



AUDIT COMMITTEE

AGENDA FOR

Thursday, November 10, 2011

10:00 a.m.

Library Conference Room

Hershell Price – Chair
Kenneth Williams – Vice Chair
Ralph McIntosh

Howard Williams
Doug Wilson

1. Roll call – determination of quorum.
2. Public comment – opportunities for members of the public to address the Committee on matters within the Committee’s jurisdiction.
3. Chair’s report.
 3-A Directors’ comments.
4. Adopt Audit Committee Minutes from September 28, 2011 meeting.

I. CONSENT CALENDAR

II. ACTION/DISCUSSION

1. Report by auditor Lance Soll and Lunghard of the final audit results, including:
 - a. Auditor opinion letter
 - b. Audit committee letter
 - c. Management letter
2. Discussion of the Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2011 to include:
 - a. Letter of Transmittal
 - b. Management’s discussion and analysis
 - c. Financial statements
 - d. Notes to the financial statements
 - e. Statistical Schedules
 - f. Continuing Disclosure



3. Review and acceptance of the draft audited CAFR for the fiscal year ended June 30, 2011. If accepted, direct staff to deliver the CAFR to the Board with a recommendation to accept and file. (Action)
4. Review of draft Audit Committee Annual Report summarizing its activities, actions and recommendations to the Board.
 - a. Audit Committee recommendations
 - i. Accept and file the Audit Committee Annual Report pursuant to the Administrative Code, Section 2.00.066.
 - ii. Accept and file the Comprehensive Annual Financial Report (CAFR) for fiscal year ended June 30, 2011.

III. ADJOURNMENT

Doria F. Lore
Clerk of the Board

NOTE: This meeting is called as an Audit Committee meeting. Because a quorum of the Board may be present, the meeting is also noticed as a Board meeting. Members of the Board who are not members of the Committee may participate in the meeting pursuant to Section 2.00.060(g) of the Authority Administrative Code (Recodified). All items on the agenda, including information items, may be deliberated and become subject to action. All public documents provided to the committee or Board for this meeting including materials related to an item on this agenda and submitted to the Board of Directors within 72 hours prior to this meeting may be reviewed at the San Diego County Water Authority headquarters located at 4677 Overland Avenue, San Diego, CA 92123 at the reception desk during normal business hours.



November 2, 2011

Attention: Audit Committee

Draft audited Comprehensive Annual Financial Report for the fiscal year ended June 30, 2011. (Action)

Staff recommendation

Review and accept the draft Comprehensive Annual Financial Report for fiscal year ended June 30, 2011.

Discussion

Each year the Finance department prepares the annual financial statements in accordance with Generally Accepted Accounting Principles (GAAP). These financial statements are the responsibility of the Water Authority's management. The financial statements are then audited in accordance with generally accepted auditing standards (GAAS) and *Government Auditing Standards* (GAS). Lance, Soll, and Lunghard, LLP (LSL), the Water Authority's Certified Public Accountants work for and report their findings to the Board of Directors through the Audit Committee. LSL provided the Water Authority Board of Directors with an unqualified opinion on the financial statements.

LSL is also required to report to the Board of Directors and management regarding responsibilities under GAAS and GAS, internal control over financial reporting, compliance, and other matters. The report is based on the audit of financial statements performed in accordance with GAS.

Management will present the financial highlights for the fiscal year ended June 30, 2011 and LSL will present their audit results at the audit committee meeting. Attached are various documents related to the annual financial audit. The specific documents on which the auditor expresses an opinion are 1) the financial statements, and 2) notes to the financial statements.

In addition, the independent auditors have performed auditing procedures to ensure that all information included with the auditor's opinion letter has been reviewed for consistency with the financial statements and other information gathered during the audit. The information subject to these procedures includes 1) the introductory section, 2) the Management Discussion and Analysis, 3) the supplemental schedule, 4) statistical section, and 5) the Continuing Disclosure section.

Upon acceptance of these documents, the Finance department will deliver the Audit Committee Annual Report along with the Comprehensive Annual Financial Report (CAFR) to the Board with a recommendation to accept and file.

Prepared by: Rod Greek, Controller
Reviewed by: Eric L. Sandler, Director of Finance/Treasurer
Approved by: Sandra L. Kerl, Deputy General Manager

Attachments: 1) Transmittal Letter
2) Auditor opinion letter
3) Management's Discussion and Analysis

- 4) Financial statements
- 5) Notes to the financial statements
- 6) Supplemental Schedule
- 7) Statistical information
- 8) Continuing Disclosures
- 9) Audit committee letter
- 10) Management letter



December 1, 2011

Attention: Board of Directors

Audit Committee Annual Report (Action)

Audit Committee recommendation

1. Accept and file the Audit Committee Annual Report pursuant to the Administrative Code, Section 2.00.066.
2. Accept and file the Comprehensive Annual Financial Report (CAFR) for fiscal year ended June 30, 2011.

Fiscal Impact

There is no fiscal impact associated with the recommended action.

Background

On August 19, 2009 the Board approved the establishment of an Audit Committee. The action was driven by the desire to separate oversight responsibilities for the audit function from the Administrative & Finance Committee, which is responsible for oversight of financial policy such as budgeting, financing, rates and charges.

Previous Board action: On August 19, 2009 the Board adopted Ordinance No. 2009-05 establishing the Audit Committee.

Discussion

The Committee's work during the year focused on the oversight of the annual financial audit for fiscal year 2011. The Water Authority's auditor, Lance, Soll, and Lunghard, LLP (LSL) provided the Water Authority with an unqualified (or clean) opinion on the financial statements for the fiscal year ended June 30, 2011. No Management letter comments or instances of noncompliance or deficiencies in internal controls were reported.

In addition the Committee recommended selection of a new external auditor (McGladrey & Pullen, LLP) and the retention of a firm to provide Agreed-Upon-Procedures services (Lance, Soll & Lunghard, LLP) (LSL). Both contracts were approved by the Board on October 27, 2011. Both firms will begin work under the new contracts effective April 1, 2011.

Audit Committee Annual Report

In discharging its responsibilities the Audit Committee met four times. Following are descriptions of the business conducted at the various meetings.

- January 12, 2011: The Committee met to discuss the pending contract for Mayer, Hoffman McCann P.C. (MHM) for independent audit services. The contract was put on hold pending the outcome of an independent review.
- April 27, 2011: Staff introduced the audit team, who presented annual audit roles and responsibilities, scope, and limitations. This included a discussion with Committee members regarding auditing standards, interim and year-end audit procedures, as well

as the various components of the CAFR. The Committee requested LSL and staff meet with two Committee Members (Doug Wilson and Ken Williams) in July 2011 to discuss the audit plan in more detail.

Staff revisited the issue regarding the pending contract with MHM. The audit committee made a decision to not move forward with award of the contract. Staff also reviewed with Committee members a draft request for proposals (RFP) for audit services focusing on the scope and term of the agreement, which included a discussion of certain recommended practices adopted by the Government Finance Officers' Organization (GFOA). After considering GFOA recommendations regarding audit contract terms and auditor rotation/competition, the Committee voted to direct staff to prepare two separate RFP's, one for independent audit services and another for agreed-upon-procedures services. Direction included a recommendation to seek five-year service agreements, and to include the Water Authority's current auditor, LSL as well as MHM in the selection process. In addition the Committee appointed member Doug Wilson to serve on the selection panel.

- September 28, 2011: The selection panel discussed with the Committee its rigorous selection process which included both written proposals and oral interviews. Of the three audit firms interviewed for each RFP, the selection panel recommended McGladrey & Pullen LLP to the full Board of Directors as the new independent auditors, and LSL as the firm to provide agreed-upon-procedures services.

In addition, Richard Kikuchi from LSL discussed the preliminary results of the audit fieldwork for fiscal year 2011. Mr. Kikuchi reviewed the highlights of the July 21, 2011 audit planning meeting attended by committee members Doug Wilson and Ken Williams. He also discussed the type of testing completed during fieldwork and the remaining work needed to complete the audit.

- November 10, 2011: Richard Kikuchi, from Lance, Soll & Lunghard attended the meeting and explained the different auditor reports. The Committee then reviewed and discussed each of the basic financial statements, the Statement of Net Assets, the Statements of Revenues, Expenses and Changes in Net Assets, and the Statements of Cash Flows for fiscal years 2011 and 2010; The review of the basic financial statements included discussions about items in the Management's Discussion and Analysis, and various detailed items in the footnotes.

The Audit Committee also reviewed a draft of the Audit Committee Annual Report. Upon review and acceptance of both reports, the Committee directed staff to deliver the Audit Committee Annual Report along with the CAFR to the Board with a recommendation to accept and file.

Comprehensive Annual Financial Statements

The Audit Committee directed staff to deliver the 2011 CAFR to the Board along with the Audit Committee Annual Report. The CAFR includes the Letter of Transmittal from the General Manager and Director of Finance/Treasurer, Auditor's Opinion Letter, Management Discussion

Audit Committee
December 1, 2011
Page 3 of 3

and Analysis, Financial Statements, Notes to the Financial Statements, Supplemental Schedule (Budgetary Comparison Schedule), Statistical Section, and Continuing Disclosure section.

Prepared by: Hershell Price, Audit Committee Chair

Attachments: A) Water Authority Comprehensive Annual Financial Report for FY 2011 in PDF format (physical copy to be provided at the Board meeting)

San Diego, California 92123

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2011

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Prepared by the Finance Department

DRAFT

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San Diego County Water Authority

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December 8, 2011

The Honorable Board of Directors
San Diego County Water Authority
4677 Overland Avenue
San Diego, CA 92123

MEMBER AGENCIES

Carlsbad
Municipal Water District
City of Del Mar
City of Escondido
City of National City
City of Oceanside
City of Poway
City of San Diego
Fallbrook
Public Utility District
Helix Water District
Lakeside Water District
Olivenhain
Municipal Water District
Otay Water District
Padre Dam
Municipal Water District
Camp Pendleton
Marine Corps Base
Rainbow
Municipal Water District
Ramona
Municipal Water District
Rincon del Diablo
Municipal Water District
San Dieguito Water District
Santa Fe Irrigation District
South Bay Irrigation District
Vallecitos Water District
Valley Center
Municipal Water District
Vista Irrigation District
Yuima
Municipal Water District

OTHER REPRESENTATIVE

County of San Diego

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) for the San Diego County Water Authority (Water Authority) for the fiscal year ended June 30, 2011. The purpose of this report is to provide the Board of Directors (the Board), member agencies, Water Authority investors, the public, and other interested parties with reliable financial information about the Water Authority.

Management assumes full responsibility for the completeness and reliability of the information contained in the report, which is based upon a comprehensive framework of internal controls that was established for this purpose. Because the costs of internal control should not exceed the anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Water Authority policy requires that an independent certified public accounting firm, selected by the Board, audit the basic financial statements on an annual basis. Lance, Soll & Lunghard, LLP have issued an unqualified (or clean) opinion on the Water Authority's basic financial statements for the fiscal year ended June 30, 2011. The independent auditor's report is presented as the first component of the Financial Section of this report.

