

WEST AND CENTRAL BASIN FINANCING AUTHORITY

NOVEMBER 16, 2006 - Finance/Administration  
Hawkins, Apodaca

NOVEMBER 28, 2006 - Board Meeting

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Submitted by: Aileen Hermoso

Approved by: Art Aguilar

CONSENT CALENDAR

FINAL ANNUAL INDEPENDENT AUDIT FOR FISCAL YEAR 2005-06

SUMMARY:

The annual audit of the financial statements for the West and Central Basin Financing Authority (the Authority) has been completed for the fiscal year ended June 30, 2006. Staff presented the draft for review at the Central Basin Finance/Administration Committee on October 11. The audit is complete and will be finalized with the Board's approval.

Based on our discussions with staff of West Basin Municipal Water District, this will be presented to the West Basin Board in November.

Based upon Leaf & Cole, LLP's final audit report, no management comment letter was issued.

FISCAL IMPACTS:

None.

ENVIRONMENTAL COMPLIANCE:

None.

COMMITTEE STATUS:

This item was reviewed by the Finance/Administration Committee on November 16, 2006 and was agendaized to the November 28, 2006 Board meeting Consent Calendar.

RECOMMENDED MOTION:

Receive and file.

LIST OF EXHIBITS:

EXHIBIT "A" - Final Audit Report

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# **EXHIBIT “A”**

#5  
9/20/06

**WEST AND CENTRAL BASIN  
FINANCING AUTHORITY  
FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005**

draft



**WEST AND CENTRAL BASIN FINANCING AUTHORITY  
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JUNE 30, 2006 AND 2005**

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**Draft**



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## Independent Auditor's Report

To the Board of Directors  
West and Central Basin Financing Authority

We have audited the accompanying statements of net assets of West and Central Basin Financing Authority at June 30, 2006 and 2005, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of West and Central Basin Financing Authority at June 30, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America, as well as the accounting systems prescribed by the State Controller's Office and State regulations governing Special Districts.

The Management's Discussion and Analysis on pages 2 through 5 is not a required part of the financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

San Diego, California  
July 21, 2006

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the West and Central Basin Financing Authority's ("Authority") financial performance provides an overview of the Authority's financial activities for the years ended June 30, 2006 and 2005. Please read it in conjunction with the Authority's financial statements, which follow this section.

### **Financial Statements**

This discussion and analysis provides an introduction and a brief description of the Authority's financial statements, including the relationship of the statements to each other and the significant differences in the information they provide. The Authority's financial statements include four components:

- . Statement of Net Assets
- . Statement of Revenues, Expenses and Changes in Net Assets
- . Statement of Cash Flows
- . Notes to the Financial Statements

The statement of net assets includes all the Authority's assets and liabilities, with the difference between the two reported as net assets. Net assets may be displayed in the categories:

- . Invested in Capital Assets, Net of Related Debt
- . Restricted Net Assets
- . Unrestricted Net Assets

The statement of net assets provides the basis for evaluating the capital structure and assessing the liquidity and financial flexibility of the Authority.

The statement of revenues, expenses and changes in net assets presents information which shows how the Authority's net assets changed during the year. All of the current year's revenues and expenses are recorded when the underlying transaction occurs, regardless of the timing of the related cash flows. The statement of revenues, expenses and changes in net assets measures the success of the Authority's operations over the past year and determines whether the Authority has recovered its costs.

The statement of cash flows provides information regarding the Authority's cash receipts and cash disbursements during the year. This statement may report cash activity in four categories:

- . Operations
- . Investing
- . Capital financing
- . Noncapital financing

This statement differs from the statement of revenues, expenses and changes in net assets because the statement accounts only for transactions that result in cash receipts or cash disbursements.

The notes to the financial statements provide a description of the accounting policies used to prepare the financial statements and present material disclosures required by generally accepted accounting principles that are not otherwise present in the financial statements.

**Financial Highlights**

During the year ended June 30, 2006, the Authority's total assets decreased by \$750,268 which primarily represents a reduction of restricted assets and the payment of long-term debt. The Authority's total revenues increased \$4,118 while total expenses increased \$4,118. During the year ended June 30, 2006, operating expenses exceeded operating revenues by \$650,132 as compared to \$607,390 in the prior year. On the other hand, nonoperating revenues exceeded nonoperating expenses by \$650,132 for the year ended June 30, 2006 as compared to \$607,390 in the prior year.

