, who have not been a CalPERS member prior to January 1, 2003.

**Tier II:** Members retired from West Basin after July 1, 2002 and assumed office prior to January 1, 2013, 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.

**Tier III:** Members assumed office on or after January 1, 2013, who are at least age 52 with five or more years of continuous service, and who have not been a CalPERS member prior to January 2003.

For The Year Ended June 30, 2018

## 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

This plan is administered for West Basin 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 for Tier I members starts at 2% of the highest average annual salary for a one year period of employment with West Basin at age 50, increases by 0.1% for each year after age of 50, capped at 3% at 60. For Tier II members, the benefit is increased by a 2% annual Cost of Living Adjustment (COLA) after retirement with the annual Supplemental benefit of \$5,000. West Basin contributes to each benefit on behalf of the eligible directors. For Tier III members, the benefit starts at 1% of the highest average annual compensation paid during any 36 consecutive months, capped at 2.5% at age 67. The Tier III members contribute up to 50% of the normal cost which was 7% through December 31, 2015 and 15.3% from January 1, 2016 through June 30, 2016.

Employees Covered - At June 30, 2018, the following employees were covered by the benefit terms for the Plan:

Inactive employees or beneficiaries currently receiving benefits	1
Inactive employees entitled to but not yet receiving benefits	1
Active employees	5
<b>Total</b>	<u><u>7</u></u>

### Contribution description

West Basin'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, 2018, is based on an actuarial valuation as of June 30, 2016 rolled forward 1 year to June 30, 2017. For the fiscal year ending June 30, 2018, West Basin's annual pension cost was \$41,295.

Actuarial Valuation Date:	June 30, 2016, rolled forward 1 year to June 30, 2017
Asset Valuation Method:	Market value
Discount rate:	5.5%
Mortality:	Post-retirement mortality rates are from the CalPERS' 1997-2011 Experience Study
General Inflation:	3%
Aggregate payroll Increase:	3.25%
Termination:	None assumed
Salary Scale:	Individual payroll increases are the lesser of 5% and inflation
Retirement Age:	Employees will immediately retire upon the later of eligibility for benefits (which is usually the expiration of the third term on the Board), or end of the current term on the Board

### Actuarial methods

The actuarial cost method used for this valuation is the Entry Age Normal (EAN) method. The Present Value of Projected Benefits (PVPB) is the present value of all future benefits for current plan participants. The Actuarial Accrued Liability (AAL) represents the portion of the PVPB attributable to past service. The AAL is recognized over service through the date a participant is expected to commence benefits.

The initial unfunded AAL for the original multiple employer plan was amortized over 20 years as of July 1, 2002 as a level percentage of expected payroll. Subsequent gains or losses are amortized over 15 years, and plan amendments, methods and assumption changes are amortized over 20 years. The maximum combined amortization period is 30 years. Effective June 30, 2006, the plan was split into two plans. At that time, all West Basin Municipal Water District bases were combined into a single fresh start base amortized over 16 years, which was the remaining period of the initial UAL. Currently, 4 years remain on this base.

For The Year Ended June 30, 2018

## 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

Plan funded status based on the excess of:

Actuarial Accrued Liability minus Plan Assets

Actuarial assets are equal to market value assets. This is a change from the June 30, 2012 valuation, in which actuarial assets recognized asset gains/losses over five years.

The plan is assumed to be ongoing for cost purposes. This does not imply that an obligation to continue the plan exists.

### Discount rate

The discount rate used to measure the total pension liability (asset) was 5.50 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, the actuary stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 5.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 5.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 30 basis points. An investment return excluding administrative expenses would have been 5.78 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability (Asset).

### Changes in net pension liability (asset)

The following table shows the changes in net pension liability (asset) recognized over the measurement period:

	<b>Increase (Decrease)</b>		
	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability/(Asset) (c) = (a) - (b)</b>
<b>Balance at 6/30/2016 (MD)</b>	<b>\$ 1,121,000</b>	<b>\$ 1,391,312</b>	<b>\$ (270,312)</b>
Changes Recognized for the Measurement Period:			
Service Cost	73,000	-	73,000
Interest on the Total Pension Liability	65,268	-	65,268
Contributions from the Employer	-	76,000	(76,000)
Contributions from Employees	-	12,712	(12,712)
Investment Income	-	88,081	(88,081)
Administrative Expense	-	(22,240)	22,240
Benefit Payments, including Refunds of Employee Contributions	(14,633)	(14,633)	0
<b>Net Changes during 2016-17</b>	<b>\$ 123,635</b>	<b>\$ 139,920</b>	<b>\$ (16,285)</b>
<b>Balance at 6/30/2017 (MD)</b>	<b>\$ 1,244,635</b>	<b>\$ 1,531,232</b>	<b>\$ (286,597)</b>

For The Year Ended June 30, 2018

## 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

### Sensitivity of the net pension liability (asset) to changes in the discount rate

The following presents the net pension liability (asset) of the Plan as of the Measurement Date, calculated using the discount rate of 5.50 percent, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is one percentage-point lower (4.50 percent) or one percentage-point higher (6.50 percent) than the current rate:

	<b>1% Decrease (4.50%)</b>	<b>Discount Rate (5.50%)</b>	<b>1% Increase (6.50%)</b>
Net Pension Liability (Asset)	\$ (140,669)	\$ (286,597)	\$ (409,986)

### Pension expense and deferred outflows and deferred inflows of resources related to pensions

For the measurement period ending June 30, 2017 (the measurement date), West Basin recognized a pension expense of \$41,295 for the Plan.

As of June 30, 2018, West Basin reports other amounts for the Plan as deferred outflow and deferred inflow of resources related to pensions as follows:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Pension contributions subsequent to measurement date	\$ 78,000	\$ 0
Differences between Expected and Actual Experience	0	(101,488)
Changes of Assumptions	0	0
Net Difference between Projected and Actual Earnings on Pension Plan Investments	32,364	0
<b>Total</b>	<b>\$ 110,364</b>	<b>\$ (101,488)</b>

As of June 30, 2018, West Basin reported \$78,000 as deferred outflows of resources related to employer contributions subsequent to the measurement date which will be recognized as a reduction of the net pension liability (asset) in the year ended June 30, 2019. Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<b>Measurement Period Ended June 30</b>	<b>Deferred Outflows/(Inflows) of Resources</b>
2019	\$(29,668)
2020	(21,466)
2021	(15,742)
2022	(2,248)
2023	0
Thereafter	0

For The Year Ended June 30, 2018

## 8 OTHER POST-EMPLOYMENT BENEFITS (OPEB)

**Plan Description:** West Basin Municipal Water District provides post-retirement medical benefits to employees who retire directly from West Basin under CalPERS under a single-employer defined benefit post-employment benefits plan. To be eligible for District-paid healthcare benefits, retirees must be at least age 55 with 10 years of District service at retirement, or meet the eligibility requirement of age 50 and the Rule of 75 (age plus CalPERS service equals 75, with a minimum of 5 years District service). For eligible retirees, West Basin 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.

### Employees Covered

As of the June 30, 2017 measurement date, the following current and former employees were covered by the benefit terms under the Plan:

Active employees	47
Inactive employees or beneficiaries currently receiving benefits	15
Inactive employees entitled to, but not yet receiving benefits	-
<b>Total</b>	<b><u>62</u></b>

### Contributions

The Plan and its contribution requirements are established by Memoranda of Understanding with the applicable employee bargaining units and may be amended by agreements between the Authority and the bargaining units. The annual contribution is based on the actuarially determined contribution. For the fiscal year ended June 30, 2018, the Authority's cash contributions were \$576,599 in payments to the trust and the estimated implied subsidy was \$20,026 resulting in total payments of \$596,625. West Basin opened a trust account with California Employers' Retiree Benefit Trust (CERBT), an OPEB trust administrator and affiliate program of CalPERS, for the purpose of prefunding obligations for past services.