Management's Discussion and Analysis (MD&A) immediately follows the independent auditors' report in the Financial Section and provides an overview, summary, and analysis of the basic financial statements. The MD&A complements this Letter of Transmittal and should be read in conjunction with it.

Water Authority Profile

The Water Authority was organized on June 9, 1944 under the County Water Authority Act for the primary purpose of providing a safe and reliable supply of imported water to its member agencies for domestic, municipal, and agricultural uses. The Water Authority's service area encompasses roughly the western one-third of San Diego County or approximately 1,486 square miles. As a semi-arid region, rainfall and groundwater meet only about ten percent of regional demand in an average hydrologic year. The Water Authority provides the remaining 90 percent, which it purchases from outside sources. As a wholesale entity, the Water Authority has no retail customers; it serves only its 24 member agencies which deliver water to approximately 97 percent of San Diego's 3.26 million residents. These member agencies include six cities, five water districts, three irrigation districts, eight municipal water districts,

A public agency providing a safe and reliable water supply to the San Diego region

one public utility district, and one federal agency. The Water Authority is a member agency of and obtains water from the Metropolitan Water District of Southern California (MWD), which derives its supply from the Colorado River and the California State Water Project. The Water Authority also obtains water under long-term agreements from the Imperial Irrigation District, which derives its supply from the Colorado River.

Board of Directors

A 36-member Board of Directors governs the Water Authority with each of the 24 member agencies having at least one voting representative on the Board. Member agencies may also designate and appoint one additional representative for each full five percent of Water Authority assessed value within the member agency service area. Currently, the City of San Diego has ten directors; Helix and Otay Water Districts as well as the City of Carlsbad have two directors. Directors are appointed to six-year terms by the chief executive officers of the respective member agencies, subject to approval by the agencies' governing bodies. The voting rights of member agencies are weighted and based upon each agency's total historical financial contribution to the Water Authority. Currently, all Board actions require an affirmative vote constituting at least 55 percent of the total weighted vote of the member agencies. In addition to the 36 voting members, the County of San Diego has one representative who may participate in certain Board deliberations and committee actions, but has no voting rights on Board actions. Officers of the Board of Directors begin two-year terms on October 1 of each even-numbered year.

Committees and Organizational Structure

To facilitate matters, most business coming before the Water Authority's Board is first considered by one of its five standing committees, described below, which then makes recommendations to the full Board for formal action:

The Administrative and Finance Committee is responsible for administrative and finance matters including: rates, fees, charges and other sources of revenue; budget; investments; human resources; employer-employee relations; information technology; insurance; risk management; and other matters of general business operations.

The Engineering and Operations Committee is responsible for matters of design, construction, replacement, maintenance and operation of the Water Authority's facilities, property and equipment, including: administration of the Capital Improvement Program; administration of the Aqueduct Protection Program; right of way acquisition and management; system and facility security; water quality; and other matters relating to facility operations.

The Imported Water Committee is responsible for imported water supply matters including: activities and issues as a member agency of MWD; administration of the Quantification Settlement Agreement and related agreements; Colorado River Board; State Water Project; CalFed; and other matters relating to water supplies from sources outside San Diego County.

The Legislation, Conservation and Outreach Committee is responsible for community and governmental matters including: legislation, lobbying and intergovernmental relations; community relations; media relations; water conservation programs; treated water demand and peaking management; administration of shortage allocation programs and policies; and the Small Contractors Outreach and Opportunities Program.

The Water Planning Committee is responsible for water planning and local supply development including: water demand and supply planning; shortage allocation planning; water supply forecasting and reporting; seawater desalination; water reclamation; groundwater and conjunctive use; local surface water; environmental management; Urban Water Management Plans; and other planning matters.

In addition, the Water Authority has two special purpose Board committees, the Audit Committee and the Small Contractors Outreach and Opportunities Program (SCOOP) Committee which are responsible for oversight of programs important to the Water Authority and its constituents. The Audit Committee is responsible for independent oversight of the financial reporting process, including the selection of, and communication with, the Water Authority's audit firms. The SCOOP Committee emphasizes its efforts on outreach and partnering with small business to maximize small business participation with Water Authority contracts and procurements.

The Water Authority's organizational structure follows on page 11. The General Manager reports directly to the Board and manages the Water Authority's day-to-day operations. The General Counsel also reports directly to the Board. Reporting directly to the General Manager are two Deputy General Managers, an Assistant General Manager, and the Colorado River Program Manager. The remainder of the executive team consists of seven department directors and three program heads, responsible for managing the Administrative Services, Engineering, Finance, Human Resources, Operations and Maintenance, Public Outreach and Conservation, and Water Resources Departments, and the MWD, the Government Relations Programs, and the Colorado River Program.

Budget Process

The Water Authority's Board of Directors adopts a multi-year operating and capital improvement program budget prior to every even fiscal year. The Board of Directors approves total budgeted appropriations and any amendments to the appropriations throughout the two-year period. See Note 1(c) in the Financial Section for more information. Fiscal Year 2011 is the second year of the previous two-year budget cycle. The Water Authority's General Manager views the budget as an essential tool for proper financial management. Finance staff led the effort to develop the budget with direct involvement from all departments. It is a comprehensive and balanced financial plan that includes a general description of the Water Authority's main focus for the budget cycle, financial summaries, sources and uses of funds, and detailed financial information for operating departments and the capital improvement program.

Economic Conditions and Outlook

Historically, the San Diego region was associated primarily with defense-related businesses, military bases, and tourist attractions. Over the past several decades, however, the regional economy has grown. According to Moody's Investors Service (Moody's), the San Diego County economy is large and diverse with wealth levels of residents approximate to those of the state as a whole. Though the County continues to feel the impacts of the economic recession, according to Moody's, the County's economic recovery is strengthening ahead of most other major metropolitan areas in the West.

Similar to water agencies throughout the state and the country, water sales volumes for the San Diego region have dropped significantly over the past several years—from 742,000 acre feet in Fiscal Year 2007 to 527,000 acre-feet in Fiscal Year 2011. This drop is due to a combination of factors including voluntary and mandatory water use restrictions resulting from supply constraints, enhanced conservation efforts, the lingering impact of the economic recession, as well as increases in the retail price of water.

Water supply conditions have improved over the past 12 months. The region's two main sources of imported supplies, the State Water Project and Colorado River, are experiencing above average precipitation, snowpack, and runoff this year. Lake Oroville, the principal reservoir on the State Water Project, is filled to capacity for the first time since 2006. Moreover, local supply conditions have also improved. Reported rainfall in San Diego County since July 1, 2010 is 18 percent above normal, local storage is 30 percent above the ten-year historical average, and member agency reservoirs are approaching 70 percent capacity. As a result of these supply conditions, mandatory use restrictions have

been lifted. The Water Authority, however, does not expect that this will result in a rapid return to historical demand levels, as it appears water usage behavior has been permanently altered.

Long-Range Plans

The Strategic Plan and the companion Five-Year Business Plan provide the foundation on which the departmental and programmatic budgets are based. This tight relationship between the plans and the budget ensures that our capital and human resources are focused on Board priority work.

Board of Directors' Strategic Plan

The Strategic Plan, adopted in April 2008, establishes the long-term policy direction for the Water Authority over the next 25 years. The plan is structured around three Key Result Areas (KRA) that represent the vital business issues that impact our success or failure in the future.

KRA 1: Water Supply Diversification. This Key Area addresses the Water Authority's role in securing additional imported supplies and assisting member agencies in developing additional local resources.

KRA 2: Leadership. This Key Area pertains to the Board's function as a policy body and the effectiveness with which it influences local, regional, state, and federal action; and also to the continuity of effective management leadership of the Water Authority.

KRA 3: Asset Management. This Key Area reflects the capital intensive nature of Water Authority activities and the importance of facilities planning, capital financing, and operations and maintenance.

Five-Year Business Plan

The Water Authority's Business Plan (Plan) was originally developed in 2005 to manage priorities, implement Board policies, and fulfill the organization's mission. The Plan is organized into three focus areas: Water Supply Portfolio, Water Facilities, and Core Business.

The primary goal of the **Water Supply Portfolio Focus Area** is to successfully diversify the Water Authority's water supplies. Programs and departments that support this focus area: Colorado River Program, MWD Program, and Water Resources Department.

The primary goal of the **Water Facilities Focus Area** is to build, operate, and maintain the Water Authority's capital facilities in a cost-effective manner to meet water demand in the San Diego county region. Departments that support this focus area: Engineering, and Operations and Maintenance.

The primary purpose of the **Core Business Focus Area** is to provide effective operational support to the other focus areas in order to accomplish their principal strategic goals. Departments that support this focus area: Administrative Services, Finance, General Counsel, General Manager and Board of Directors, Human Resources, and Public Outreach and Conservation.

Relevant Financial Policies

Long-Range Financial Plan

The Long-Range Financial Plan serves as the financial foundation supporting the long-term strategic objectives of the Water Authority. It provides long-term forecasts of revenues and expenditures for both operating and capital investment activities.

Developed with member agency involvement, the plan codifies financial policies relating to debt service coverage and financial reserve levels. The plan also accounts for the near-term financial impacts of drought management activities, and provides more detailed information about key planning assumptions and financial sensitivities.

Debt Management Policy

The Debt Management Policy sets forth comprehensive guidelines for the issuance and management of the Water Authority's debt. Compliance with the policy is essential to ensure that the Water Authority maintains a sound debt position and that it protects the credit quality of its debt obligations. The Director of Finance is responsible for the Water Authority's debt management activities. The Water Authority's policy establishes guidelines for refinancing debt to achieve savings levels based on a call option pricing model.

Investment Policy

Annually, the Board of Directors adopts an investment policy that is in compliance with the California Government Code, Sections 53600 et seq. The investment of idle funds is delegated by the Board of Directors to the Water Authority's Treasurer who assumes full responsibility for the transactions of the investment program. The objectives of the investment policy are safety, liquidity, yield, and public trust. The Water Authority's investments are in compliance with the adopted investment policy. See Note 2 in the Financial Section for more information.

Defined Benefit Pension Plans

The Water Authority is managing labor and benefit costs by a negotiated increase in the employee-cost share for the defined benefit pension (CalPERS). By the beginning of Fiscal Year 2012 all employees will be contributing up to an additional three and a half percent towards their pension benefit bringing the total employee contribution to four and a half percent. Please see Note 10(a) in the Financial Section for further information.

Highlights of the Capital Improvement Program

The major Capital Improvement Program activities for the fiscal year included the following:

Emergency Storage Project – San Vicente Dam Raise and Carryover Storage. This project is the raising of the San Vicente Dam by 117 feet by using roller compacted concrete to accommodate an additional 152,000 acre-feet of combined emergency and carryover storage. The total capacity of the expanded San Vicente Reservoir will be approximately 242,000 acre-feet. The construction for the excavation and foundation preparation is complete. The construction package for raising the dam is expected to be completed in early 2013.



Construction on the San Vicente Dam Raise, 2010

Colorado River Canal Linings. This project includes the lining of the All-American Canal, which calls for approximately 23 miles of lined canal to be built next to the existing canal and, when complete, provides 56,200 acre-feet of water per year to San Diego County for the next 110 years. Construction for the All-American Canal Lining was administered by the Imperial Irrigation District (IID). The All-American Canal construction was substantially completed in Fiscal Year 2010.