**Financial Analysis of the Financial Statements**

**Net Assets**

Total assets and total liabilities decreased this year by \$750,268. These decreases represent the Authority's reduction of restricted assets and the related long-term debt. The following is a summary of the Authority's statement of net assets at June 30:

	<u>2006</u>	<u>2005</u>	<u>Change</u>
<b><u>Assets:</u></b>			
Current assets	\$ 504,631	\$ 428,986	\$ 75,645
Capital assets	2,884,156	3,138,922	(254,766)
Noncurrent assets	<u>20,661,397</u>	<u>21,232,544</u>	<u>(571,147)</u>
Total Assets	<u>\$24,050,184</u>	<u>\$24,800,452</u>	<u>\$(750,268)</u>
<b><u>Liabilities:</u></b>			
Current liabilities	\$ 78,960	\$ 66,889	\$ 12,071
Liabilities payable from restricted assets	3,476,287	3,457,412	18,875
Long-term debt	<u>20,494,937</u>	<u>21,276,151</u>	<u>(781,214)</u>
Total Liabilities	<u>\$24,050,184</u>	<u>\$24,800,452</u>	<u>\$(750,268)</u>
<b><u>Net Assets</u></b>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

**Financial Analysis of the Financial Statements (Continued)**

**Revenues, Expenses and Changes in Net Assets**

The Authority reported total revenues of \$2,066,373 and total expenses of \$2,066,373 for the year ended June 30, 2006, an increase of \$4,118 when compared to the year ended June 30, 2005. The increases are related to the repayment of the long-term debt. The following is a summary of the Authority's statement of revenues, expenses and changes in net assets at June 30:

	<u>2006</u>	<u>2005</u>	<u>Change</u>
Operating revenues	\$ 109,637	\$ 109,835	\$ (198)
Nonoperating revenues	<u>1,956,736</u>	<u>1,952,420</u>	<u>4,316</u>
Total Income	<u>2,066,373</u>	<u>2,062,255</u>	<u>4,118</u>
Operating expenses	759,769	717,225	42,544
Nonoperating expenses	<u>1,306,604</u>	<u>1,345,030</u>	<u>(38,426)</u>
Total Expenses	<u>2,066,373</u>	<u>2,062,255</u>	<u>4,118</u>
Change in Net Assets	-0-	-0-	-0-
Net Assets at Beginning of Year	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
NET ASSETS AT END OF YEAR	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

**Capital Assets**

At June 30, 2006, the Authority had invested \$4,165,543 in capital assets, including land, buildings, building improvements, and furniture and equipment. This amount represents a decrease of \$1,052,715, when compared to the prior year. For the year ended June 30, 2006, additions in capital assets included building improvements of \$4,498 and furniture and equipment of \$3,171. Current year decreases of \$1,060,384 are due to the transfer of furniture and equipment to Central Basin Municipal Water District and West Basin Municipal Water District. The following is a summary of the capital assets at June 30:

	<u>2006</u>	<u>2005</u>	<u>Change</u>
Capital Assets Not Being Depreciated:			
Land	\$ <u>401,650</u>	\$ <u>401,650</u>	\$ <u>-0-</u>
Capital Assets Being Depreciated:			
Buildings	2,687,967	2,687,967	-0-
Building improvements	1,055,181	1,050,683	4,498
Furniture and equipment	<u>20,745</u>	<u>1,077,958</u>	<u>(1,057,213)</u>
	<u>3,763,893</u>	<u>4,816,608</u>	<u>(1,052,715)</u>
Total Capital Assets	<u>\$4,165,543</u>	<u>\$5,218,258</u>	<u>\$(1,052,715)</u>

### **Long-Term Debt**

At June 30, 2006 the Authority had \$23,220,000 in long-term debt, consisting of revenue bonds. The Authority made principal payments on long-term debt totalling \$860,000 for the year ended June 30, 2006. More detailed information about the Authority's long-term debt is presented in Note 5 to the financial statements.

### **Economic Factors and Budget**

The Authority's Board of Directors has approved an operating budget for the June 30, 2007 fiscal year. The budgeted operating expenses total \$542,712 for the year ended June 30, 2007.