### Net OPEB Liability

West Basin's net OPEB liability was measured as of June 30, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2017, based on the following actuarial methods and assumptions:

<b>Actuarial Cost Method:</b>	Entry Age Normal Cost
<b>Actuarial Assumptions:</b>	
Discount Rate	7.28%
Inflation	3.00% per year
Salary Increases	3.25% per year
General Inflation Rate	2.75% per year
Investment Rate of Return	7.28% assuming actuarially determined contributions funded into CERBT Investment Strategy 1
Mortality Rate	Bickmore Scale 2017 applied generationally
Healthcare Trend Rate	Medical plan premiums and claims costs by age are assumed to increase once each year. The increases over the prior year's levels range from 5% to 8.5%
	Dental and vision premiums are assumed to increase by 3% annually

For The Year Ended June 30, 2018

## 8 OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

### Notes:

Demographic actuarial assumptions are based on the CalPERS Experience Study dated January 2014 using data collected from 1997 to 2011. The Experience Study Reports may be accessed on the CalPERS website [www.calpers.ca.gov](http://www.calpers.ca.gov) under Forms and Publications.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	STRATEGY 1	
	Target Allocation	Long-Term expected real rate of return
Global Equity	57.00%	5.50%
Global Debt Securities	27.00%	2.35%
Inflation Assets	5.00%	1.50%
REITs	8.00%	3.65%
Commodities	3.00%	1.75%
<b>Total</b>	<b>100%</b>	

\* Long-term expected rate of return is 7.28%

### Discount Rate

The discount rate used to measure the total OPEB liability was 7.28 percent. The projection of cash flows used to determine the discount rate assumed that Authority contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

For The Year Ended June 30, 2018

## 8 OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

### Changes in the OPEB Liability

The changes in the net OPEB liability for the Plan are as follows:

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net position (b)	Net OPEB Liability/(Asset) (c) = (a) - (b)
Balance at June 30, 2017 (Valuation Date June 30, 2017)	<b>\$ 8,156,523</b>	<b>\$ 8,272,233</b>	<b>\$ (115,710)</b>
<b>Changes recognized for the measurement period:</b>			
Service cost	406,900	-	406,900
Interest	616,794	-	616,794
Changes of assumptions	895,541	-	895,541
Contributions - employer	-	410,213	(410,213)
Net investment income	-	610,363	(610,363)
Benefit payments	(181,950)	(181,950)	-
Plan experience	(207,291)	-	(207,291)
Investment experience	-	281,186	(281,186)
Administrative expense	-	(4,504)	4,504
<b>Net Changes</b>	<b>1,529,994</b>	<b>1,115,308</b>	<b>414,686</b>
Balance at June 30, 2018 (Measurement Date June 30, 2017)	<b>\$ 9,686,517</b>	<b>\$ 9,387,541</b>	<b>\$ 298,976</b>

### Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the Authority if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2017:

	1% Decrease (6.28%)	Current Discount Rate (7.28%)	1% Increase (8.28%)
<b>Net OPEB Liability</b>	\$1,871,002	\$298,976	\$(965,437)

### Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend Rates

The following presents the net OPEB liability of the Authority if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2017:

For The Year Ended June 30, 2018

## 8 OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

	<b>1% Decrease</b> (7.5% decreasing to 4.0% for year 2025 and thereafter)	<b>Current Healthcare Cost Trend Rates</b> (8.5% decreasing to 5.0% for year 2025 and thereafter)	<b>1% Increase</b> (9.5% decreasing to 6.0% for year 2025 and thereafter)
<b>Net OPEB Liability</b>	\$(1,246,819)	\$298,976	\$2,335,990

### **OPEB Plan Fiduciary Net Position**

The CERBT issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained from the California Public Employees' Retirement System, CERBT, P.O. Box 942703, Sacramento, CA 94429-2703.

### **Recognition of Deferred Outflows and Deferred Inflows of Resources**

Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time.

Amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense.

The recognition period differs depending on the source of the gain or loss:

Net difference between projected and actual earnings on OPEB plan investments	5 years
All other amounts	Expected average remaining service lifetime (EARSL) (7.9 Years at June 30, 2017)

### **OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB**

For the fiscal year ended June 30, 2018, West Basin recognized OPEB expense of \$448,719. As of fiscal year ended June 30, 2018, West Basin reported deferred outflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
OPEB contributions subsequent to measurement date	\$ 596,625	\$ -
Changes of assumptions	782,181	-
Differences between expected and actual experience	-	(181,052)
Net difference between projected and actual earnings on OPEB plan investments	-	(224,949)
<b>Total</b>	<b>\$ 1,378,806</b>	<b>\$ 406,001</b>

For The Year Ended June 30, 2018

## 8 OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

The \$596,625 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2017 measurement date will be recognized as a reduction of the net OPEB liability during the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources related to OPEB will be recognized as expense as follows:

<b>Fiscal Year Ended June 30:</b>	<b>Deferred Outflows/(Inflows) of Resources</b>
2019	\$ 30,884
2020	30,884
2021	30,884
2022	30,884
2023	87,121
Thereafter	165,524

## 9 COMMITMENTS AND CONTINGENCIES

West Basin has entered into various contracts for the purchase of materials, construction of the utility plant, professional and nonprofessional services. Certain amounts are based on the contractor's estimated cost to complete. At June 30, 2018, the total unpaid amount on these contracts is approximately \$62,900,000.

## 10 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 West Basin's Adjustable Rate Refunding Certificates of Participation at the time. This swap was executed and confirmed on June 8, 2004. In 2008, the District refinanced this Adjustable Rate Refunding Revenue Certificates of Participation and the swap was amended and restated as of June 6, 2008 for the original notional amount of \$22,875,000. The agreement is scheduled to terminate August 1, 2027 unless terminated earlier. Under the amended and restated swap transaction, West Basin pays a fixed rate of 3.662% and receives 65% of the British Bankers Association - London Interbank offered rate (BBA - LIBOR). West Basin engaged independent consultants with no vested interest in the swap transactions to perform the mark-to-market and fair value calculations of the swaps. The fair value of this swap was (\$1,041,770) as of June 30, 2018.

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 one of West Basin's Adjustable Rate Refunding Revenue Certificates of Participation at the time. This swap became effective on June 7, 2004. In 2008, the District refinanced the 2008A-2 Adjustable Rate Refunding Revenue Certificates of Participation and the swap was amended and restated as of May 22, 2008 for the original notional amount of \$18,175,000 and is scheduled to terminate August 1, 2021, unless terminated earlier. Under the amended and restated swap transaction, West Basin pays a fixed rate of 3.515% and receives the floating rate of 65% of BBA - LIBOR. The fair value of this swap was (\$186,071) as of June 30, 2018.

For The Year Ended June 30, 2018

## 10 SWAP TRANSACTION AGREEMENTS (CONTINUED)

In 2010, the District refinanced the 2008A Adjustable Rate Refunding Revenue Certificates of Participation. On October 27, 2016, the District refunded the 2010A Adjustable Rate Refunding Revenue Certificates of Participation with a Fixed Rate Revenue Certificates of Participation. The Series 2016A paid off the balance of the Series 2010A, resulting in the District having no outstanding variable rate debt. The variable rate Certificates of Participation program remains available to the District to draw upon and anticipates doing so to fund ongoing capital and/or project needs, and the current swaps would then be employed as a hedge against variable interest rate exposure. Based on GASB 53, the swaps are potential hedges currently deemed Investment Derivatives until associated with new variable debt.

The income approach is used to obtain the fair value of the swaps, where future amounts (the expected swap cash flows) are converted to a single current (discounted) amount, using a rate of return that takes into account the relative risk of nonperformance associated with the cash flows, and time value of money. Where applicable under the income approach, the option pricing model technique, such as the Black-Derman-Toy model, or other appropriate option pricing model is used. This valuation technique is applied consistently across all the swaps. Given the observability of inputs that are significant to the entire measurement, the fair values of the District swaps are categorized as Level 2.

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2018, classified by type, and the changes in fair value of such derivative instruments for the year then ended are as follows (amounts in thousands).

Derivative Instruments as of 6/30/2018  
(Debit (Credit))

	Change in Fair Value		Fair Value at		Notional
	Classification / Amount		June 30, 2018		
<b>Business-type activities</b>					
Investment derivative instruments:					
Pay-fixed interest rate swaps (WESTBASIN200406080001)	Investment revenue	\$ (586)	Investment	\$ (1,042)	\$ 12,375
Pay-fixed interest rate swaps (WESTBASIN200504260001)	Investment revenue	\$ (220)	Investment	\$ (186)	\$ 6,200

The fair value of each of the above interest rate swap agreements has been reported as a liability in the accompanying statement of net position. All derivatives are reported on the statement of net assets at fair value. On the refunding date, October 27, 2016, pursuant to GASB 53, West Basin terminated hedge accounting and the balance of the deferral account was cleared on the termination date. Change in fair value of the swaps from the refunding date is reported in the statement of activities as investment revenue or loss. On June 30, 2018 the change during the fiscal year resulted in a revenue gain of \$806,167.

Fair value values take into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction and any upfront payments that may have been received. All fair values were estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps. Fair values reflect the effect of non-performance risk, which includes the District's credit risk.

For The Year Ended June 30, 2018

## 10 SWAP TRANSACTION AGREEMENTS (CONTINUED)

### Terms of Derivative Instruments

The following table displays the terms of West Basin's hedging derivative instruments outstanding at June 30, 2018, along with the credit rating of the associated counterparty (amounts in thousands).