Emergency Storage Project – San Vicente Pipeline and Aqueduct Interconnect. This project is comprised of an 11-mile tunnel that stretches from the San Vicente Reservoir northwest to just west of Interstate-15 at Mercy Road. The pipeline will transport water in either direction between the San Vicente Reservoir and the Second Aqueduct to meet member agency needs and achieve storage requirements in the San Vicente Reservoir.



Lake Hodges Project, 2011

Lake Hodges Projects which include the ESP – Lake Hodges Pump Station Inlet/Outlet, the Olivenhain Pumped Storage, and the ESP – Lake Hodges to Olivenhain Pipeline. These combined projects will allow water to be pumped back and forth between the Lake Hodges and Olivenhain reservoirs, which will allow 20,000 acre-feet of water in the Lake Hodges Reservoir to be available for emergency use. The first of two 28,000-horsepower pump turbines is operational providing 20,000 acre-feet of emergency water storage and up to 20 megawatts (MW) of electricity for the region; enough power for 13,000 homes. The emergency water storage and power output will double when the second turbine is operational.

Mission Trails Pipeline Tunnel. This pipeline tunnel project is critical to meet untreated water demands in the central and south county. This project, in conjunction with the Mission Trails Flow Regulatory Structure II Project and the Lake Murray Control Valve, will relieve hydraulic constraints along the Second Aqueduct. The Mission Trails Flow Regulatory Structure II and Lake Murray Control Valve have been postponed until 2014. Once complete the Mission Trails Pipeline Tunnel Project will be fully operational.



Inlet Tunnel Portal, Mission Trails Pipeline, 2010

East County Regional Treated Water Improvements. The Water Authority entered into an agreement with Helix Water District regarding implementation of the East County Regional Treated Water Improvement Program (ECRTWIP). The purpose of the ECRTWIP is to significantly improve the regional water treatment capacity in East County by maximizing utilization of the R.M. Levy Treatment Plant to provide additional capacity to Otay Water District, Lakeside Water District, and Padre Dam Municipal Water District. The Water Authority has increased capacity rights in the Levy Treatment Plant and improvements to the Water Authority owned Otay 14 FCF as a result of the agreement.

Major Initiatives

The dramatic reduction in water demands over the past few years, compounded by the prospect of additional reduced demands from local supply development, highlight the need to address certain emerging issues. To achieve fiscal sustainability into the future, the Water Authority is evaluating alternatives to ensure the costs of infrastructure investment and growth related variability are a consideration for enhancements to the revenue structure and financial policies. This is intended to mitigate extreme exposure to the volatility of the business cycle.

Additionally, in response to reduced short-term water demand projections and changing economic circumstances, the Board of Directors approved deferring the construction of 11 infrastructure projects to July 2014 or later. This action postpones \$150 million in costs and will help moderate Water Authority rate increases in Calendar Years 2012 and 2013. The Water Authority still expects long-term water demands to increase over time, but at a slower rate compared to previous estimates. Factors expected to slow increases in demand include new legislative mandates to significantly reduce urban water use by 2020 and permanent reductions in the region's agriculture industry.

Included in the Water Authority's water supply portfolio is the development of local and regional seawater and brackish ground-water desalination projects. Advances in seawater desalination technology and design have made the costs more competitive with other new water supplies available to the region. The Water Authority is undertaking a number of desalination development activities, including the development of a long-term water purchase agreement with the privately developed Carlsbad Desalination Project and a feasibility-level study of new publicly owned regional desalination project located within Camp Pendleton.

The Water Authority has one of the largest capital improvement programs among California urban water agencies, with a \$3.5 billion budget and a two-year appropriation of \$321 million for Fiscal Years 2012 and 2013. Payments on debt used to finance these capital projects – vital water infrastructure projects such as dams, large-diameter pipelines, a treatment plant, hydropower facilities and more – also is a significant cost. The Water Authority estimates debt service costs represent \$280 million, or 20 percent of its total budget, for Fiscal Years 2012 and 2013.

As such, the Water Authority takes actions to manage risk and reduce the cost of the Water Authority's debt portfolio for its Capital Improvement Program. In addition, the Water Authority's Finance staff actively monitors the bond markets, and with Board approval, pursues refunding of outstanding debt to realize savings, in accordance with the Water Authority's debt policy, which is then passed through to rate payers. Recent results of this effort in compliance with the Water Authority's debt policy are as follows:

- \$86.63 million Subordinate Lien Bond sale to help restructure the variable-rate debt portfolio and take advantage of favorable market conditions.
- \$139.9 million Senior Lien Water Revenue Refunding Bonds Series 2011A, refunded \$150 million in long-term fixed-rate bonds from the Water Authority's 2002A series.
- \$94.5 million Water Revenue Refunding Bonds Series 2011B, refunded \$98.4 million in long-term, fixed-rate bonds from the Water Authority's 2002A and 2004A series.

The Series 2011A and 2011B Bonds listed above are expected to reduce financing costs by \$18.7 million on a present-value basis over the life of the bonds.

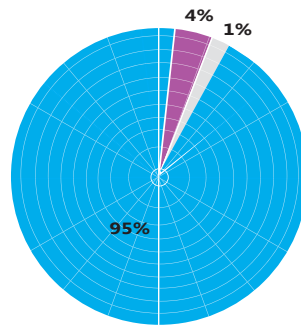
The Water Authority actively manages its reserves for optimal efficiency and to mitigate rate volatility. As part of this effort plans are in place to build the Rate Stabilization Fund back to Board approved policy requirements over a period of three years. In addition, with the pending completion of the San Vicente Dam Raise project in 2013, the Water Authority is building up its Stored Water Fund to provide sufficient resources to fill the San Vicente Reservoir for regional emergency storage purposes.

The Future

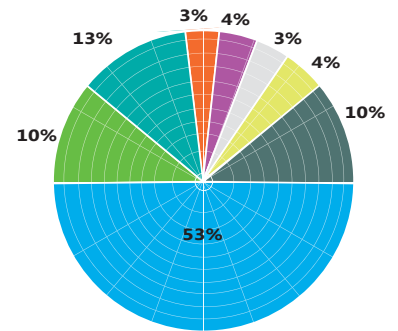
The current water supply challenges facing southern California water agencies clearly validate the Water Authority’s strategy of reducing the region’s reliance on a single source of imported water through diversification of its supply portfolio. The pie charts demonstrate the substantial progress the Water Authority has made toward achieving its long-term supply diversification goals. This progress has involved significant, long-term financial commitments in the form of water purchase and debt service payments. In planning for these commitments, over the past several decades, the Water Authority has also diversified its revenue sources adding a significant number of stable, non-volumetric charges. This diversified portfolio of revenues has been highlighted by credit rating agencies as a contributor to the Water Authority’s strong ratings.

Continued supply diversification outlined in the second row of pie charts will involve additional significant financial commitments. These commitments are to be made against the backdrop of a weak economy, recently reduced water demands and the prospect of the additional reduced future demands from local supply development. While the current portfolio of rates and charges is a strong credit feature of the Water Authority, the Board is focused on continuous improvement, and with a range of Water Authority stakeholders, will be moving forward on a work effort aimed at enhancing long-term fiscal sustainability.

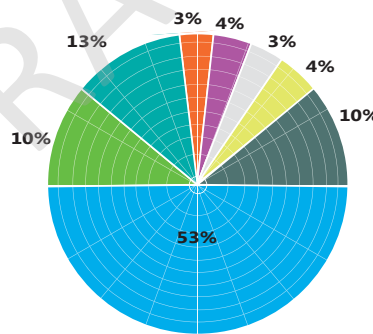
Actual FY 1991



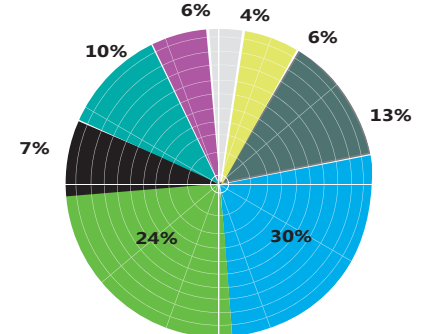
Actual FY 2010












Actual FY 2010



Projected FY 2020



Water Sources	Fiscal Year 1991	Fiscal Year 2010	Fiscal Year 2020
 MWD Supply	95%	53%	30%
 IID Transfer	n/a	10%	24%
 Seawater Desalination	n/a	n/a	7%
 Canal Lining Transfers	n/a	13%	10%
 Dry-Year Transfer	n/a	3%	n/a
<hr/>			
 Local Surface Water	4%	4%	6%
 Groundwater	1%	3%	4%
 Recycled Water	n/a	4%	6%
 Conservation	n/a	10%	13%

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Water Authority for its CAFR for the fiscal year ended June 30, 2010. This is the eleventh consecutive year that the Water Authority has received this prestigious award. In order to be awarded a Certificate of Achievement, the Water Authority had to publish an easily readable and efficiently organized CAFR that satisfied both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe the current CAFR continues to meet the Certificate of Achievement Program requirements and are submitting it to GFOA to determine its eligibility for another certificate.

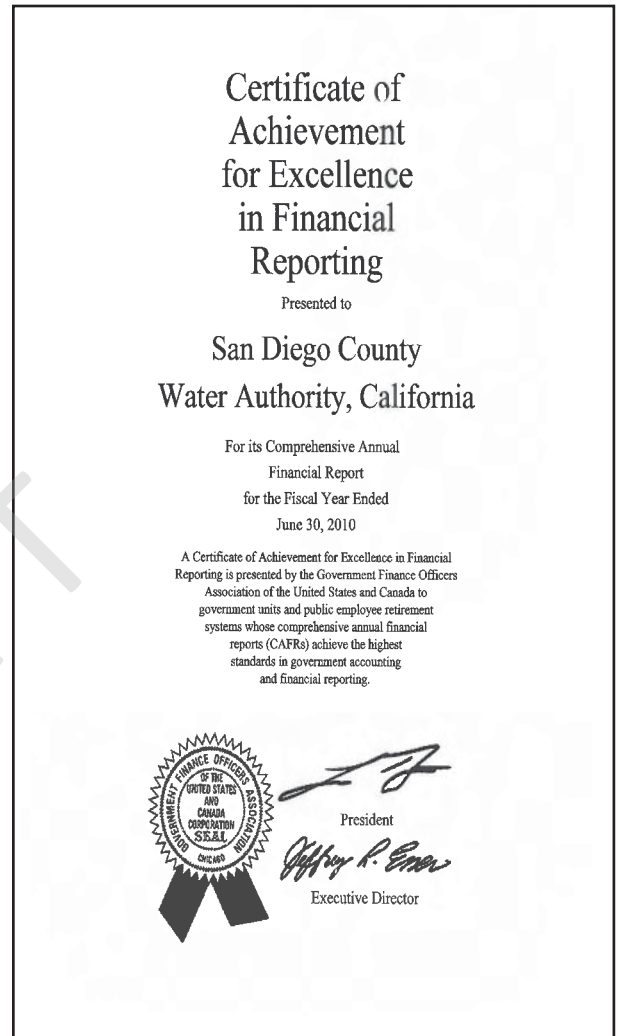
The GFOA also awarded a Distinguished Budget Presentation Award to the Water Authority's Multi-Year Budget for the Fiscal Years 2010 and 2011. This award recognizes the Water Authority's conformance with the highest standards for governmental budgeting as well as compliance with nationally recognized guidelines for effective budget presentation. The Finance Department has submitted the Multi-Year Budget for the Fiscal Years 2012 and 2013 for eligibility for another certificate. The Water Authority has received awards for Budget Presentation since 1995.