In December 2005, Central Basin Municipal Water District ("Central Basin") entered into an agreement for the proposed refunding of the Authority's revenue bonds (Central Basin Refunding Project), Series 1997A.

### **Contacting the Authority's Financial Manager**

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

**WEST AND CENTRAL BASIN FINANCING AUTHORITY  
STATEMENTS OF NET ASSETS  
JUNE 30, 2006 AND 2005**

ASSETS	<u>2006</u>	<u>2005</u>
<b><u>Current Assets:</u></b> (Notes 1 and 2)		
Cash and cash equivalents	\$ 449,442	\$ 424,521
Accrued interest receivable	5,098	2,827
Accounts receivable	49,541	1,088
Prepaid expenses	<u>550</u>	<u>550</u>
Total Current Assets	<u>504,631</u>	<u>428,986</u>
<b><u>Noncurrent Assets:</u></b>		
<b><u>Restricted Assets:</u></b> (Notes 1, 2 and 3)		
Cash and cash equivalents	177,614	129,333
Investments	1,935,000	1,983,760
Accrued interest receivable on cash and investments	7,908	7,908
Installment Purchase Agreements - Central Basin Municipal Water District	16,035,011	16,895,011
Accrued interest receivable on Installment Purchase Agreements	437,159	483,046
Accounts receivable - West Basin Municipal Water District	633,138	504,784
Accounts receivable - Central Basin Municipal Water District	<u>1,280,759</u>	<u>1,064,269</u>
Total Restricted Assets	<u>20,506,589</u>	<u>21,068,111</u>
<b><u>Capital Assets</u></b> (Notes 1, 4, and 5)	<u>2,884,156</u>	<u>3,138,922</u>
<b><u>Other Noncurrent Assets:</u></b> (Note 1)		
Unamortized Issuance Costs - 1997 Revenue Bonds	<u>154,808</u>	<u>164,433</u>
Total Noncurrent Assets	<u>23,545,553</u>	<u>24,371,466</u>
<b>TOTAL ASSETS</b>	<u>\$24,050,184</u>	<u>\$24,800,452</u>

The accompanying notes are an integral part of the financial statements.

**LIABILITIES AND NET ASSETS**

	<u>2006</u>	<u>2005</u>
<b><u>Current Liabilities:</u></b>		
Accounts payable	\$ 73,148	\$ 60,141
Deferred rent	<u>5,812</u>	<u>6,748</u>
Total Current Liabilities	<u>78,960</u>	<u>66,889</u>
<b><u>Liabilities Payable From Restricted Assets:</u></b> (Note 5)		
Payable to West Basin Municipal Water District	2,089,797	2,089,797
Accrued interest payable	491,490	507,615
Current portion of long-term debt	<u>895,000</u>	<u>860,000</u>
Total Payable From Restricted Assets	<u>3,476,287</u>	<u>3,457,412</u>
<b><u>Long-Term Debt:</u></b> (Note 5)		
1997 Revenue Bonds	23,220,000	24,080,000
Less: Unamortized bond discount	(458,803)	(487,329)
Deferred amount on refunding	<u>(1,371,260)</u>	<u>(1,456,520)</u>
Total	21,389,937	22,136,151
Less: Current portion above	<u>(895,000)</u>	<u>(860,000)</u>
Total Long-Term Liabilities	<u>20,494,937</u>	<u>21,276,151</u>
Total Liabilities	<u>24,050,184</u>	<u>24,800,452</u>
<b><u>Commitments and Contingencies</u></b> (Note 7)		
<b><u>Net Assets</u></b>	<u>-0-</u>	<u>-0-</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$24,050,184</u></b>	<b><u>\$24,800,452</u></b>