Type	Notional Amount	Effective Date	Maturity Date	Rate Paid	Rate Received	Bank Counterparty	Counterparty Ratings (Moody's/S&P/Fitch)
Pay-fixed interest rate swap	\$12,375	5/22/2008	8/1/2027	3.662%	65% of USD-LIBOR	Citibank, N.A., New York	A1/A+/A+
Pay-fixed interest rate swap	\$6,200	5/22/2008	8/1/2021	3.515%	65% of USD-LIBOR	Citibank, N.A., New York	A1/A+/A+

**Credit risk.** This is the risk that a counterparty will not fulfill its obligations. As of June 30, 2018, the District was not exposed to credit risk because the swaps had a negative mark-to-market value of \$1,227,841, meaning the counterparties are exposed to West Basin in the amount of the derivatives' mark-to-market values. However, should interest rates change and the mark-to-market values of the swaps become positive, West Basin would be exposed to credit risk. To minimize its potential exposure to loss related to credit risk, it is West Basin's policy to require counterparty collateral posting provisions in its swap transactions. These terms require full collateralization of the mark-to-market 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.

**Interest rate risk.** West Basin is exposed to interest rate risk on its interest rate swaps. On its pay-fixed, receive-variable interest rate swaps, as LIBOR and prevailing interest rates decrease, West Basin's net payments and liability mark-to-market value on the swap increases.

**Termination risk.** West Basin or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. In such event, West Basin may either receive or owe a payment to the counterparty. The amount and the direction of the payment are dependent on prevailing swap interest rates and it reflects the mark-to-market value of the swap at the time of such termination.

## 11 ASSOCIATED WITH WEST BASIN'S RECYCLED WATER PROGRAM

For West Basin's recycled water program, West Basin has entered into agreements with various entities that desire to use the recycled water that is produced by West Basin's recycled water treatment facilities.

These agreements entitle those parties to purchase a prescribed amount of recycled water. In return for access to such water, these parties have agreed to pay for the water actually supplied to that user at a rate annually established by West Basin for its recycled water customers.

Because of the significant contingencies associated with each of these agreements and in accordance with the revenue recognition criteria established for voluntary nonexchange transactions, capital contribution revenue and a related receivable was not accrued at the inception of the agreement.

For The Year Ended June 30, 2018

## 12 PRIOR PERIOD ADJUSTMENTS

The accompanying financial statements reflect the implementation of GASB Statement No. 75 which requires the reporting of the net OPEB liability of West Basin's OPEB plan in the financial statements and is applied retroactively by restating the net position as of the beginning of the fiscal year. Prior year financial information was not restated because the necessary actuarial information was not available. The beginning net position as restated as follows:

Beginning Net Position	\$ 255,653,300
GASB Statement No. 75	525,923
Beginning Net Position (as restated)	<u>\$ 256,179,223</u>

# REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2018  
Last Ten Fiscal Years\*

## Schedule of the Plan's Proportionate Share of the Net Pension Liability - PERS

	Misc. Plan Measurement Date <u>6/30/2017</u>	Misc. Plan Measurement Date <u>6/30/2016</u>	Misc. Plan Measurement Date <u>6/30/2015</u>	Misc. Plan Measurement Date <u>6/30/2014</u>
Proportion of the Collective Net Pension Liability	.01891%	.05546%	.04779%	.02024%
Proportionate Share of the Collective Net Pension Liability	\$ 745,354	\$ 1,926,502	\$ 1,311,119	\$ 1,259,725
Covered Payroll	\$4,586,588	\$4,389,575	\$4,335,349	\$ 3,867,694
Proportionate Share of the Collective Net Pension Liability as percentage of covered payroll	16.25%	43.89%	30.24%	32.57%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	95.2%	84.6%	87.6%	85.9%

### Notes to Schedule:

**Benefit changes.** The figures above do not include any liability impact that may have resulted from plan changes which occurred after the June 30, 2014 valuation date. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (aka Golden Handshakes).

**Changes in assumptions.** The discount rate was changed from 7.65 percent (net of administrative expense) to 7.15 percent.

\*Fiscal year 2015 was the first year of implementation, therefore only four years are shown.

## Schedule of Plan Contributions - PERS

	Misc. Plan Fiscal Year 2017-18	Misc. Plan Fiscal Year 2016-17	Misc. Plan Fiscal Year 2015-16	Misc. Plan Fiscal Year 2014-15
Actuarially Determined Contribution	\$ 659,118	\$ 613,167	\$ 622,460	\$ 711,101
Contributions in Relation to the Actuarially Determined Contribution	(659,118)	(2,226,416)	(622,460)	(711,101)
Contribution Deficiency (Excess)	-	(1,613,249)	-	-
Covered Payroll	\$ 5,522,647	\$ 4,586,588	\$ 4,389,575	\$ 4,335,349
Contributions as a Percentage of Covered Payroll	11.93%	13.37%	14.18%	16.40%

Year Ended June 30, 2018  
Last Ten Fiscal Years\*

**Notes to Schedule**

Fiscal Year End:	6/30/2018	6/30/2017	6/30/2016	6/30/2015
Valuation Date:	6/30/2015	6/30/2014	6/30/2013	6/30/2012

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age	Entry Age	Entry Age	Entry Age
Amortization Method	Level Percent of Payroll			
Asset Valuation Method	Market Value	Market Value	Market Value	Market Value
Discount Rate	7.65%	7.65%	7.65%	7.50%
Projected Salary Increase	3.30% to 14.20% depending on Age, Service, and type of employment	3.30% to 14.20% depending on Age, Service, and type of employment	3.30% to 14.20% depending on Age, Service, and type of employment	3.30% to 14.20% depending on Age, Service, and type of employment
Inflation	2.75%	2.75%	2.75%	2.75%
Payroll Growth	3.00%	3.00%	3.00%	3.00%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%.	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%.	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%.	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%.

\*Fiscal year 2015 was the first year of implementation; therefore, only four years are shown.

Year Ended June 30, 2018  
Last Ten Fiscal Years\*

**Defined Benefit Pension Plan - PARS**

**Schedule of Changes in Net Pension Liability and Related Ratios During the Measurement Period**

<b>Measurement Period</b>	<b>2016-17</b>	<b>2015-16</b>	<b>2014-15</b>	<b>2013-14</b>
<b>TOTAL PENSION LIABILITY</b>				
Service Cost	\$ 73,000	\$ 77,000	\$ 75,000	\$ 73,000
Interest	65,268	68,175	61,470	55,000
Changes of Benefit Terms	0	0	0	0
Difference between Expected and Actual Experience	0	(179,554)	0	0
Changes of Assumptions	0	0	0	0
Benefit Payments, Including Refunds of Employee Contributions	(14,633)	(14,346)	(18,745)	0
Net Change in Total Pension Liability	123,635	(48,725)	117,725	128,000
Total Pension Liability - Beginning	1,121,000	1,169,725	1,052,000	924,000
Total Pension Liability - Ending (a)	<u>\$1,244,635</u>	<u>\$1,121,000</u>	<u>\$1,169,725</u>	<u>\$1,052,000</u>
<b>PLAN FIDUCIARY NET POSITION</b>				
Contributions - Employer	\$ 76,000	\$ 87,000	\$ 90,583	\$ 115,000
Contributions - Employee	12,712	5,372	0	0
Investment Income	88,081	26,278	20,884	102,000
Administrative Expense	(22,240)	(36,201)	(23,956)	(33,000)
Benefit Payments, Including Refunds of Employee Contributions	(14,633)	(14,346)	(18,745)	0
Other Changes in Net Fiduciary Position	0	0	0	0
Net Change in Fiduciary Net Position	139,920	68,103	68,766	184,000
Plan Fiduciary Net Position - Beginning	1,391,312	1,323,209	1,254,443	1,070,000
Plan Fiduciary Net Position - Ending (b)	<u>\$1,531,232</u>	<u>\$1,391,312</u>	<u>\$1,323,209</u>	<u>\$1,254,000</u>
<b>PLAN NET PENSION LIABILITY - Ending (a) - (b)</b>				
	<u>\$ (286,597)</u>	<u>\$ (270,312)</u>	<u>\$ (153,484)</u>	<u>\$ (202,000)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	123.0%	124.1%	113.1%	119.2%
Covered Payroll	\$ 179,740	\$ 168,909	\$ 139,328	\$ 143,680
Plan Net Pension Liability as a Percentage of Payroll	-159.5%	-160.0%	-110.2%	-140.6%

Year Ended June 30, 2018  
Last Ten Fiscal Years\*

**Notes to Schedule:**

**Benefit Changes:** There were no changes to benefit terms specific to the plan.

**Changes of Assumptions:** There were no changes in assumptions.

\*Fiscal year 2015 was the first year of implementation; therefore, only four years are shown.