We would like to thank the Board of Directors for its continued leadership in excellence in financial management. Additionally, this report could not have been accomplished without the hard work and dedication of the entire Finance Department. Special appreciation and recognition are extended to Rod Greek, Controller; Yollie Cerezo and Jeanette M. Ziomek, Accounting Supervisors; Holly Judy and Jocelyn Matsuo, Senior Accountants; Liana Whyte, Senior Management Analyst; Cora Pablo, Accountant; Priscilla Tam, Accounting Technician; and Melody A. Parker, Financial Analyst.

Respectfully submitted,

Maureen A. Stapleton
General Manager

Eric L. Sandler
Director of Finance/Treasurer

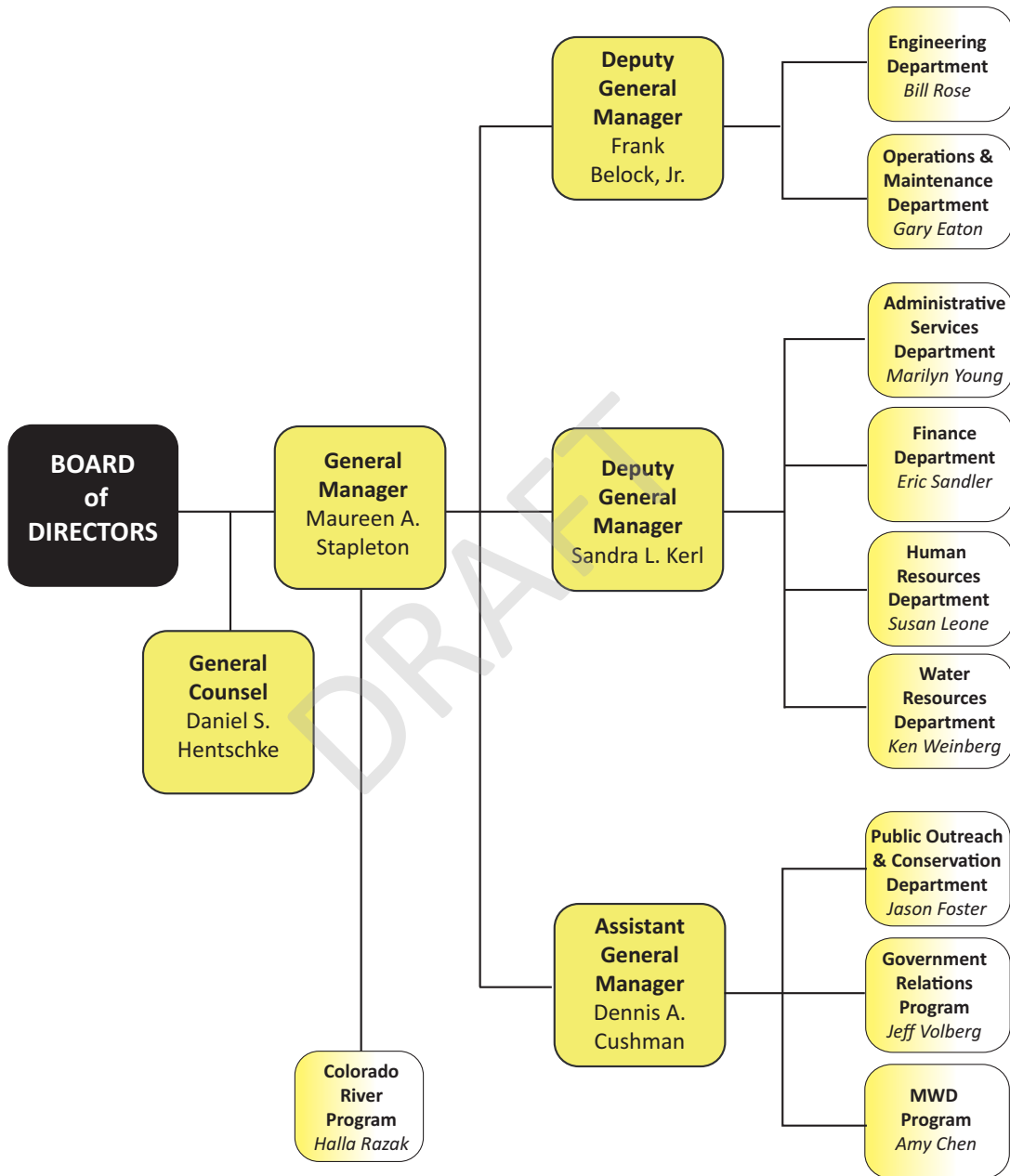


San Diego County Water Authority Board of Directors

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Thomas Wornham.....	Vice Chair	City of San Diego
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Gerald Wilson.....	Rainbow Municipal Water District
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San Diego County Water Authority Organizational Structure



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- Brandon W. Burrows, CPA
- David E. Hale, CPA, CFP
A Professional Corporation
- Donald G. Slater, CPA
- Richard K. Kikuchi, CPA
- Susan F. Matz, CPA
- Shelly K. Jackley, CPA
- Bryan S. Gruber, CPA

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
San Diego County Water Authority
San Diego, California

We have audited the statements of net assets of the San Diego County Water Authority (the "Water Authority"), San Diego, California, as of and for the years ended June 30, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets, and statements of cash flows for the years then ended. These financial statements are the responsibility of the Water Authority's management. Our responsibility is to express an opinion 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 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Water Authority, as of June 30, 2011 and 2010, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2011, on our consideration of the Water Authority'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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents 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.



Board of Directors
San Diego County Water Authority
San Diego, California

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The introductory section, supplemental information, statistical tables and continuing disclosures are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Water Authority. The supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole. The introductory section, statistical tables and continuing disclosures listed in the table of contents have not been subjected to the auditing procedures applied to the audit of the basic financial statements and, accordingly, we do not express an opinion on them.

Lance, Soll & Lunghard, LLP

Brea, California
October 27, 2011

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Management's Discussion & Analysis

The following Management Discussion and Analysis (MD&A) provides a narrative overview and analysis of the financial performance of the San Diego County Water Authority (Water Authority) during the fiscal year ending June 30, 2011. Please read it in conjunction with the Letter of Transmittal located in the Introductory Section, and the Water Authority's Basic Financial Statements and accompanying Notes, which follow this section. All amounts, unless otherwise indicated, are expressed in millions of dollars.

Overview of the Financial Statements

The financial statements report information about the Water Authority's financial position and result of operations using the accrual basis of accounting, similar to methods used by private sector companies. They are designed to provide readers with a broad overview of the finances and also present changes in cash balances, and information about both short-term and long-term activities. There are three required components to these statements: the Management's Discussion and Analysis, the Financial Statements, and the Notes to the Financial Statements. The Water Authority also includes a Supplemental Schedule which is described below.

- *The Statements of Net Assets* present information on all of the Water Authority's assets and liabilities with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Water Authority is improving or deteriorating.
- *The Statements of Revenues, Expenses, and Changes in Net Assets* present information showing how the Water Authority's net assets changed during the fiscal year. All changes in net assets are reported on the accrual basis of accounting, meaning all revenues are realized when earned and expenses are recognized when incurred.
- *The Statements of Cash Flows* report cash receipts, cash payments, and net changes in cash resulting from operating activities, non-capital financing activities, capital and related financing activities, and investing activities for the fiscal year.
- *The Notes to the Financial Statements (Notes)* provide additional information that is essential for a full understanding of the data provided in the financial statements. The Notes are located immediately following the financial statements.
- *The Supplemental Schedule* presents the two-year adopted budget for the fiscal year ended June 30, 2011 and compares it to actual amounts. The schedule is prepared on the budgetary basis.

Other Information

The financial statements include the accounts of the San Diego County Water Authority Financing Corporation, a separate legal entity established in December 1997, and the San Diego County Water Authority Financing Agency, a Joint Powers Authority (JPA), established in December 2009. The accounts of these entities are blended into the Water Authority's financial statements in accordance with Governmental Accounting Standards Board (GASB) Statement Number 14. See Note 1(a) for further information regarding these entities.

This report also contains a Statistical Section, which provides both financial and non-financial trend data about the Water Authority and its operations, and a Continuing Disclosure Section, which provides both financial and non-financial information in compliance with the Water Authority's Continuing Disclosure requirements.

For the fiscal year ended June 30, 2011, three new Statements on Auditing Standards (SAS) were implemented that required the auditors to review other information in the CAFR:

SAS Number 118, entitled "Other Information in Documents Containing Audited Financial Statements", requires that financial and nonfinancial information be reviewed in order to identify any material inconsistencies with the audited financial statements. For the Water Authority, the auditors primarily reviewed the MD&A.

SAS Number 119, entitled "Supplementary Information in Relation to the Financial Statements as a Whole" requires that the auditors perform procedures to determine whether the information is fairly stated, in all material respects, in relation the financial statements as a whole. For the Water Authority, the auditors primarily reviewed the Transmittal Letter, the Supplemental Schedule and the Statistical Section.

SAS Number 120, entitled "Required Supplementary Information", requires that information that is not part of the basic financial statements be reviewed in order to identify any material inconsistencies with the audited financial statements. For the Water Authority, the auditors primarily reviewed the Continuing Disclosure Section.

Financial Analysis of the Water Authority

San Diego County Water Authority Condensed Statement of Net Assets, in Millions (\$)

	June 30,		
	2011	2010	2009
Assets:			
Capital assets	\$ 2,981.9	\$ 2,835.1	\$ 2,605.2
Other assets	936.1	1,073.8	690.0
Total assets	3,918.0	3,908.9	3,295.2
Liabilities:			
Long-term liabilities	2,074.7	2,102.1	1,535.1
Other liabilities	548.9	551.2	552.8
Total liabilities	2,623.6	2,653.3	2,087.9
Net assets:			
Invested in capital assets, net of related debt	976.6	954.0	964.2
Restricted	121.7	116.1	80.4
Unrestricted	196.1	185.5	162.7
Total net assets	\$ 1,294.4	\$ 1,255.6	\$ 1,207.3 ⁽¹⁾

Notes:
(1) Amounts have been restated.