**WEST AND CENTRAL BASIN FINANCING AUTHORITY  
STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b><u>Operating Revenues:</u></b>		
Rental income	\$ <u>109,637</u>	\$ <u>109,835</u>
<b><u>Operating Expenses:</u></b>		
Rental expenses	333,334	307,520
General and administrative	255,332	234,112
Depreciation	<u>171,103</u>	<u>175,593</u>
Total Operating Expenses	<u>759,769</u>	<u>717,225</u>
Operating Income (Loss)	<u>(650,132)</u>	<u>(607,390)</u>
<b><u>Nonoperating Revenues (Expenses):</u></b>		
Interest earned	1,962,145	1,951,922
Miscellaneous income	18,568	498
Trustee fees	(393)	(354)
Loss on sale of assets	(23,977)	-0-
Amortization	(123,411)	(123,411)
Interest expense	<u>(1,182,800)</u>	<u>(1,221,265)</u>
Total Nonoperating Revenues (Expenses)	<u>650,132</u>	<u>607,390</u>
Change in Net Assets	-0-	-0-
Net Assets at Beginning of Year	<u>-0-</u>	<u>-0-</u>
<b>NET ASSETS AT END OF YEAR</b>	<b><u>\$ -0-</u></b>	<b><u>\$ -0-</u></b>

The accompanying notes are an integral part of the financial statements.

**WEST AND CENTRAL BASIN FINANCING AUTHORITY  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b><u>Cash Flows From Operating Activities:</u></b>		
Cash received from rental income	\$ 108,701	\$ 110,247
Cash payments to suppliers for goods and services	(604,840)	(541,785)
Cash payments to employees for services	<u>(19,272)</u>	<u>(20,474)</u>
Net Cash Used by Operating Activities	<u>(515,411)</u>	<u>(452,012)</u>
<b><u>Cash Flows From Capital and Related Financing Activities:</u></b>		
Cash received from Member Districts	475,206	489,879
Cash received for disposition of assets	67,355	-0-
Purchase of utility plant	(7,669)	(36,923)
Principal paid on long-term debt	(860,000)	(820,000)
Interest paid on long-term debt	<u>(1,198,925)</u>	<u>(1,236,213)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(1,524,033)</u>	<u>(1,603,257)</u>
<b><u>Cash Flows From Investing Activities:</u></b>		
Cash received on Installment Purchase Agreements	860,000	820,000
Interest received	<u>1,252,646</u>	<u>1,287,703</u>
Net Cash Provided by Investing Activities	<u>2,112,646</u>	<u>2,107,703</u>
Net Increase in Cash and Cash Equivalents	73,202	52,434
Cash and Cash Equivalents at Beginning of Year	<u>553,854</u>	<u>501,420</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$ 627,056</u></b>	<b><u>\$ 553,854</u></b>
<b><u>Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities:</u></b>		
Operating (loss)	\$ (650,132)	\$ (607,390)
<b>Adjustments to reconcile operating income (loss)     to net cash used by operating activities:</b>		
Depreciation	171,103	175,593
<b>Change in assets and liabilities:</b>		
(Increase) Decrease in accounts receivable	(48,453)	962
(Increase) Decrease in prepaid expenses	-0-	(550)
Increase (Decrease) in accounts payable	13,007	(20,627)
Increase (Decrease) in deferred rent	<u>(936)</u>	<u>-0-</u>
Net Cash Used by Operating Activities	<b><u>\$ (515,411)</u></b>	<b><u>\$ (452,012)</u></b>

The accompanying notes are an integral part of the financial statements.

**WEST AND CENTRAL BASIN FINANCING AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005**

**Note 1 - Summary of Significant Accounting Policies:**

**Organization and Description of the Authority**

The West and Central Basin Financing Authority (Authority) was organized under a Joint Exercise of Powers Agreement (Agreement) dated August 1, 1992, by and between Central Basin Municipal Water District and West Basin Municipal Water District (Member Districts). The Authority was formed by this Agreement pursuant to the provisions of the Government Code of the State of California. The Member Districts have entered into the Agreement to exercise their common powers, without limitations, to finance, develop, operate and maintain water supplies, water reclamation facilities and an administration building.

The Authority is governed by a Board of Directors. This Board consists of the Member Districts' Boards. The Member Districts maintain oversight responsibility for the Authority and accordingly, the Authority has been included in the financial statements of the Member Districts.

**Basis of Accounting**

The Authority prepares its financial statements using the economic resources measurement focus and the accrual basis of accounting, under which revenues are recognized when earned and expenses are recorded when liabilities are incurred.