**Schedule of Plan Contributions - PARS**

	<u>Fiscal Year 2017-18</u>	<u>Fiscal Year 2016-17</u>	<u>Fiscal Year 2015-16</u>	<u>Fiscal Year 2014-15</u>
Actuarially Determined Contribution	\$ 78,000	\$ 76,000	\$ 87,000	\$ 92,026
Contributions in Relation to the Actuarially Determined Contribution	<u>(78,000)</u>	<u>(76,000)</u>	<u>(87,000)</u>	<u>(92,026)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 167,478	\$ 179,740	\$ 168,909	\$ 139,328
Contributions as a Percentage of Payroll	46.57%	42.28%	51.51%	66.04%

**Notes to Schedule**

Valuation date: June 30, 2016, rolled forward to June 30, 2017

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	15 years
Asset valuation method	Market value of assets
Inflation	3.0%
Salary increases	5.0%, average, including inflation of 3.0%
Investment rate of return	5.5%, net of pension plan investment expense, including inflation
Retirement Age	67 yrs.
Mortality	CalPERS 1997-2011 Experience Study

\*Fiscal year 2015 was the first year of implementation; therefore, only four years are shown.

Year Ended June 30, 2018  
 Last Ten Fiscal Years\*

**Schedule of Changes in Net OPEB Liability and Related Ratios for the Measurement Periods**

<b>Measurement Period</b>	<b>2016-17</b>
<b>TOTAL OPEB LIABILITY</b>	
Service Cost	\$ 406,900
Interest on the total OPEB liability	616,794
Actual and expected experience difference	(207,291)
Changes in assumptions	895,541
Changes in benefit terms	0
Benefit payments	(181,950)
Net Change in Total Pension Liability	<u>1,529,994</u>
Total OPEB Liability - Beginning	<u>8,156,523</u>
Total OPEB Liability - Ending (a)	<u><u>\$ 9,686,517</u></u>
<b>PLAN FIDUCIARY NET POSITION</b>	
Contributions - employer	\$ 410,213
Net investment income	891,549
Benefit payments	(181,950)
Administrative expense	(4,504)
Net Change in Fiduciary Net Position	<u>1,115,308</u>
Plan Fiduciary Net Position - Beginning	<u>8,272,233</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 9,387,541</u></u>
Net OPEB liability - ending (a) - (b)	<u><u>\$298,976</u></u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	96.9%
Covered-Employee Payroll	\$ 4,743,224
Net OPEB liability as a percentage of covered-employee payroll	6.30%

**Notes to Schedule:**

Historical information is required only for measurement periods for which GASB75 is applicable. Future years' information will be displayed up to 10 years as information becomes available.

Year Ended June 30, 2018  
Last Ten Fiscal Years\*

**Schedule of Plan Contributions - OPEB**

Fiscal Year Ended June 30	<b>2018</b>
Actuarially Determined Contribution	\$ 596,625
Contributions in Relation to the Actuarially Determined Contribution	(596,625)
Contribution Deficiency (Excess)	-
Covered-Employee Payroll	\$ 5,679,646
Contributions as a Percentage of Covered-Employee Payroll	10.5%

**Notes to Schedule:**

Actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2018 were from the June 30, 2017 actuarial valuation.

**Methods and assumptions used to determine contributions:**

Actuarial Cost Method	Entry Age Normal Cost, level percent of pay
Amortization Method/Period	Level percent of payroll over a closed rolling 15-year period
Asset Valuation Method	Market value of assets
Inflation	2.75%
Payroll Growth	3.25% per year, used only to allocate the cost of benefits between service years
Investment Rate of Return	7.00% per annum. Assumes investing in California Employers' Retiree Benefit Trust asset allocation Strategy 1
Health care-trend rates	7.0% initial, 1.0%-2.0% near term increase then decreasing 0.5% per year to trend rate that reflects medical price inflation.
Retirement Age	Tier 1 employees - 2.5% @55 and Tier 2 employees - 2.0% @62 The probabilities of Retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.
Mortality	Per-retirement mortality probability based on 2014 CalPERS 1997-2011 Experience Study covering CalPERS participants. Post-retirement mortality probability based on CalPERS Experience Study 2007-2011 covering participants in CalPERS.

\*Historical information is required only for measurement periods for which GASB75 is applicable. Future years' information will be displayed up to 10 years as information becomes available.

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# STATISTICAL





# STATISTICAL SECTION

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

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These schedules contain trend information to help the reader understand how West Basin’s financial performance has changed over time.

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# TABLE 1: NET POSITION

Last Ten Fiscal Years (In Thousands)

<b>Fiscal Year Ended June 30</b>	<b>Net Investment In Capital Assets</b>	<b>Unrestricted</b>	<b>Total Net Position</b>
	(1)		(1)
2009	135,653	66,928	202,581
2010	138,496	55,514	194,010 (2)
2011	142,314	58,122	200,436 (3)
2012	152,042	62,585	214,627
2013	174,081	54,470	228,551
2014	175,455	64,098	239,553 (4)
2015	155,923	75,248	231,171 (5)
2016	175,437	59,146	234,583
2017	180,967	74,686	255,653
2018	197,595	72,835	270,430 (6)

(1) In Fiscal Year 2013, West Basin adopted GASB No. 63, which reflects the name change on this table.

(2) Fiscal Year 2010 Beginning Net Position was restated for two reasons: (1) There was a deduction of \$3.6M in the Construction-In-Progress account due to less contribution from the U.S. Army Corps of Engineers and (2) Per GASB No. 53, the fair value of \$15.7M nonhedged swap at the end of the Fiscal Year 2009 was required to be recorded in Fiscal Year 2010.

(3) Fiscal Year 2011 Beginning Net Position was restated in Fiscal Year 2012 to reflect the deduction of \$1.2M in the Construction-In-Progress account from Fiscal Year 2008.

(4) In Fiscal Year 2014, West Basin adopted GASB No. 65, resulting in a prior year adjustment of \$3.5M to write off all bond issuance costs.

(5) Fiscal Year 2015 beginning Net Position was restated for two reasons: (1) Due to the implementation of GASB No. 68, a prior year adjustment of \$0.9M liability was recorded and; (2) Due to the internal review of the capital asset accounts, a prior year adjustment of \$9.2M was made to reduce capital assets account no longer in service.

(6) Fiscal Year 2018 Beginning Net Position was restated due to the implementation of GASB No. 75; \$525,823 net asset was added to the Beginning Net Position.

## TABLE 2: CHANGES IN NET POSITION

Last Ten Fiscal Years (In Thousands)

Fiscal Year Ended June 30	Operating Revenue (Loss)			Nonoperating Revenue (Loss)							Income (Loss) Before Contributions	Capital Contributions	Change in Net Position
	Operating Revenues	Operating Expenses	Operating Revenue (Loss)	Standby Charges	Investment Income	Realized Gain (Swap Termination)	Grant Income Misc. Inc (Exp) Loss on Disposal	Interest Expense	Change in Fair Value of Swap (Nonhedged)	Total Nonoperating Revenue (Loss)			
(1)	(2)			(3)	(4)	(5)	(6)	(7)			(8)		
2009	107,704	119,924	(12,220)	9,701	3,093	-	243	(13,848)	-	(811)	(13,032)	9,069	(3,963)
2010	130,623	138,786	(8,163)	9,679	1,426	-	(808)	(12,498)	5,702	3,501	(4,662)	15,319	10,657
2011	134,352	144,604	(10,252)	9,899	1,216	-	567	(12,038)	5,033	4,675	(5,577)	13,196	7,619
2012	146,147	147,932	(1,785)	9,632	1,323	4,916	546	(11,002)	-	5,413	3,631	10,560	14,191
2013	164,216	162,390	1,826	9,805	2,872	-	100	(9,209)	-	3,566	5,395	8,528	13,923
2014	179,224	180,710	(1,486)	9,683	234	-	272	(10,651)	-	(462)	(1,948)	16,447	14,499
2015	178,584	183,273	(4,689)	9,741	295	-	(122)	(11,139)	-	(1,225)	(5,914)	7,663	1,749
2016	177,192	177,763	(571)	9,655	506	-	(3,632)	(9,859)	-	(3,330)	(3,901)	7,302	3,401
2017	191,123	185,573	5,550	9,614	458	-	2,137	(8,161)	713	4,762	10,313	10,758	21,071
2018	204,923	193,347	11,576	10,038	848	-	(3,508)	(11,418)	806	(3,234)	8,342	5,909	14,251

(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) In Fiscal Year 2013, West Basin sold a \$12.1M guaranteed investment contract (GIC) investment for the 2003A Refunding Revenue Certificates of Participation debt service reserve fund and realized a gain of \$2.0M.

(4) In Fiscal Year 2012, one interest rate swap was terminated resulting in a \$4.9M realized gain.

(5) The District recognized \$3.8M, \$1.6M and \$4.0 loss from disposition of capital assets in Fiscal Year 2016, 2017 and 2018, respectively. Also in Fiscal Year 2017, the District wrote-off \$3.6M liability, this resulted in a \$3.6M Misc. revenue.

(6) The interest expense declined in Fiscal Year 2012 and 2013 due to refunding of the 2003A Refunding Revenue Certificates of Participation.

(7) In Fiscal Year 2010, 2011, 2017 and 2018, per GASB No. 53, the interest rate swap agreements did not conform to the hedge accounting criteria 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 position.