As noted earlier, net assets may serve over time as a useful indicator of an entity's financial position. In the case of the Water Authority, assets exceeded liabilities by \$1,294.4 million and \$1,255.6 million as of June 30, 2011 and 2010 respectively. Of these amounts, \$196.1 million and \$185.5 million (unrestricted net assets) for Fiscal Year 2011 and 2010 respectively, is available to meet commitments to the Water Authority creditors and region citizenry. Total net assets increased by \$38.8 million or 3.1 percent as compared to Fiscal Year 2010, which increased by \$48.3 million or four percent, compared to Fiscal Year 2009. The largest portion of the Water Authority's net assets, 75.4 percent and

76.0 percent for Fiscal Years 2011 and 2010 respectively, reflects its investment in capital assets less any related debt used to acquire those assets that are still outstanding. It should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

In addition to debt related to capital asset design, acquisition and construction, long-term liabilities include contributions payable which decreased by \$2.9 million from Fiscal Year 2010 to Fiscal Year 2011. Contributions Payable of \$64.8 million consists of \$47.2 million for the QSAJPA for environmental mitigation and \$17.6 million for the third-party socioeconomic impacts as a result of the Imperial Irrigation District Conserved Water Transfers. See Note 9(i) in the Financial Section for further information. Compensated Absences had a slight increase of \$0.1 million from \$6.3 million in Fiscal Year 2010 to \$6.4 million in Fiscal Year 2011. Other Post-Employment Benefits (OPEB) related to retiree health increased by \$0.3 million from \$0.6 million in Fiscal Year 2010 to \$0.9 million in Fiscal Year 2011. The Water Authority funds OPEB on a pay-as-you-go basis. See Note 9 and Note 11 in the Financial Section for further information.

Capital Assets

San Diego County Water Authority Capital Assets (Net of Accumulated Depreciation and Amortization), in Millions (\$)

	June 30,		
	2011	2010	2009
Land	\$ 19.5	\$ 19.1	\$ 13.1
Construction in progress	519.5	1,199.7	1,302.9
Work in progress	0.6	0.6	0.8
Plant and equipment	1,976.7	1,371.4	1,166.2
Intangible assets	465.6	244.3	122.2
Total	\$ 2,981.9	\$ 2,835.1	\$ 2,605.2⁽¹⁾

Notes:

(1) Amounts have been restated.

Capital assets include land, construction in progress, work in progress, plant and equipment, and intangible assets (net of accumulated depreciation and amortization). Included in capital assets are \$41.2 million and \$51.6 million of capitalized interest for Fiscal Year 2011 and Fiscal Year 2010 respectively. At June 30, 2011, capital assets total \$3.0 billion which is an increase of \$146.8 million from Fiscal Year 2010. The main reasons for the increase in capital assets in Fiscal Year 2011 is attributed to capital improvement projects and the recording of intangible assets in the participation rights and capacity rights in the following projects: the San Vicente Dam Raise to the 2nd Aqueduct, San Vicente Pump Station, San Vicente Surge Control Facility, the All-American Canal lining project, Moreno-Lakeside Pipeline and the Levy Treatment Plant capacity. The increases in capital assets from Fiscal Year 2010 were due to the capital improvement projects such as: the San Vicente Dam Raise and Carryover Storage, the San Vicente Pipeline and Aqueduct Interconnect, and the Mission Trails Pipeline Tunnel. See Introductory Section, Highlights of the Capital Improvement Program, and Notes 6 and 7 in the Financial Section for more information.

At June 30, 2010, capital assets totalled \$2.8 billion which was an increase of \$229.9 million from Fiscal Year 2009. The main reasons for the increases in capital assets were due to the following capital improvements: the Emergency Storage Project, Colorado River Canal Linings, Lake Hodges projects, the San Vicente Dam Raise and Carryover Storage, the Mission Trails Pipeline Tunnel and the East County Treated Water Improvements.

Debt Administration

Long-term Debt

San Diego County Water Authority Outstanding Long-Term Debt, in Millions (\$)

	June 30,		
	2011	2010	2009
Revenue Bonds	\$ 624.6	\$ 624.6	\$ -
Certificates of Participation	1,345.0	1,369.2	1,426.5
Total	\$ 1,969.6	\$ 1,993.8	\$ 1,426.5

As of June 30, 2011 the Water Authority has just under \$2.0 billion in long-term debt outstanding. During Fiscal Year 2011, the Water Authority paid down principal of the 1997A and 2002A Water Revenue Certificates of Participation (COPs) totalling \$17.5 million and \$6.6 million respectively. The decrease of \$57.3 million from Fiscal Year 2009 to 2010 was due to the refunding of approximately \$51 million of the 1998A Water Revenue COPs and the 2002A Water Revenue COPs principal payment of \$6.3 million. More detailed information about the Water Authority's long-term debt is presented in Note 9 of the Financial Statements.

Credit Ratings

The Water Authority holds long-term senior lien credit ratings of AA+, AA+ and Aa2 from Standard and Poor's, Fitch, and Moody's, respectively. The Water Authority also holds subordinate lien credit ratings from those agencies of AA, AA and Aa3, respectively. (Subordinate lien credit ratings are typically at least one level below senior lien credit ratings.) The Water Authority's current credit ratings are considered high quality by all standards.

**San Diego County Water Authority Statement of Revenues, Expenses and Changes in Net Assets,
in Millions (\$)**

	June 30,		
	2011	2010	2009 ⁽¹⁾
Operating revenues:			
Water sales	\$ 382.9	\$ 387.9	\$ 360.0
Other revenues	0.6	5.0	3.6
Total operating revenues	<u>383.5</u>	<u>392.9</u>	<u>363.6</u>
Nonoperating revenues:			
Property taxes and in-lieu charges	9.7	10.0	10.5
Infrastructure access charges	24.5	21.2	19.4
Investment income	7.0	5.2	18.5
Other income	6.7	1.3	5.3
Intergovernmental	12.1	5.8	-
Gain on sale/retirement of capital assets	0.4	0.1	-
Total nonoperating revenues	<u>60.4</u>	<u>43.6</u>	<u>53.7</u>
Total revenues	<u>443.9</u>	<u>436.5</u>	<u>417.3</u>
Operating expenses:			
Cost of sales	275.1	291.4	269.8
Operations and maintenance	16.6	15.5	17.5
Planning	9.7	8.6	10.0
General and administrative	13.2	15.3	15.3
Depreciation and amortization	37.4	30.7	30.0
Total operating expenses	<u>352.0</u>	<u>361.5</u>	<u>342.6</u>
Nonoperating expenses:			
Interest expense	67.9	39.0	40.8
Other expenses	7.7	13.3	7.2
Total nonoperating expenses	<u>75.6</u>	<u>52.3</u>	<u>48.0</u>
Total expenses	<u>427.6</u>	<u>413.8</u>	<u>390.6</u>
Income before capital contributions	<u>16.3</u>	<u>22.7</u>	<u>26.7</u>
Capital contributions:			
Capacity charges	10.3	10.3	13.3
Water standby availability charges	11.3	11.2	11.3
Contributions in aid of capital assets	0.9	4.1	25.0
Total capital contributions	<u>22.5</u>	<u>25.6</u>	<u>49.6</u>
Changes in net assets	38.8	48.3	76.3
Net assets at beginning of year	1,255.6	1,207.3	1,131.0
Net assets at end of year	<u>\$ 1,294.4</u>	<u>\$ 1,255.6</u>	<u>\$ 1,207.3</u>

Notes:

(1) Amounts have been restated.

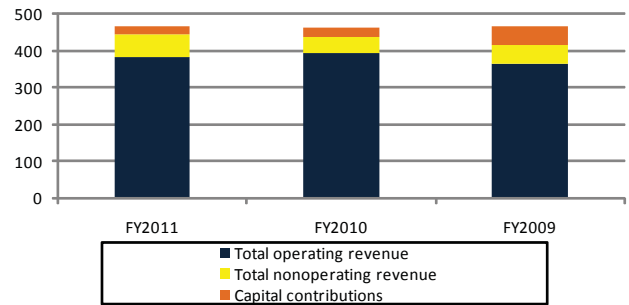
Revenues by Source

Total revenues and capital contributions for the fiscal year ended June 30, 2011 and 2010 are \$466.4 million and \$462.1 million respectively. Water sales, the principle source of revenue, totaled \$382.9 million and \$387.9 million for the Fiscal Year 2011 and 2010, which is a decrease of \$5 million. Total water deliveries decreased by 71,318 acre-feet, 66,933 acre-feet, and 55,333 acre-feet in Fiscal Years 2011, 2010, and 2009, respectively, due to mandatory use restrictions within the service area, continued water conservation efforts across the region, difficult economic conditions, and the reduced need for outdoor irrigation. Other revenues were \$4.4 million less in Fiscal Year 2011 compared to 2010 because grant reimbursements occurred at a slower rate than anticipated.

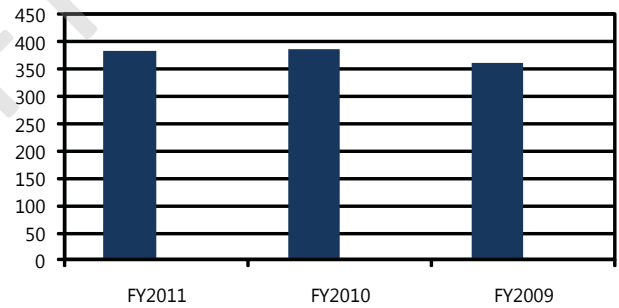
Nonoperating revenues are comprised of property taxes and in-lieu charges, infrastructure access charges (IAC), investment income, intergovernmental, gain on sale/retirement of capital assets, and other income. Nonoperating revenues increased by \$16.8 million in Fiscal Year 2011 compared to Fiscal Year 2010. The increase is attributable primarily to higher infrastructure access charge revenue due to increased rates in Calendar Year 2009 through 2011 and the Build America Bonds interest payment subsidies received from the United States Treasury. In addition, with the 2010A and 2010B Revenue Bonds issued in February 2010, the Water Authority realized higher investment earnings due to the increase in the investment portfolio.

The Water Authority has experienced reductions in contributions in aid of capital assets over the past two fiscal years, a decrease of \$3.2 million and \$20.9 million from the Fiscal Year 2010 and Fiscal Year 2009 respectively. During Fiscal Year 2009, the Water Authority received grant reimbursements from the State of California's Department of Water Resources. Historically, revenue in this category averaged \$2-3 million.