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

**Estimates**

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

**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.

**WEST AND CENTRAL BASIN FINANCING AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005**

**Note 1 - Summary of Significant Accounting Policies:** (Continued)

**Capital Assets**

Capital assets purchased or acquired are reported at historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation is calculated on the straight-line method over the following estimated useful lives:

	<u>Useful Life</u>
Building	40 years
Building improvements	10 - 40 years
Furniture and equipment	5 - 10 years

Depreciation aggregated \$171,103 and \$175,593 for the years ended June 30, 2006 and 2005, respectively.

**Amortization**

Bond issuance costs, bond discounts, and the deferred amount on refunding are being amortized on the straight-line method over periods not to exceed debt maturities. Amortization expense aggregated \$123,411 and \$123,411 for the years ended June 30, 2006 and 2005, respectively.

**Cash and Cash Equivalents**

For purposes of the statements of cash flows the Authority considers all investment instruments purchased with a maturity of three months or less to be cash equivalents.

**WEST AND CENTRAL BASIN FINANCING AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006 AND 2005**

**Note 2 - Cash and Investments:**

Cash and investments held by the Authority were comprised of the following at June 30:

	<u>Maturity in Years</u>			
	<u>1 year or Less</u>	<u>1 - 5 Years</u>	<u>2006 Total</u>	<u>2005 Total</u>
Cash in the California Local Agency Investment Fund (LAIF)	\$425,354	\$	\$ 425,354	\$ 422,459
Open ended money market mutual funds	177,614		177,614	129,333
Deposits with financial institutions	24,088		24,088	2,062
Investments:				
United States Agency Securities		<u>1,935,000</u>	<u>1,935,000</u>	<u>1,983,760</u>
Total Cash and Investments	<u>\$627,056</u>	<u>\$1,935,000</u>	<u>\$2,562,056</u>	<u>\$2,537,614</u>
 Financial Statement Classification:				
Current:				
Cash and cash equivalents			\$ 449,442	\$ 424,521
Restricted:				
Cash and cash equivalents			177,614	129,333
Investments			<u>1,935,000</u>	<u>1,983,760</u>
Total Cash and Investments			<u>\$2,562,056</u>	<u>\$2,537,614</u>

The statements of cash flows have been prepared by considering the following deposits and investment instruments to be cash and cash equivalents.

	<u>2006</u>	<u>2005</u>
Deposits with Financial Institutions	\$ 24,088	\$ 2,062
Cash in the California Local Agency Investment Fund	425,354	422,459
Open Ended Money Market Mutual Funds	<u>177,614</u>	<u>129,333</u>
Total	<u>\$627,056</u>	<u>\$553,854</u>

**Investments Authorized by the California Government Code and the Authority's Investment Policy**

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

**WEST AND CENTRAL BASIN FINANCING AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006 AND 2005**

**Note 2 - Cash and Investments: (Continued)**

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Bankers Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base value	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Open Ended Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
LAIF	N/A	None	None

The Authority's investment policy is more restrictive than the California Government Code. The policy restricts the Authority from investing in repurchase agreements, reverse repurchase agreements, medium term notes, mortgage pass-through securities, mutual funds, and open ended money market mutual funds.

**Investments Authorized by Debt Agreements**

Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Authority'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>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	180 days	None	None
Commercial Paper	270 days	None	None
Open Ended Money Market Mutual Funds	N/A	None	None
Guaranteed Investment Contracts	30 years	None	None

**WEST AND CENTRAL BASIN FINANCING AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006 AND 2005**

**Note 2 - Cash and Investments:** (Continued)

**Disclosures Relating to Interest Rate Risk**

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

Information about the sensitivity of the fair values of the Authority's investments (including investments held by bond trustee) to market interest rate fluctuations is provided in a previous table that shows the distribution of the Authority's investments by maturity as of June 30, 2006.

**Disclosures Relating to Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of the year end for each investment type.

<u>Investment</u>	<u>Rating as of Year End</u> <u>Standard &amp; Poor's</u>
LAIF	Not Rated
Held by Bond Trustee:	
Open Ended Money Market Mutual Funds	Not Rated
U.S. Agency Securities	AAA

**Concentration of Credit Risk**

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

**WEST AND CENTRAL BASIN FINANCING AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005**

**Note 2 - Cash and Investments:** (Continued)

**Concentration of Credit Risk** (Continued)

The investment policy of the Authority contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Federal Home Loan Bank	U.S. Agency Securities	<u>\$1,935,000</u>

**Custodial Credit Risk**

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

As of June 30, 2006 and 2005, none of the Authority's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts.