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

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# TABLE 3: OPERATING REVENUES BY SOURCE

Last Ten Fiscal Years (In Thousands)

Fiscal Year Ended June 30	Water Sales				Total
	Water and Monitoring	Water Recycling	Desalting	Conservation	
	(1)	(2)	(3)	(4)	
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
2013	129,607	32,629	879	1,101	164,216
2014	135,310	42,151	790	973	179,224
2015	136,762	40,386	700	736	178,584
2016	136,338	39,539	815	500	177,192
2017	145,048	45,401	281	393	191,123
2018	155,312	49,444	76	91	204,923

(1) Includes non-interruptible, seawater barrier, and Capacity Charge (CC). In Fiscal Year 2010, non-interruptible and seawater barrier water rate increased 21% over the prior year due to the rate adjustments made by Metropolitan Water District. In Fiscal Year 2015, the monitoring revenues were grouped within this line item.

(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. This incentive ended in Fiscal Year 2013. Sales were down in 2017 and 2018 due to the facility was shut down for major repairs.

(4) Monitoring revenue was grouped with Conservation in the prior years. In Fiscal Year 2015, it was reclassified to group with water revenue.

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## TABLE 4: OPERATING EXPENSES BY SOURCE

Last Ten Fiscal Years (In Thousands)

<b>Fiscal Year Ended June 30</b>	<b>Source of Supply &amp; Monitoring</b>	<b>Water Recycling Costs</b>	<b>Desalting Operations</b>	<b>Public Information and Education</b>	<b>Water Policy and Conservation</b>	<b>Project Planning</b>	<b>Depreciation and Amortization</b>	<b>Total Operating Expenses</b>
	(1)	(2)	(3)	(4)	(4)	(5)	(6)	
2009	76,153	21,528	481	4,476	1,096	-	16,190	119,924
2010	92,276	23,477	551	4,360	1,044	-	17,078	138,786
2011	94,855	25,277	668	4,643	893	-	18,268	144,604
2012	99,019	23,595	901	4,940	1,194	-	18,283	147,932
2013	110,530	27,103	892	4,731	1,612	-	17,522	162,390
2014	118,117	32,683	811	6,004	2,302	-	20,793	180,710
2015	116,723	34,512	870	2,906	3,163	-	25,099	183,273
2016	114,271	32,770	881	2,477	2,436	-	24,928	177,763
2017	118,289	35,651	592	2,754	3,001	-	25,286	185,573
2018	125,745	34,828	475	3,201	3,257	653	25,188	193,347

(1) Includes water purchases from Metropolitan Water District of Southern California, Capacity Charges, and Readiness-to-Serve. MWD increases are passed on to West Basin customers. Explanation of the fluctuations in source of supply is on Table 8 - "All Water Sold in Acre-Feet". In Fiscal Year 2015, monitoring program costs were added to this line item.

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

(3) Represents West Basin's costs to operate and maintain its brackish desalting facility.

(4) The fluctuation in Fiscal Year 2013 was the result of organizational restructuring. In Fiscal Year 2015, monitoring expense was reclassified to be grouped with source of supply.

(5) New category added in Fiscal Year 2018 to capture costs such as feasibility studies, district wide planning and canceled construction projects.

(6) Fiscal Year 2016 to 2018 amounts only represent depreciation expenses, amortization expenses are included in Interest Expense.

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# TABLE 5: CAPITAL CONTRIBUTIONS BY SOURCE

Last Ten Fiscal Years (In Thousands)

<b>Fiscal Year Ended June 30</b>	<b>Recycling Operations</b>	<b>U.S. Army Corps of Engineers</b>	<b>California Department of Water Resources</b>	<b>Other</b>	<b>Total</b>
	(1)	(2)	(3)	(4)	
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
2013	7,360	-	-	1,168	8,528
2014	7,296	-	-	9,151	16,447
2015	7,240	-	-	423	7,663
2016	7,156	-	6	140	7,302
2017	7,075	1,641	720	1,322	10,758
2018	5,909	-	-	-	5,909

(1) Recycling Operations - West Basin receives fixed payments from major recycled water customers based on contract terms. The capital costs of recycled water facilities are intended to cover the capital construction. Certain fixed payments will continue to Fiscal Year 2025, or until 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 from a grant with the U.S. Army Corps of Engineers. Prior period adjustment was made for Fiscal Year 2009 to reflect the correct contributions. To date, the total contributions received was \$35M.

(3) California Department of Water Resources (DWR) - West Basin received grants from the California Department of Water Resources to assist with the design and construction of the expansion to the Edward C. Little Water Recycling Facility as well as seawater desalination projects.

(4) Other - West Basin received contributions from other agencies such as Los Angeles Department of Water & Power, Andeavor (formerly Tesoro), Southern California Edison (SCE), and Metropolitan Water District of Southern California. In Fiscal Year 2014, West Basin received a capital reimbursement of \$8.3M from NRG for the facilities and pipelines built to meet their recycled water demand.

# TABLE 6: PAYORS - POTABLE WATER SALES

For the Current Year and Nine Years Prior (In Thousands)

Potable water sales to principal customers of West Basin  
(excluding the Meter Charges, Capacity Charges and Late Penalties)

NAME	2018	
	in US \$	%
California Water Service (CalWater)	\$ 73,431	49.1%
Golden State Water Company (GSWC)	28,781	19.2%
Los Angeles County Water Works (LA County)	11,821	7.9%
City of Inglewood	9,689	6.5%
City of El Segundo	9,597	6.4%
Water Replenishment District (WRD)	6,400	4.3%
City of Manhattan Beach	6,070	4.1%
City of Lomita	1,901	1.3%
California American Water Company (CAWC)	1,874	1.3%
<b>Total</b>	<b>\$149,564</b>	<b>100.0%</b>

NAME	2009	
	in US \$	%
California Water Service (CalWater)	\$40,416	50.1%
Golden State Water Company (GSWC)	11,588	14.4%
Water Replenishment District (WRD)	6,432	8.0%
Los Angeles County Water Works (LA County)	6,388	7.9%
City of El Segundo	5,701	7.1%
City of Inglewood	4,617	5.7%
City of Manhattan Beach	3,102	3.8%
City of Lomita	1,567	1.9%
California American Water Company (CAWC)	906	1.1%
<b>Total</b>	<b>\$80,717</b>	<b>100.0%</b>

# TABLE 7: PAYORS - RECYCLED WATER SALES

For the Current Year and Nine Years Prior (In Thousands)

Recycled water sales to principal customers of West Basin  
(excluding LRP rebate)

NAME	2018	
	in US \$	%
City of El Segundo	\$11,949	29.8%
Water Replenishment District (WRD)	10,908	27.2%
City of Torrance	7,445	18.6%
California Water Service (CalWater)	7,143	17.8%
City of Inglewood	985	2.5%
L.A. Dept of Water & Power	965	2.4%
Golden State Water Company (GSWC)	429	1.1%
City of Manhattan Beach	296	0.7%
<b>Total</b>	<b>\$40,120</b>	<b>100.0%</b>

NAME	2009	
	in US \$	%
City of El Segundo	\$5,624	34.9%
California Water Service (CalWater)	3,555	22.0%
Water Replenishment District (WRD)	3,505	21.7%
City of Torrance	2,631	16.3%
City of Inglewood	291	1.8%
L.A. Dept of Water & Power	206	1.3%
Golden State Water Company (GSWC)	177	1.1%
City of Manhattan Beach	110	0.7%
Inglewood Unified School District (1)	27	0.2%
<b>Total</b>	<b>\$16,126</b>	<b>100.0%</b>

(1) In fiscal year 2010 Inglewood unified school district purchased recycled water directly through the city of Inglewood and no longer is a direct customer to West Basin.

# TABLE 8: ALL WATER DELIVERED 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 Company Dominguez by West Basin, recycled water delivered to the retail agencies by West Basin and groundwater pumped by retail agencies from the West Coast Basin for the last ten fiscal years.

<b>Fiscal Year Ended June 30</b>	<b>Potable Water</b>						<b>All Water Deliveries</b>
	<b>Non- Interruptible</b>	<b>Ground- water</b>	<b>Saltwater Barrier</b>	<b>Total Potable Water</b>	<b>Recycled</b>	<b>Desalting</b>	
	(1)	(2)	(3)		(4)	(5)	
2009	114,294	43,835	9,774	167,903	29,908	682	198,493
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
2013	108,550	43,303	11,320	163,173	29,962	825	193,960
2014	111,659	42,294	9,285	163,238	36,720	817	200,775
2015	105,540	39,096	7,354	151,990	35,251	690	187,931
2016	103,638	31,635	3,681	138,954	35,003	779	174,736
2017	103,333	27,642	6,563	137,538	36,330	284	174,151
2018	106,601	33,917	7,740	148,257	37,060	50	185,367

(1) The decline in non-interruptible potable sales in Fiscal Year 2015 is the result of a statewide mandate to reduce consumption due to the prolonged drought.