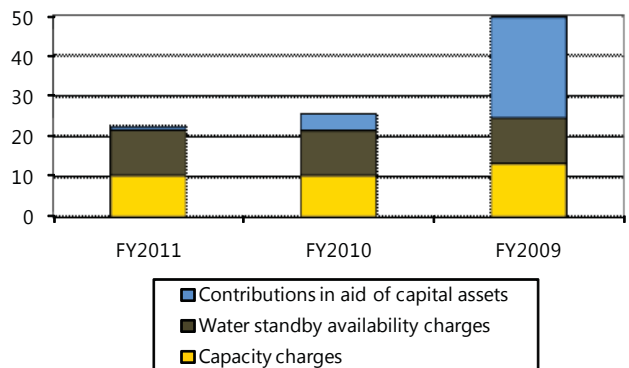
Total Revenues and Capital Contributions, in Millions (\$)



Water Sales, in Millions (\$)



Capital Contributions, in Millions (\$)



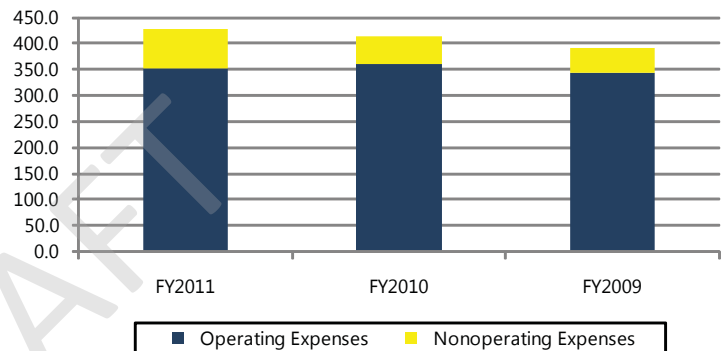
Expenses by Function

Total expenses for the fiscal year ended June 30, 2011 and 2010 are \$427.6 million and \$413.8 million which is an increase of \$13.8 million and \$23.2 million over the prior fiscal years. Operating expenses include the cost of water sales, operating departmental/programmatic expenses, and depreciation and amortization expenses. Operating expenses are \$352.0 and \$361.5 million for Fiscal Years 2011 and 2010 respectively.

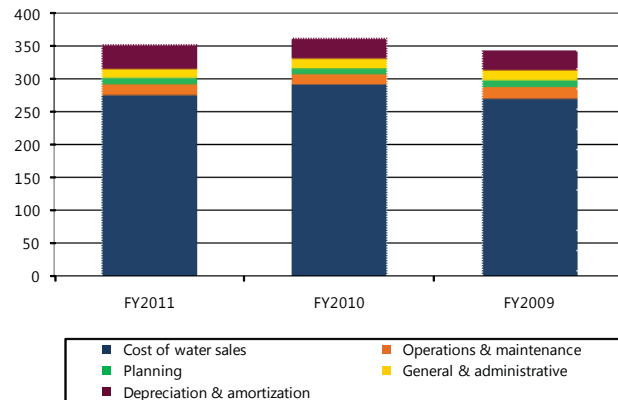
Nonoperating expenses are \$75.6 million, \$52.3 million and \$48.0 million for Fiscal Year 2011, 2010, and 2009, respectively, and consist of interest and other expenses. Interest expense is \$67.9 million, \$39.0 million, and \$40.8 million for Fiscal Year 2011, 2010, and 2009, respectively.

In Fiscal Year 2011, operating expenses decreased \$9.5 million compared to Fiscal Year 2010 primarily due to decreased sales volumes of water purchases from the Water Authority's two main suppliers, the Metropolitan Water District and IID. Consequently, in Fiscal Year 2010, operating expenses increased \$18.9 million, or 5.5 percent when compared to Fiscal Year 2009, primarily due to increased costs of water purchases from the Water Authority's two main suppliers. Detailed information about expenses by department/program is presented in the Budgetary Comparison Schedule located in the Financial Section directly following the Notes to the Financial Statements. Depreciation and amortization expenses are \$37.4 million, \$30.7 million, and \$30.0 million for Fiscal Year 2011, 2010, and 2009, respectively. As the Water Authority continues to construct capital assets, depreciation expense increases as these new assets are subsequently depreciated.

Total Expenses, in Millions (\$)



Operating Expenses, in Millions (\$)



Fiscal Years 2012 and 2013 Multi-Year Budget

The Board of Directors approved the multi-year budget from July 1, 2011 through June 30, 2013 totalling \$1.4 billion which is a 16 percent reduction compared to the previous two-year amended budget of \$1.69 billion. Over 90 percent of the adopted budget is for expenditures associated with either the purchase and treatment of water or the building and financing of infrastructure.

Adopted Calendar Year 2012 Rates and Charges

In June 2011, the Board approved adjustments to rates and charges for Calendar Year 2012. These adjustments amount to an increase of approximately 7.7 percent for the delivery of treated water. The total cost for municipal and industrial treated water will rise to \$1,148 per acre-foot, up \$82 from the latest estimated 2011 cost for treated water. Untreated water rates will rise by \$64 per acre-foot, up 7.5 percent. This significant adjustment reflects the increased cost of purchased water from the Water Authority's primary supplier, MWD, as well as increased debt service costs.

Currently Known Facts, Conditions or Decisions

In April 2011, the Water Authority was awarded \$1 million for the Integrated Regional Water Management (IRWM) Plan Update from the Department of Water Resources for the Proposition 84, Integrated Regional Water Management Planning Grant Program. The total cost of the project is \$1,465,880, with \$465,880 in local match from the Regional Water Management Group, comprised of the City of San Diego, The County of San Diego and the San Diego County Water Authority. Additionally, in August 2011, the Water Authority was awarded a \$7.9 million water quality improvement grant from the Department of Water Resources for the Proposition 84, Round 1 Integrated Regional Water Management Implementation Grant. These grant programs provide funding for projects that assist local public agencies to meet long term water needs of the state including the delivery of safe drinking water and the protection of water quality and the environment.

In July 2011, the Water Authority issued \$86.6 million in Subordinate Lien Water Revenue Bonds (2011S-1) to refinance \$100 million of outstanding Commercial Paper Notes which were used to fund a portion of the design, acquisition, and construction of various projects within the Capital Improvement Program. In addition, the Water Authority issued \$139.9 million in Water Revenue Refunding Bonds (2011A) to refund \$150.3 million in long-term fixed-rate bonds from the 2002A Water Revenue Certificates of Participation series.

In September 2011, the Water Authority issued \$94.5 million in Water Revenue Refunding Bonds (2011B) to refund \$98.4 million in long-term fixed-rate bonds from the 2002A, \$62.1 million and \$36.3 from the 2004A series bonds. Combined, the 2011A and 2011B Water Revenue Refunding Bonds reduced the Water Authority's financing costs on a present value basis by \$18.7 million. These savings will help to mitigate future rate increases and minimize the financing costs for capital projects.

Contacting the Water Authority's Financial Management Division

This financial report is designed to provide the Board of Directors, the Water Authority's member agencies, taxpayers, creditors, and investors with a general overview of the Water Authority's accountability for the financial resources it manages. If you have questions about this report or need additional financial information, contact the Finance Department at the San Diego County Water Authority, 4677 Overland Avenue, San Diego, California 92123.

**San Diego County Water Authority
 Statements of Net Assets, June 30, 2011 and 2010**

	2011	2010
Assets:		
Current assets:		
Cash and investments (Notes 1d and 2)	\$ 98,323,388	\$ 96,667,087
Restricted cash and investments (Notes 1d and 2)	432,115,952	565,858,310
Water receivables	65,275,869	77,450,758
Interest receivable	2,843,116	2,940,382
Taxes receivable	1,571,611	1,824,080
Other receivables	4,049,449	7,105,549
Inventories (Notes 3)	20,695,962	25,398,574
Prepaid expenses (Note 4)	4,638,014	4,615,500
Total current assets	<u>629,513,361</u>	<u>781,860,240</u>
Noncurrent assets:		
Cash and investments (Notes 1d and 2)	75,230,446	37,678,064
Restricted cash and investments (Notes 1d and 2)	192,445,361	216,097,708
Deferred charges	282,190	159,240
Advances to other agencies	85,879	-
Retention receivable	958,905	-
Long-term loan receivables (Note 5)	20,688,268	20,688,268
Unamortized bond issuance costs (Note 9)	16,931,743	17,282,596
Capital assets (Notes 1e and 6):		
Land	19,477,666	19,065,447
Construction in progress	519,417,570	1,199,690,241
Work in progress	641,065	641,065
Plant and equipment, net	1,976,696,408	1,371,349,004
Intangible assets, net	465,627,473	244,339,340
Total noncurrent assets	<u>3,288,482,974</u>	<u>3,126,990,973</u>
Total assets	<u>3,917,996,335</u>	<u>3,908,851,213</u>
Liabilities:		
Current liabilities:		
Accounts payable and other liabilities	70,026,215	71,836,072
Interest payable	18,709,310	19,035,842
Construction deposits	192,366	302,657
Short-term liabilities (Note 8)	460,000,000	460,000,000
Current portion of long-term liabilities (Note 9)	34,018,207	31,658,450
Total current liabilities	<u>582,946,098</u>	<u>582,833,021</u>
Noncurrent liabilities:		
Long-term liabilities (Note 9)	2,040,638,522	2,070,416,397
Total noncurrent liabilities	<u>2,040,638,522</u>	<u>2,070,416,397</u>
Total liabilities	<u>2,623,584,620</u>	<u>2,653,249,418</u>
Net assets:		
Invested in capital assets, net of related debt	976,570,300	954,037,294
Restricted for construction projects	121,172,255	115,506,824
Restricted for debt service	586,217	597,315
Unrestricted (Note 1h)	196,082,943	185,460,362
Total net assets	<u>\$ 1,294,411,715</u>	<u>\$ 1,255,601,795</u>

See accompanying notes to the financial statements.

**San Diego County Water Authority
Statements of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Years Ended June 30, 2011 and 2010**

	2011	2010
Operating revenues:		
Water sales	\$ 382,922,036	\$ 387,871,218
Other revenues	634,572	4,965,060
Total operating revenues	<u>383,556,608</u>	<u>392,836,278</u>
Operating expenses:		
Cost of sales	275,099,372	291,385,187
Operations and maintenance	16,576,465	15,482,609
Planning	9,754,403	8,642,260
General and administrative	13,238,715	15,270,175
Depreciation and amortization	37,364,821	30,657,250
Total operating expenses	<u>352,033,776</u>	<u>361,437,481</u>
Operating income	<u>31,522,832</u>	<u>31,398,797</u>
Nonoperating revenues (expenses):		
Property taxes and in-lieu charges (Notes 1j and 1k)	9,654,508	9,971,624
Infrastructure access charges (Note 1i)	24,507,570	21,241,060
Investment income	6,960,755	5,217,031
Other income	6,692,333	1,256,746
Intergovernmental	12,123,072	5,791,292
Gain on sale/retirement of capital assets	435,065	52,598
Interest expense	(67,886,725)	(38,982,442)
Other expenses	(7,688,795)	(13,311,285)
Total nonoperating revenues (expenses)	<u>(15,202,217)</u>	<u>(8,763,376)</u>
Income before capital contributions	<u>16,320,615</u>	<u>22,635,421</u>
Capital contributions (Note 1m):		
Capacity charges	10,321,076	10,298,928
Water standby availability charges	11,255,132	11,240,386
Contributions in aid of capital assets	913,097	4,087,011
Total capital contributions	<u>22,489,305</u>	<u>25,626,325</u>
Changes in net assets	<u>38,809,920</u>	<u>48,261,746</u>
Net assets at beginning of year	1,255,601,795	1,207,340,049
Net assets at end of year	<u>\$ 1,294,411,715</u>	<u>\$ 1,255,601,795</u>

See accompanying notes to the financial statements.