**WEST AND CENTRAL BASIN FINANCING AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005**

**Note 2 - Cash and Investments:** (Continued)

**Investment in State Investment Pool**

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

**Note 3 - Restricted Assets:**

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

<u>Funding Source</u>	<u>Use</u>	<u>2006</u>	<u>2005</u>
Revenue bond proceeds and interest earned	Debt service	\$ 321	\$ 145
Revenue bond proceeds and interest earned	Reserve fund	2,120,201	2,120,856
Revenue bond proceeds and interest earned	Advances on Installment Purchase Agreements	<u>18,386,067</u>	<u>18,947,110</u>
		<u>\$20,506,589</u>	<u>\$21,068,111</u>

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

**WEST AND CENTRAL BASIN FINANCING AUTHORITY**  
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**Note 4 - Capital Assets:**

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

	2006			Balance at June 30, 2006
	Balance at June 30, 2005	Additions	Deletions	
<b>Capital Assets Not Being Depreciated:</b>				
Land	\$ 401,650	\$ -0-	\$ -0-	\$ 401,650
<b>Capital Assets Being Depreciated:</b>				
Building	2,687,967	-0-	-0-	2,687,967
Building improvements	1,050,683	4,498	-0-	1,055,181
Furniture and equipment	1,077,958	3,171	(1,060,384)	20,745
	4,816,608	7,669	(1,060,384)	3,763,893
Less Accumulated Depreciation	(2,079,336)	(171,103)	969,052	(1,281,387)
Net Capital Assets Being Depreciated	2,737,272	(163,434)	(91,332)	2,482,506
<b>NET CAPITAL ASSETS</b>	<b>\$3,138,922</b>	<b>\$(163,434)</b>	<b>\$ (91,332)</b>	<b>\$2,884,156</b>
	2005			
	Balance at June 30, 2004	Additions	Deletions	Balance at June 30, 2005
<b>Capital Assets Not Being Depreciated:</b>				
Land	\$ 401,650	\$ -0-	\$ -0-	\$ 401,650
<b>Capital Assets Being Depreciated:</b>				
Building	2,687,967	-0-	-0-	2,687,967
Building improvements	1,038,034	12,649	-0-	1,050,683
Furniture and equipment	1,053,684	24,274	-0-	1,077,958
	4,779,685	36,923	-0-	4,816,608
Less Accumulated Depreciation	(1,903,743)	(175,593)	-0-	(2,079,336)
Net Capital Assets Being Depreciated	2,875,942	(138,670)	-0-	2,737,272
<b>NET CAPITAL ASSETS</b>	<b>\$3,277,592</b>	<b>\$(138,670)</b>	<b>\$-0-</b>	<b>\$3,138,922</b>

**Note 5 - Revenue Bonds:**

**1997 Revenue Bonds**

In July 1997, the Authority issued \$29,225,000 of Revenue Bonds on behalf of Central Basin Municipal Water District. The proceeds of this issue were used in refinancing the acquisition, construction and improvement of certain recycled water facilities and the acquisition of an administration building.

**WEST AND CENTRAL BASIN FINANCING AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006 AND 2005**

**Note 5 - Revenue Bonds:** (Continued)

**1997 Revenue Bonds** (Continued)

The Authority extinguished the remaining \$27,389,608 of the 1992 Revenue Bonds through a refunding resulting in a defeasance of debt. The net proceeds of approximately \$29,550,000 (after payment of issuance costs) were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Revenue Bond issue. As a result, this debt is considered to be defeased and the liability for the debt has been completely removed from long-term debt on the Authority's financial statements.

Although the refunding resulted in a deferred amount on refunding of \$2,138,599 for the year ended June 30, 1998, the Authority in effect reduced its aggregate debt service payments by approximately \$1,380,000 over the next twenty-five years and obtained an economic gain (difference between the present values of the old and the new debt service payments) of approximately \$829,000. The deferred amount on refunding will be amortized over the remaining life of the refunded debt. At June 30, 2006 and 2005 the deferred amount on refunding was \$1,371,260 and \$1,456,520, respectively.