(2) 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 and saltwater barrier water are affected by the amount of groundwater pumped.

(3) In Fiscal Year 2009 to 2014, recycled water sales have fluctuated due to poor source water or well and pipeline repairs performed by Los Angeles County. Reduction in potable barrier is expected with an increase in recycled water deliveries to the West Coast Barrier.

(4) In Fiscal Year 2009 to 2014, recycled water sales have fluctuated due to poor source water and other operational constraints. In Fiscal Year 2014, recycled water sales increased due to West Basin completion of the Phase V construction. The decrease in Fiscal Year 2015 was due to rehabilitation of the biofords and reduced capacity at one of the refineries.

(5) The Desalting operation was shut down sometime in Fiscal Year 2017 and 2018 due to major rehabilitation.

## TABLE 9: ALL WATER SALES TO CUSTOMERS IN ACRE-FEET

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.

	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
California American Water Company (CAWC)	1,436	809	712	902	1,019	667	238	415	428	1,397
California Water Service (CalWater)	68,164	65,422	61,127	62,797	65,185	70,679	70,361	57,367	58,216	60,431
City of El Segundo	17,773	19,666	16,522	17,848	17,144	16,681	17,387	16,782	16,482	16,335
City of Inglewood	7,817	7,173	7,545	8,327	9,021	9,028	8,174	7,458	7,127	8,117
City of Lomita	2,420	2,290	2,096	2,336	2,275	1,788	1,463	1,374	1,549	1,416
City of Manhattan Beach	5,073	3,565	3,359	3,757	3,863	3,849	3,496	3,738	4,582	4,788
City of Torrance	5,876	6,445	5,785	6,352	6,634	6,529	5,270	4,012	5,037	6,685
Golden State Water Company (GSWC)	18,280	16,634	16,352	15,399	11,637	16,516	12,622	25,791	24,272	21,830
Inglewood Unified School District (1)	63	56	-	-	-	-	-	-	-	-
Los Angeles County Water Works (LA County)	9,886	8,750	8,331	8,802	9,234	10,090	9,182	7,932	8,414	8,809
L.A. Dept of Water & Power	444	619	763	876	966	998	886	874	825	855
Water Replenishment District (WRD) (2)	17,426	20,851	20,854	14,587	23,679	21,657	19,757	17,358	19,577	20,788
Total (3)	<b><u>154,658</u></b>	<b><u>152,280</u></b>	<b><u>143,446</u></b>	<b><u>141,983</u></b>	<b><u>150,657</u></b>	<b><u>158,481</u></b>	<b><u>148,835</u></b>	<b><u>143,101</u></b>	<b><u>146,509</u></b>	<b><u>151,451</u></b>

(1) In Fiscal Year 2010, Inglewood Unified School District purchased recycled water directly from the City of Inglewood and no longer is a direct customer to West Basin.

(2) Sales decreased due to well & pipeline repairs in Fiscal Year 2012.

(3) Overall sales decreased from Fiscal Year 2009 to 2012 and again in Fiscal Year 2015 and FY 2016 due to local residents' response towards conservation/water efficiency programs to address drought conditions.

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# TABLE 10: RECYCLED WATER SALES IN ACRE-FEET

Last Ten Fiscal Years

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

<b>Fiscal Year Ended June 30</b>	<b>Number of Accounts</b>	<b>Chevron Refinery</b>	<b>Torrance Refinery</b>	<b>Andeavor Refinery</b>	<b>Total Refineries</b>	<b>West Coast Barrier</b>	<b>Disinfected Tertiary</b>	<b>Total</b>
		(1)	(1)	(1)	(2)	(3)		
2009	310	8,478	5,578	4,759	18,815	7,652	3,441	29,908
2010	340	8,492	6,146	4,708	19,346	7,797	3,537	30,680
2011	359	6,163	5,538	3,973	15,674	7,320	3,425	26,419
2012	376	6,397	6,060	5,019	17,476	6,530	3,653	27,659
2013	390	7,146	6,348	5,208	18,702	6,622	4,638	29,962
2014	394	7,891	6,167	5,572	19,630	12,372	4,718	36,720
2015	404	8,635	4,887 (4)	5,024	18,546	12,403	4,302	35,251
2016	424	8,290	3,596 (4)	5,183	17,070	13,677	4,256	35,003
2017	436	8,978	4,725	5,571	19,273	13,014	4,043	36,330
2018	475	8,454	6,231	4,751	19,436	13,047	4,577	37,060

(1) Chevron refinery is located in the city of El Segundo, Torrance Refining Company (formerly Exxon Mobil Refinery) is located in Torrance, and Andeavor (Formerly BP Amoco & Tesoro) is located in Carson.

(2) Recycled Water Sales include deliveries to refineries for nitrification, low and high pressure boiler feed. In Fiscal Year 2011, sales to all refineries were decreased due to water quality issues.

(3) Recycled water sales decreased in Fiscal Year 2009 to 2011 due to poor source water quality. In Fiscal Year 2014, sales increased due to the completion of the Phase V project.

(4) Sales to the Torrance Refining Company decreased in Fiscal Year 2015 and 2016 due to refurbishment of the biofilters.

# TABLE 11: AVERAGE WATER RATES PER ACRE-FOOT

Last Ten Fiscal Years

<b>Type of Water</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>Purchased from MWD (1)</b>										
Non-interruptible	\$650	\$773	\$898	\$994	\$1,063	\$1,132	\$1,188	\$1,242	\$1,301	\$1,343
Saltwater Barrier	650	773	898	994	1,063	1,132	1,188	1,242	1,301	1,343
Seasonal Storage - LT	454	547	645	721	865	-	-	-	-	-
<b>West Basin Recycled Water (2)</b>										
Recycled - Disinfected Tertiary	\$438	\$600	\$686	\$775	\$840	\$908	\$955	\$1,005	\$1,069	\$1,105
Recycled - Disinfected Tertiary OSA	480	642	728	817	882	950	997	1,047	1,111	1,147
Recycled - Barrier	458	501	540	553	565	578	586	605	618	836
Recycled - Low Pressure Boiler Feed	722	913	914	1,003	1,068	1,136	1,183	1,233	1,297	1,333
Recycled - High Pressure Boiler Feed	954	1,195	1,270	1,359	1,424	1,492	1,539	1,589	1,653	1,689
Recycled - Nitrified	418	577	666	755	820	888	935	985	1,049	1,085
<b>West Basin Desalting Plant (3)</b>										
Desalted Water	\$608	\$723	\$746	\$792	\$840	\$978	\$1,019	\$1,048	\$1,078	\$1,106

(1) MWD Water rates are comprised of three components: Metropolitan Water District of Southern California (MWD) commodity charge, West Basin's reliability service charge, and the Readiness-to-Serve (RTS) Charge. The rates presented above represent the average rates for the period due to MWD changing its rates effective January 1st each year. In December 2012, MWD discontinued the Long-Term (LT) Seasonal Storage Program.

(2) West Basin Recycled Water Rates exclude MWD's Local Resources Program incentive of \$250 per acre-foot of recycled water sold. For Disinfected Tertiary 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.

(3) West Basin Desalting Plant Rates exclude MWD's Groundwater Recovery Program incentive of \$250 per acre-foot of desalting water sold. This incentive ended in Fiscal Year 2013.

West Basin adopts its water rates annually by resolution.

# TABLE 12: IMPORTED WATER RATES

For The Years Ended June 30, 2017 and 2018

Tables below delineate the fiscal years ended June 30, 2017 and 2018 water rates for West Basin and Metropolitan Water District of Southern California (MWD).

	<u>MWD</u>	<u>Readiness-to-Serve Charge</u>	<u>West Basin Reliability Service Charge</u>	<u>Total</u>
<b>Fiscal Year Ended June 30, 2017</b>				
<i>July 1, 2016 to December 31, 2016</i>				
Non-Interruptible & Barrier (Tier 1)	\$942	\$118	\$223	\$1,283
Non-Interruptible & Barrier (Tier 2)	1,076	118	223	1,417
<i>January 1, 2017 to June 30, 2017</i>				
Non-Interruptible & Barrier (Tier 1)	\$979	\$116	\$223	\$1,318
Non-Interruptible & Barrier (Tier 2)	1,073	116	223	1,412
<b>Fiscal Year Ended June 30, 2018</b>				
<i>July 1, 2017 to December 31, 2017</i>				
Non-Interruptible & Barrier (Tier 1)	\$979	\$116	\$237	\$1,332
Non-Interruptible & Barrier (Tier 2)	1,073	116	237	1,426
<i>January 1, 2018 to June 30, 2018</i>				
Non-Interruptible & Barrier (Tier 1)	\$1,015	\$102	\$237	\$1,354
Non-Interruptible & Barrier (Tier 2)	1,101	102	237	1,440

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# 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 certificates of participation, state loan and refunding revenue bonds.