**San Diego County Water Authority
Statements of Cash Flows, For the Fiscal Years Ended June 30, 2011 and 2010**

	2011	2010
Cash flows from operating activities:		
Cash received from customers	\$ 398,787,597	\$ 380,531,626
Cash paid to suppliers for purchases of water	(265,536,798)	(294,570,887)
Cash paid to suppliers for goods and services	(6,213,156)	(7,453,261)
Cash paid to employees for services	(41,766,289)	(42,895,846)
Net cash provided by (used for) operating activities	<u>85,271,354</u>	<u>35,611,632</u>
Cash flows from noncapital financing activities:		
Property taxes and in-lieu charges received	9,906,977	9,977,161
Infrastructure access charges received	24,507,570	21,241,060
Intergovernmental	12,123,072	5,791,292
Net cash provided by (used for) noncapital financing activities	<u>46,537,619</u>	<u>37,009,513</u>
Cash flows from capital and related financing activities:		
Cash paid for acquisition and construction of capital assets	(142,586,800)	(189,457,004)
Contributions and capital related revenues received from other governments	22,489,305	25,626,325
Cash paid for deferred charges	(122,950)	(159,240)
Proceeds of short-term debt issuance	460,000,000	460,000,000
Proceeds of long-term debt issuance	-	624,630,000
Cost of debt issuance	(326,092)	(5,639,216)
Principal paid on short-term debt	(460,000,000)	(460,000,000)
Principal paid on long-term debt	(27,000,955)	(65,321,650)
Interest paid on debt	(109,505,524)	(75,736,407)
Net cash provided by (used for) capital and related financing activities	<u>(257,053,016)</u>	<u>313,942,808</u>
Cash flows from investing activities:		
Interest received on investments	7,058,021	5,779,086
Net cash provided by (used for) investing activities	<u>7,058,021</u>	<u>5,779,086</u>
Net increase (decrease) in cash and cash equivalents	<u>(118,186,022)</u>	<u>392,343,039</u>
Cash and investments at beginning of year	<u>916,301,169</u>	<u>523,958,130</u>
Cash and investments at end of year	<u>\$ 798,115,147</u>	<u>\$ 916,301,169</u>
Reconciliation of cash and investments at the end of the year:		
Current assets:		
Cash and investments	98,323,388	96,667,087
Restricted cash and investments	432,115,952	565,858,310
Noncurrent assets:		
Cash and investments	75,230,446	37,678,064
Restricted cash and investments	192,445,361	216,097,708
Cash and investments at the end of the year	<u>\$ 798,115,147</u>	<u>\$ 916,301,169</u>

See accompanying notes to the financial statements.

San Diego County Water Authority
Statements of Cash Flows, For the Fiscal Years Ended June 30, 2011 and 2010, (continued)

	2011	2010
Reconciliation of operating income to net cash provided by (used for) operating activities:		
Operating income	\$ 31,522,832	\$ 31,398,797
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:		
Depreciation and amortization	37,364,821	30,657,250
Other expenses	(7,688,795)	(13,311,285)
Other income	6,692,333	1,256,746
(Increase) decrease in water receivables	12,174,889	(9,013,803)
(Increase) decrease in other receivables	3,056,100	(3,290,849)
(Increase) decrease in inventories	4,702,612	1,704,371
(Increase) decrease in prepaid water	(22,514)	1,098,000
Increase (decrease) in long-term loan receivables	-	(688,268)
Increase (decrease) in retention receivable	(958,905)	4,007,308
Increase (decrease) in accounts payable and other liabilities	(1,809,857)	(6,556,549)
Increase (decrease) in construction deposits	(110,291)	(2,061,432)
Increase (decrease) in compensated absences	102,129	132,346
Increase (decrease) in OPEB liability	246,000	279,000
Total adjustments	<u>53,748,522</u>	<u>4,212,835</u>
Net cash provided by (used for) operating activities	<u>\$ 85,271,354</u>	<u>\$ 35,611,632</u>
Noncash capital financing and investing activities:		
Amortization of discounts/premiums and deferred loss on refundings	\$ (765,292)	\$ (1,177,913)
Discounts/premiums on debt issued	-	8,439,125
Amortization of cost of issuance	676,945	619,718

See accompanying notes to the financial statements.

1. Nature of Business and Summary of Significant Accounting Policies

(a) Nature of Business

The San Diego County Water Authority (the Water Authority) was organized on June 9, 1944 under the County Water Authority Act (the Act). The Water Authority's primary purpose is providing wholesale water to its member agencies for domestic, municipal, and agricultural uses. The Water Authority consists of 24 member public agencies that are each represented by at least one person on the Water Authority's Board of Directors. The Water Authority is a member of the Metropolitan Water District of Southern California (MWD) and historically, the Water Authority purchased all the water it required from MWD to meet the demands of the member agencies. The Water Authority is in the process of diversifying its supply. Pursuant to the Quantification Settlement Agreement (QSA) and its related contracts, the Water Authority is obtaining conserved water from the Imperial Irrigation District (IID) and will also receive water conserved by lining of the All-American and Coachella Canals. The QSA was signed on October 10, 2003. The Water Authority also adopted a Regional Water Facilities Master Plan in 2004, which calls for further supply diversification.

The MWD Act provides a preferential right for the purchase of water by each of its constituent agencies. This preferential right is calculated using a formula and based upon such formula, the Water Authority has a statutory preferential right to approximately 17.71 percent of MWD's total supply. MWD has represented that it will provide reliable water supplies notwithstanding preferential rights.

The San Diego County Water Authority Financing Corporation (SDCW AFC) was incorporated on December 29, 1997. The SDCW AFC is a California nonprofit public benefit corporation formed to assist the Water Authority as a financing entity and is administered by a governing board which consists of five members as follows: the Chair of the Board of Directors of the Water Authority, the Chair of the Administrative and Finance Committee of the Water Authority, the General Manager of the Water Authority, the Director of Finance/Treasurer of the Water Authority, and the General Counsel of the Water Authority. The Water Authority does not issue separate financial statements for the SDCW AFC because its activities are blended with those of the Water Authority for financial reporting purposes.

The San Diego County Water Authority Financing Agency (SDCW AFA) was established on December 17, 2009 to facilitate financing and refinancing of capital improvement projects of the Water Authority. The SDCW AFA is a Joint Powers Authority (JPA) with statutory authority to issue revenue bonds and was formed by agreement between the Water Authority and the California Municipal Finance Authority (CMFA). The CMFA itself is a JPA that was created in 2004 by various local agencies to facilitate tax-exempt financing. The CMFA has entered into many such JPAs. Under the JPA agreement the Water Authority has control over all finance matters.

The SDCW AFA's sole purpose is to be a financing entity for the Water Authority and is administered by a governing board which consists of five members as follows: the Chair of the Board of Directors of the Water Authority, the Chair of the Administrative and Finance Committee of the Water Authority, the General Manager of the Water Authority, the Director of Finance/Treasurer of the Water Authority, and the General Counsel of the Water Authority. The Water Authority does not issue separate financial statements for the SDCW AFA because its activities are blended with those of the Water Authority for financial reporting purposes.

1. Nature of Business and Summary of Significant Accounting Policies, (continued)

(b) Basis of Accounting

The Water Authority is accounted for as an enterprise fund (proprietary fund type). A fund is an accounting entity with a self-balancing set of accounts established to record the financial position and results of operations of a specific governmental activity. The activities of enterprise funds closely resemble those of ongoing businesses in which the purpose is to conserve and add to basic resources while meeting operating expenses from current revenues. Enterprise funds account for operations that provide services on a continuous basis and are substantially financed by revenues derived from user charges.

The Water Authority utilizes the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized as they are incurred.

The Water Authority applies all applicable Governmental Accounting Standards Board (GASB) pronouncements in accounting and reporting for proprietary operations, as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedure.

(c) Budgets and Budgetary Accounting

The Water Authority Board of Directors adopts two-year budgets for operations, debt service, and capital expenditures. The Board of Directors, by resolution, has established budgetary controls and made a total appropriation for expenditures consistent with the adopted budget. The total appropriation adopted by the Board of Directors establishes the legal expenditure limit for the Water Authority. The Board of Directors, by resolution, has delegated to the General Manager authority to make budget adjustments as necessary within a limit of \$150,000 subject to the total appropriation limit. Budget adjustments in excess of \$150,000 or increases in the total appropriation limit must be approved by the Board of Directors. The Water Authority adhered to the budget policies and budgetary controls adopted by the Board of Directors for the fiscal years ended June 30, 2011 and 2010.

(d) Cash and Investments

The Water Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. For financial statement presentation purposes, cash and cash equivalents are shown as both restricted and unrestricted cash and investments.

Investments are reported at fair value, except for certain investment contracts that are reported at cost because they are not transferable and they have terms that are not affected by changes in market interest rates. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

Changes in fair value that occur during the fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

1. Nature of Business and Summary of Significant Accounting Policies, (continued)

(e) Capital Assets

Capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated assets are valued at their estimated fair market value on the date received. The Water Authority capitalizes all assets with a historical cost of at least \$5,000 and a useful life of at least three years. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Depreciation is computed utilizing the straight-line method over the following estimated useful lives:

Automobiles and equipment	3 to 10 years
Capacity and participation rights	10 to 110 years
Dams	100 years
Plants and facilities	25 to 40 years
Water transportation pipelines	25 to 100 years

Intangible Assets

The Water Authority also participates in various storage and water management programs, or builds capital assets that by agreement entitle it to certain participation or capacity rights that are included in capital assets as intangible assets. Some projects also require payments for on-going maintenance which are charged to expense as incurred. Amortization is computed utilizing the straight-line method over the estimated useful life for capacity rights, software, and easements or life of the agreement in the case of participation rights.

Capitalized Interest

The Water Authority capitalizes interest on self-constructed assets during the period of construction. The amount of interest cost capitalized on qualifying assets acquired with proceeds of tax-exempt borrowings that are externally restricted to finance acquisition of specified assets is all interest costs of the borrowings less any interest earned on related interest-bearing investments acquired with such unexpended proceeds from the date of the borrowings until the assets are substantially complete and are ready for their intended use.

(f) Compensated Absences

It is the Water Authority's policy to permit employees to accumulate earned but unused vacation benefits up to a maximum of 50 days (75 days for management). Sick leave hours accrue at the rate of one day per month. Employees may elect to receive cash for accumulated sick leave depending on the prevailing rules at the time of termination or retirement. All accumulated vacation and vested sick leave pay is recorded as an expense and a liability at the time the benefit is earned.

1. Nature of Business and Summary of Significant Accounting Policies, (continued)

(g) Arbitrage Rebate

Arbitrage is the difference between the interest paid on tax-exempt bonds and the interest earned by investing the proceeds at higher yielding taxable securities. Federal income tax laws generally restrict the ability to earn arbitrage and such amounts are accumulated in order to make arbitrage rebate payments to the federal government under the Internal Revenue Code.

(h) Unrestricted Net Assets

The unrestricted net assets of the Water Authority are restricted by state law for sole use by the Water Authority for water operations. They are reported as unrestricted net assets in the accompanying financial statements because this restriction corresponds to the general purpose for which the Water Authority was established. They are unavailable for other government uses and are committed to the ongoing operations of the Water Authority, including amounts necessary to cover contingencies, unanticipated expenditures, revenue shortfalls, and weather and economic fluctuations.