The 1997 Revenue Bonds are obligations of the Authority payable solely from revenues consisting of payments received from the District pursuant to Installment Purchase Agreements entered into by the Authority with Central Basin Municipal Water District and investment income earned on funds invested. No other funds of the Authority are pledged to or available for payment of the principal or interest on the Revenue Bonds. The obligation of Central Basin Municipal Water District to make installment payments is payable solely from net revenues. The Installment Purchase Agreement will require Central Basin Municipal Water District to agree to fix, prescribe and collect rates and charges for its water service which will be at least sufficient to yield during each fiscal year net revenues equal to 115% of the installment payments and of obligations of the District payable on a parity therewith.

The 1997 Revenue Bonds have interest rates from 4.625% to 5.375% with maturities through 2022. At June 30, 2006 and 2005 the revenue bonds outstanding totalled \$23,220,000 and \$24,080,000, respectively.

**WEST AND CENTRAL BASIN FINANCING AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006 AND 2005**

**Note 5 - Revenue Bonds: (Continued)**

**1997 Revenue Bonds (Continued)**

The following amounts of revenue bonds were outstanding at June 30:

	2006				
	Balance at June 30, 2005	Additions	Deletions	Balance at June 30, 2006	Current Portion
1997 Revenue Bonds	\$24,080,000	\$	\$860,000	\$ 23,220,000	\$ 895,000
Less: Unamortized discount	(487,329)		(28,526)	(458,803)	
Deferred amount on refunding	(1,456,520)		(85,260)	(1,371,260)	
<b>BALANCE AT JUNE 30</b>	<b><u>\$22,136,151</u></b>	<b><u>\$-0-</u></b>	<b><u>\$746,214</u></b>	<b><u>\$21,389,937</u></b>	<b><u>\$895,000</u></b>
	2005				
	Balance at June 30, 2004	Additions	Deletions	Balance at June 30, 2005	Current Portion
1997 Revenue Bonds	\$24,900,000	\$	\$820,000	\$ 24,080,000	\$ 860,000
Less: Unamortized discount	(515,855)		(28,526)	(487,329)	
Deferred amount on refunding	(1,541,780)		(85,260)	(1,456,520)	
<b>BALANCE AT JUNE 30</b>	<b><u>\$22,842,365</u></b>	<b><u>\$-0-</u></b>	<b><u>\$706,214</u></b>	<b><u>\$22,136,151</u></b>	<b><u>\$860,000</u></b>

At June 30, 2006 and 2005, the aggregate reserve requirement for the 1997 Revenue Bonds is \$2,088,525.

Debt service requirements of the revenue bonds subsequent to June 30, 2006 are as follows:

	<u>1997 Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 895,000	\$ 1,158,878
2008	940,000	1,116,444
2009	985,000	1,071,313
2010	1,035,000	1,022,044
2011	1,080,000	969,844
2012 - 2016	6,295,000	3,296,213
2017 - 2021	8,130,000	2,162,828
2022 - 2026	<u>3,860,000</u>	<u>777,719</u>
	<b><u>\$23,220,000</u></b>	<b><u>\$11,575,283</u></b>

**WEST AND CENTRAL BASIN FINANCING AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006 AND 2005**

**Note 6 - New Governmental Accounting Standards:**

The new governmental accounting standards which may affect the Authority are as follows:

**GASB No. 40**

During the year ended June 30, 2005, the Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 40, "Deposits and Investment Risk Disclosures". This statement updates the custodial credit risk disclosure requirements, establishes more comprehensive disclosure requirements and addresses other common risks of deposits and investments.

**GASB No. 46**

In June 2005, the Government Accounting Standards Board issued Statement No. 46 "Net Assets Restricted by Enabling Legislation - An Amendment of GASB No. 34". This pronouncement is effective for periods beginning after June 15, 2005. This pronouncement requires that limitations on the uses of net assets imposed by enabling legislation be reported as restricted net assets. This pronouncement did not materially affect the Authority's net assets at June 30, 2006.

**Note 7 - Commitments and Contingencies:**

Legal claims and lawsuits arise from time to time in the normal course of business which, in the opinion of management, will have no effect on the Authority's financial position.