Fiscal Year Ended June 30	TOTAL DEBT			CAPITAL ASSETS			Total Debt/ Capital Assets
	Certificates of Participation & Revenue Bonds	State Loan	Total LT Debt	Capitalized Assets	Construction- in-Progress	Total Capital Assets	
(1)				(2)	(3)		
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	327,023	-	327,023	520,501	103,279	623,780	0.52
2013	338,686	-	338,686	527,816	135,530	663,346	0.51
2014	329,755	-	329,755	590,272	63,152	653,424	0.50
2015	312,682	-	312,682	590,732	75,144	665,876	0.47
2016	295,831	-	295,831	599,282	79,015	678,297	0.44
2017	292,377	-	292,377	611,438	88,061	699,499	0.42
2018	279,300	-	279,300	610,271	109,785	720,056	0.39

(1) Beginning with Fiscal Year 2012, premiums on outstanding revenue bonds and certificates of participation have been included in the outstanding debt along with the outstanding principal balances.

(2) See details at "General Operating Information".

(3) Amounts include all of West Basin's Construction-in-Progress projects. Adjustments were made in Fiscal Year 2009 to reflect the decreases in value of contributed projects from the U.S. Army Corps of Engineers.

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# TABLE 14: DEBT PER CAPITA

Last Ten Fiscal Years

Table below provides an overview of the ratio of the total debt outstanding as compared to West Basin's service area total population as of fiscal year-end.

<b>Fiscal Year Ended June 30</b>	<b>Total LT Debt</b>	<b>West Basin Population</b>	<b>Debt Per Capita</b>
	(1)		
2009	295,436,000	840,260	352
2010	296,138,000	853,377	347
2011	301,490,000	857,545	352
2012	327,023,000	861,545	380
2013	338,686,000	865,882	391
2014	329,755,000	870,219	379
2015	312,682,000	874,219	358
2016	295,831,000	877,798	337
2017	292,377,000	881,392	332
2018	279,300,000	885,001	316

(1) Numbers are rounded to the nearest thousand.

# TABLE 15: ANNUAL DEBT PAYMENTS TO EXPENSES

Last Ten Fiscal Years (In Thousands)

<b>Fiscal Year Ended June 30</b>	<b>Principal Payments</b>	<b>Interest Payments</b>	<b>Total Debt Payment</b>	<b>Operating Expenses</b>	<b>Ratio Debt/ Expenses</b>
	(1)	(1)	(2)		
2009	9,483	12,766	22,249	119,924	0.19
2010	9,298	12,773	22,071	138,786	0.16
2011	10,448	11,989	22,437	144,604	0.16
2012	86,072	10,317	96,389	147,932	0.65
2013	12,410	8,612	21,022	162,390	0.13
2014	5,760	10,478	16,238	180,710	0.09
2015	15,592	13,569	29,161	183,273	0.16
2016	15,370	13,031	28,401	177,763	0.16
2017	36,599	12,120	48,719	185,573	0.26
2018	10,610	12,739	23,349	193,347	0.12

(1) Data obtained from the Statement of Cash Flows. Principal payments were high in Fiscal Year 2012 and 2017 due to the refundings.

(2) In Fiscal Year 2014, the Debt Payment decreased due to refunding of the 2003A Refunding Revenue Certificates of Participation.

# TABLE 16: STANDBY CHARGE AND CAPITAL FIXED PAYMENTS

Last Ten Fiscal Years (In Thousands)

Standby Charges and Capital Fixed Payments are both revenues to West Basin. West Basin uses them to pay the debts incurred for the constructions and improvements of its recycled water facilities. For the past ten years, majority 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.

<b>Fiscal Year Ended June 30</b>	<b>Standby Charge</b>	<b>Capital Fixed Payments</b>	<b>Total</b>	<b>Debt Payment Cash Basis</b>	<b>% of Debt Service</b>
	(1)	(2)		(3)	
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	96,389	18%
2013	9,805	7,360	17,165	21,022	82%
2014	9,683	7,296	16,979	16,238	105%
2015	9,741	7,240	16,981	29,161	58%
2016	9,655	7,156	16,811	28,401	59%
2017	9,614	7,075	16,689	48,719	34%
2018	10,038	5,909	15,947	23,349	68%

(1) Approved annually by the Board, the Standby Charge is imposed by West Basin on land owners within its service area. 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 and treatment facilities.

(2) Capital Fixed Payments are paid by Andeavor (formerly Tesoro), Chevron, Torrance Refining Company, 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 Contribution in the basic financial statements, see Table 5 - "Capital Contribution By Source".

(3) During Fiscal Year 2013, West Basin refunded its 2003A Refunding Revenue Certificates of Participation which resulted in a lower debt payment in Fiscal Year 2014. Breakdown is shown on Table 15 - "Annual Debt Service to Expenses".

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# TABLE 17: DEBT COVERAGE

Last Ten Fiscal Years (In Thousands, Except For Debt Coverage)

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Changes in Net Position (1)	(\$3,963)	\$10,657	\$7,619	\$14,191	\$13,923	\$14,499	\$1,749	\$3,401	\$21,071	14,251
Add: Interest Expense	13,848	12,498	12,038	11,002	9,209	10,651	11,139	9,859	8,161	11,418
Add: Depreciation/Amortization	16,190	17,078	18,268	18,283	17,522	20,793	25,099	24,928	25,286	25,188
Less: Non-cash items (2)	(1,446)	(11,579)	(9,109)	(6,805)	(133)	(550)	764	3,652	(936)	3,436
Net Revenues for Coverage	<u>\$24,629</u>	<u>\$28,654</u>	<u>\$28,816</u>	<u>\$36,671</u>	<u>\$40,521</u>	<u>\$45,393</u>	<u>\$38,751</u>	<u>\$41,840</u>	<u>\$53,582</u>	<u>\$54,293</u>
Parity Debt Service (3)	16,595	16,078	16,517	16,115	17,790	17,205	17,695	13,646	17,821	19,422
Reserve Fund Earnings	(767)	(762)	(762)	(763)	(681)	170	(1)	(2)	(6)	(9)
Total Net Senior Debt Service	<u>\$15,828</u>	<u>\$15,316</u>	<u>\$15,755</u>	<u>\$15,352</u>	<u>\$17,109</u>	<u>\$17,375</u>	<u>\$17,694</u>	<u>\$13,644</u>	<u>17,815</u>	<u>19,413</u>
<b>Debt Coverage</b>	<u><b>1.51</b></u>	<u><b>1.82</b></u>	<u><b>1.78</b></u>	<u><b>2.34</b></u>	<u><b>2.33</b></u>	<u><b>2.62</b></u>	<u><b>2.19</b></u>	<u><b>3.07</b></u>	<u><b>3.01</b></u>	<u><b>2.80</b></u>
Subordinate Debt Service (3)	6,897	7,624	7,968	8,817	9,056	8,993	9,017	9,058	5,774	4,120
Reserve Fund Earnings	(2)	-	-	-	-	-	-	-	-	(1)
Total Net Subordinate Debt Service	<u>\$6,895</u>	<u>\$7,624</u>	<u>\$7,968</u>	<u>\$8,817</u>	<u>\$9,056</u>	<u>\$8,993</u>	<u>\$9,017</u>	<u>\$9,058</u>	<u>\$5,774</u>	<u>\$4,119</u>
<b>Debt Coverage</b>	<u><b>1.17</b></u>	<u><b>1.66</b></u>	<u><b>1.54</b></u>	<u><b>2.33</b></u>	<u><b>2.51</b></u>	<u><b>3.13</b></u>	<u><b>2.34</b></u>	<u><b>3.11</b></u>	<u><b>6.19</b></u>	<u><b>8.47</b></u>
<b>All-In Debt Coverage</b>	<u><b>1.09</b></u>	<u><b>1.26</b></u>	<u><b>1.22</b></u>	<u><b>1.52</b></u>	<u><b>1.55</b></u>	<u><b>1.73</b></u>	<u><b>1.45</b></u>	<u><b>1.84</b></u>	<u><b>2.27</b></u>	<u><b>2.31</b></u>
Cash Available for Additional Subordinate Debt Service, Capital Projects and Other Purposes	\$1,906	\$5,714	\$5,093	\$12,502	\$14,356	\$19,025	\$12,040	\$19,138	\$29,993	\$30,761

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

(2) Non-cash items represent grant funding from the U.S. Army Corps of Engineer, unrealized gains/losses, change in fair value of swap instruments, loss on disposition of assets, and nonroutine litigation settlements.

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

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# TABLE 18: TEN LARGEST EMPLOYERS WITHIN WEST BASIN SERVICE AREA

Calendar Year 2017 And Nine Years Prior

<b>Employer</b>	<b>2017 Number of Employees</b>	<b>Rank</b>	<b>2008 Number of Employees</b>	<b>Rank</b>
	(1)			
Northrop Grumman Corporation	9,685	1	13,824	1
Raytheon Company	5,037	2	7,591	3
Space Exploration Technologies Aerospace Corporation	4,781	3	0	10
Palos Verdes Peninsula Unified School District	3,500	4	8,901	2
Sony Pictures Entertainment	3,161	5	1,970	5
Target	3,000	6	2,020	4
Mattel, Inc.	1,981	7	1,591	7
Accenture	1,719	8	1,771	6
Westfield Shoppingtown-Fox Hills	1,636	9	684	9
	1,500	10	1,500	8
Total Employment Within West Basin's Service Area (2):				Not Available
Percentage of Each Employer of Total Employment Within West Basin Service Area (2):				Not Available

(1) Most current available data.

(2) 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 not provide each employer's percentage of the total employment.

# TABLE 19: POPULATION AND ECONOMIC STATISTICS

Last Ten Calendar Years

<b>Calendar Year</b>	<b>West Basin Population</b>	<b>LA County Population</b>	<b>Personal Income (In Thousands)</b>	<b>Per Capita Personal Income</b>	<b>Unemployment Rate</b>
	(1)	(2)	(2)	(2)	(3)
2009	840,260	9,787,400	411,495,352	42,043	11.60%
2010	853,377	9,826,773	424,813,015	43,234	12.5%
2011	857,545	9,889,056	454,935,533	45,969	12.2%
2012	861,545	9,951,690	486,733,508	48,818	10.9%
2013	865,882	10,017,068	483,578,594	48,140	9.8%
2014	870,219	10,069,036	512,846,779	50,730	8.2%
2015	874,219	10,170,292	544,324,900	53,521	6.6%
2016	877,798	10,137,915	563,907,868	55,624	5.3%
2017	870,000	-	-	-	4.7%
2018	885,001	-	-	-	-

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

(2) Data obtained from the Bureau of Economic Analysis. Other information for Calendar year 2017 through 2018 is not available.

(3) Data obtained from the State of California Employment Development Department for Los Angeles County.

# DEMOGRAPHICS

## Service Area

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Estimated Total Population Served	885,001
Area	185 square miles

Division I - Represented by Harold C. Williams  
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 Scott Houston  
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

## Customers

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Number of Direct Customers	11
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West Basin's direct 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

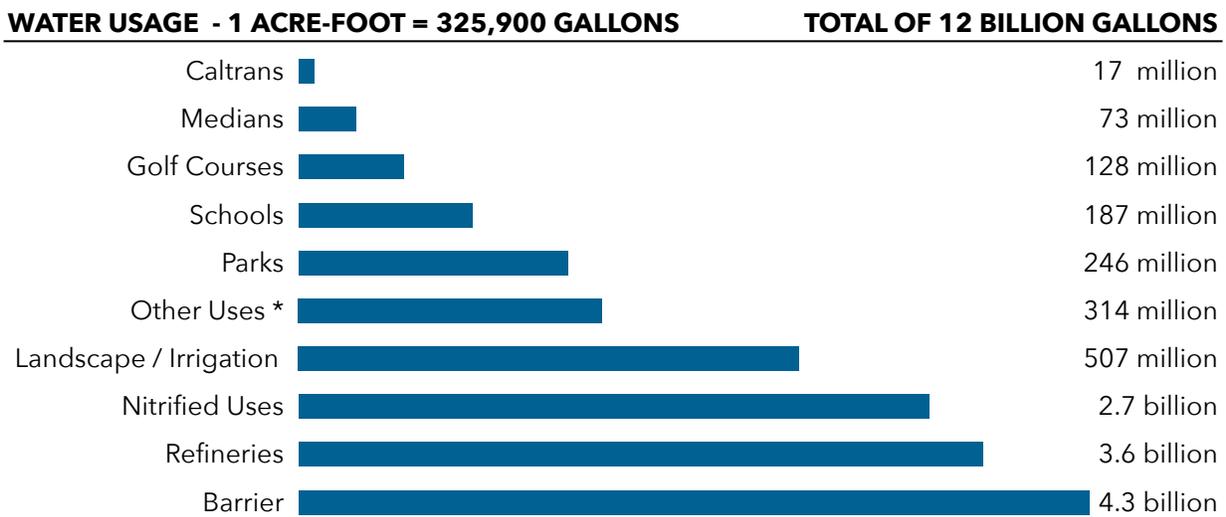
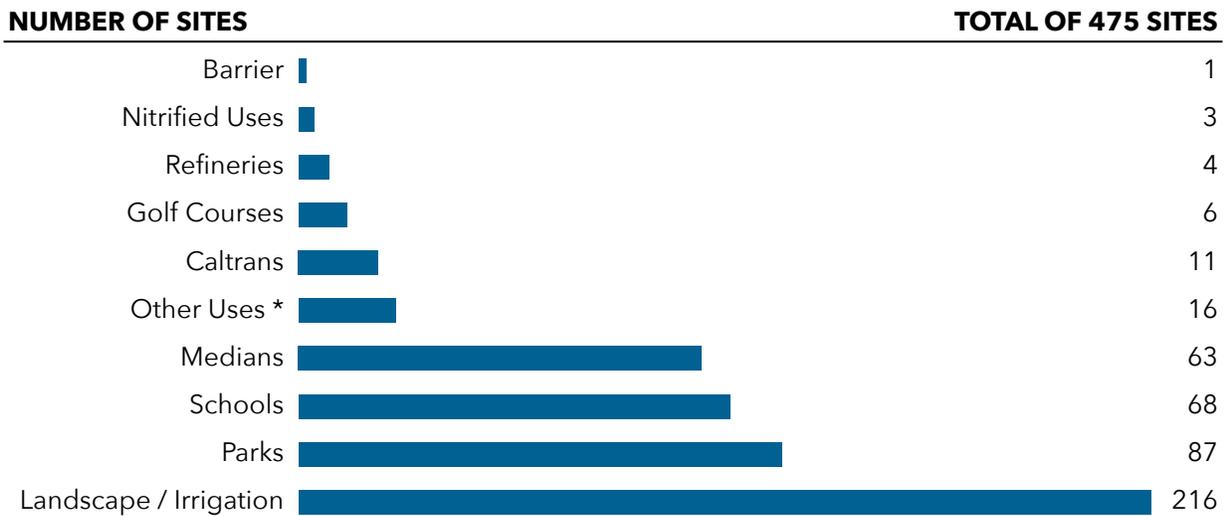
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Potable Water (including desalting & groundwater)	148,308 acre-feet
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Recycled Water	37,060 acre-feet
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# RECYCLED WATER USERS

Fiscal Year Ended June 30, 2018



Other Uses \*

- Cemetery use
- Multi-industrial / irrigation use
- Construction use
- College use
- Draining / Sump Pumps use

# GENERAL OPERATING INFORMATION

Fiscal Year Ended June 30, 2018

## **NUMBER OF BUDGETED FULL-TIME PERSONNEL EXCLUDES LIMITED TERM**

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2009	33
2010	34
2011	36
2012	36
2013	38
2014	40
2015	41
2016	43
2017	45
2018	50

## **CERTIFICATIONS AND LICENSES HELD BY DISTRICT EMPLOYEES**

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Professional Engineer	11
Certified Public Accountant	3
Licensed attorneys	1
Masters Degree	17
Doctorate Degree	1
State Water Certification:	
Distribution Operator	6
Treatment Plant Operator	7

# GENERAL OPERATING INFORMATION (CONT)

Fiscal Year Ended June 30, 2018

## CAPITAL ASSETS (IN THOUSANDS)

	<u>Recycling Facilities</u>	<u>Desalting</u>	<u>Machinery &amp; Equipment</u>	<u>Construction- in-Progress</u>	<u>Admin. Facility</u>	<u>West Basin Capital Assets</u>
						(1)
2009	474,281	3,700	1,025	29,362	4,014	512,382
2010	486,401	3,794	2,491	39,395	4,035	536,116
2011	493,065	5,299	3,761	59,081	4,941	566,147
2012	506,311	4,904	3,775	103,279	5,511	623,780
2013	513,437	4,904	3,911	135,530	5,564	663,346
2014	576,537	4,041	3,349	63,152	6,345	653,424
2015	576,941	4,059	3,376	75,144	6,356	665,876
2016	585,211	4,079	3,625	79,015	6,367	678,297
2017	597,046	4,079	3,941	88,061	6,372	699,499
2018	597,661	4,079	2,242	109,785	6,289	720,056

(1) Excludes accumulated depreciation. Total Capital Assets decreased in Fiscal Year 2014 as a result of a prior period adjustment in Fiscal Year 2015 due to the write-off of \$27M of capital assets that were either disposed or no longer in service.





# **WEST BASIN MUNICIPAL WATER DISTRICT**

17140 S. AVALON BLVD. , SUITE 210 | CARSON, CA 90746 | [WESTBASIN.ORG](http://WESTBASIN.ORG)