(i) Revenue Policies

The principal source of the Water Authority's revenues is provided by water sales, which include all charges for the sale and availability of water, including water supply rates, customer service, storage charges, and transportation/exchange transactions. Water is delivered to member agencies on demand and revenue is recognized at the time of delivery.

In June 1998 the Infrastructure Access Charge (IAC) was adopted by the Board of Directors as an additional source of fixed revenue to provide better coverage of the Water Authority's projected fixed expenditures. The IAC is levied on each Water Authority member agency based on the number and size of retail water meters within the agencies and within the Water Authority's service area. The fixed charge is levied against each member agency for the purpose of maintaining a minimum ratio of projected fixed revenue to projected fixed expenditures of 25 percent. The IAC is adjusted each calendar year as part of the regular rate-setting process. Beginning on January 1, 2011, the IAC increased from \$2.02 to \$2.49 per meter equivalent per month.

(j) Property Taxes

The Water Authority is authorized under the Act to levy taxes on all taxable property within its boundaries for the purposes of carrying on its operations and paying its obligations subject to certain limitations in the Act, the Revenue and Taxation Code, and the California Constitution.

Property taxes are levied annually by the Water Authority's Board of Directors as of July 1, using a lien date of March 1, and are payable by property owners in two equal installments, which are due by December 10 and April 10. The taxes levied are billed and collected by the County of San Diego and are remitted to the Water Authority throughout the year.

(k) In-Lieu Charges

Member agencies of the Water Authority may elect to pay in-lieu charges instead of the tax levy. Presently, only the City of San Diego pays the in-lieu charge directly to the Water Authority.

1. Nature of Business and Summary of Significant Accounting Policies, (continued)

(l) Classification of Revenues

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services, and producing and delivering goods in connection with an enterprise fund's principal operations. The principal operating revenues of the Water Authority consist of sales of water. Nonoperating revenues consist of property taxes, in-lieu charges, IAC, investment income, hydroelectric sales, intergovernmental, and other miscellaneous income.

(m) Capital Contributions

Capital contributions include capacity charges, water standby availability charges, and contributions in aid of capital assets that are reflected in the accompanying Statements of Revenues, Expenses, and Changes in Net Assets. Capital contributions consist of contributed capital assets and special charges that are legally restricted for capital expenditures by state law or by the Board action that established those charges.

The Water Authority has two separate revenue sources to fund the Capital Improvement Program (CIP). A Water Standby Availability Charge was put into effect in Fiscal Year 1990 and is intended to recover some of the capital costs associated with maintaining the system. In Fiscal Year 1991 a Capacity Charge on all new or larger retail water meters installed within the boundaries of the Water Authority was implemented. This charge, based on meter size, is designed to recover a proportionate share of the capital costs associated with providing services to new connections.

Federal, state, and private grants used for capital purposes are included in Contributions in Aid of Capital Assets. These grants are typically of a reimbursable nature, that is the Water Authority first pays for the project and then the granting agency reimburses the Water Authority for its eligible expenditures. Examples of capital projects where grants are received include regional water use and efficiency improvements and water storage programs.

(n) Classification of Expenses

Operating expenses for enterprise funds include the cost of sales, operations and maintenance, planning, general and administrative expenses, depreciation on capital assets, and amortization of intangible assets. Expenses not meeting this definition are reported as nonoperating expenses and include interest expense, bond discounts/premiums, deferred loss on refunding, and other miscellaneous expenses.

(o) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the related reported amounts of revenues and expenses during the reporting period. Actual results could differ from estimates. Management believes that the estimates are reasonable.

(p) Reclassifications

Certain prior year amounts have been reclassified to conform within current year presentation.

2. Cash and Investments

Cash and investments are classified in the accompanying Statements of Net Assets at June 30 as follows:

	2011	2010
Current assets:		
Cash and investments	\$ 98,323,388	\$ 96,667,087
Restricted cash and investments	<u>432,115,952</u>	<u>565,858,310</u>
Total current assets	<u>530,439,340</u>	<u>662,525,397</u>
Noncurrent assets:		
Cash and investments	75,230,446	37,678,064
Restricted cash and investments	<u>192,445,361</u>	<u>216,097,708</u>
Total noncurrent assets	<u>267,675,807</u>	<u>253,775,772</u>
Total cash and investments	<u>\$ 798,115,147</u>	<u>\$ 916,301,169</u>

The carrying value of cash and investments held by the Water Authority consisted of the following:

	2011	2010
Petty cash	\$ 2,500	\$ 2,500
Deposits	2,327,048	363,010
Investments	<u>795,785,599</u>	<u>915,935,659</u>
Total cash and investments	<u>\$ 798,115,147</u>	<u>\$ 916,301,169</u>

2. Cash and Investments, (continued)

(a) Investments Authorized by the California Government Code and the Water Authority's Investment Policy

The table below identifies the investment types that are authorized for the Water Authority by the California Government Code and the Water Authority's investment policy. The table also identifies certain provisions of the California Government Code (or the Water Authority's investment policy, if more restrictive) 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 Water Authority rather than the general provisions of the California Government Code or the Water Authority's investment policy.

Investment Type Authorized by State Law	Authorized by Investment Policy	Maximum Maturity ⁽¹⁾	Maximum Percentage of Portfolio ⁽¹⁾	Maximum Investment in One Issuer ⁽¹⁾
Local agency bonds	Yes	5 years	20%	None
U.S. Treasury securities	Yes	5 years	None	None
Federal agency securities	Yes	5 years	85%	None
Bankers' acceptances	Yes	180 days	20%	5%
Commercial paper	Yes	270 days	25%	5%
Certificates of deposit	Yes	12/31/2013	15%	None
Placement service certificates of deposit	Yes	12/31/2013	15% ⁽²⁾	None
Negotiable certificates of deposit	Yes	12/31/2013	15% ⁽²⁾	None
Repurchase agreements	Yes	1 year	20%	None
Reverse repurchase agreements	Yes	92 days	20% of base value	None
Medium-term notes	Yes	5 years	30%	5%
Mutual funds	No	n/a	20%	10%
Money market funds	Yes	n/a	15%	10%
Mortgage pass-through securities	No	5 years	20%	None
County pooled investment funds	No	n/a	None	None
Local agency investment fund (LAIF)	Yes	n/a	\$50 Million	None
JPA pools (other investment pools)	Yes	n/a	25%	None

Notes:

(1) Based on state law requirements or investment policy requirements, whichever is more restrictive.

(2) The combined maximum portfolio exposure to placement service certificates of deposit and negotiable certificates of deposit is 15 percent.

2. Cash and Investments, (continued)

(b) 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 Water Authority's investment policy. In addition to the investments authorized in the previous table, debt proceeds held by bond trustees may be invested in guaranteed investment contracts with a maximum maturity that is limited to the final maturity of the bonds being issued.

(c) Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk where 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 Water 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 or approaching maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the Water Authority's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the Water Authority's investments by terms to maturity:

Investment Type	Fair Value	Remaining Term to Maturity			
		12 months or less	13 to 36 months	37 to 60 months	More than 60 months
U.S. Treasury securities	\$ 61,240,365	\$ 45,224,733	\$ 16,015,632	\$ -	\$ -
Federal agency securities	417,330,385	235,132,206	144,843,066	37,355,113	-
Commercial paper	29,940,281	29,940,281	-	-	-
Certificates of deposit	1,000,976	1,000,976	-	-	-
LAIF	191,991,515	191,991,515	-	-	-
JPA pools	24,293,505	24,293,505	-	-	-
Money market funds	502,954	502,954	-	-	-
Held by bond trustees:					
Money market funds	269	269	-	-	-
Federal agency securities	38,858,824	38,858,824	-	-	-
Investment contracts	30,626,525	-	-	-	30,626,525
Total	\$ 795,785,599	\$ 566,945,263	\$ 160,858,698	\$ 37,355,113	\$ 30,626,525

(d) 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 minimum rating required (where applicable) by the California Government Code, the Water Authority's investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

2. Cash and Investments, (continued)
(d) Disclosures Relating to Credit Risk, (continued)

Investment Type	Fair Value	Minimum Legal Rating	Exempt From Disclosure	Rating as of Year-End		
				AAA	A1	Not Rated
U.S. Treasury securities	\$ 61,240,365	n/a	\$ 61,240,365	\$ -	\$ -	\$ -
Federal agency securities	417,330,385	n/a	-	417,330,385	-	-
Commercial paper	29,940,281	A1	-	-	29,940,281	-
Certificates of deposit	1,000,976	n/a	-	-	-	1,000,976
LAIF	191,991,515	n/a	-	-	-	191,991,515
JPA pools	24,293,505	AAAm	-	24,293,505	-	-
Money market funds	502,954	AAAm	-	502,954	-	-
Held by bond trustees:						
Money market funds	269	AAAm	-	269	-	-
Federal agency securities	38,858,824	n/a	-	38,858,824	-	-
Investment contracts	30,626,525	n/a	-	-	-	30,626,525
Total	\$795,785,599		\$61,240,365	\$480,985,937	\$29,940,281	\$223,619,016

On August 5, 2011, Standard & Poor's Ratings Services lowered its long-term sovereign credit rating on the United States of America to AA+ from AAA. As a result, on August 8, 2011, Standard & Poor's Ratings Services lowered its issuer credit ratings and related issue ratings on various Federal Home Loan Banks, Federal Farm Credit Banks, Fannie Mae and Freddie Mac to AA+ from AAA. In addition, the ratings on 126 Federal Deposit Insurance Corp.-guaranteed debt issues from 30 financial institutions under the Temporary Liquidity Guarantee Program (TLGP), and four National Credit Union Association-guaranteed debt issues from two corporate credit unions under the Temporary Corporate Credit Union Guarantee Program (TCCUGP) have also been downgraded to AA+ from AAA. The Water Authority holds investments in these securities as well as the Local Agency Investment Fund (LAIF), which invests in various underlying securities, including the federal agency securities listed above. While LAIF is not rated, the federal agency securities are, and these have been affected by this rating change as well.

(e) Concentration of Credit Risk

The investment policy of the Water 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 five percent or more of total Water Authority investments are as follows:

Issuer	Investment Type	Reported Amount	% of Total Investments
Federal National Mortgage Association	Federal agency securities	\$158,943,347	20.0%
Federal Home Loan Bank	Federal agency securities	130,163,200	16.4%
Federal Home Loan Mortgage Corporation	Federal agency securities	102,289,252	12.9%
Federal Farm Credit Bank	Federal agency securities	64,793,410	8.1%

2. Cash and Investments, (continued)

(f) Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government 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 (for example, broker-dealer) to a transaction, a government 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 Water 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 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure Water Authority deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits.

(g) Investment in State Investment Pool

The Water Authority is a voluntary participant in LAIF, which is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the Water Authority's investment in this pool is reported in the accompanying financial statements at amounts based upon the Water 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.

(h) JPA Pools

The Water Authority is a voluntary participant in the California Asset Management Program (CAMP), a short-term pooled fund created by a joint powers authority. The CAMP fund is open to California public agencies and is administered and managed by an investment advisor. The balance available for withdrawal is based on the accounting records maintained by CAMP, which are recorded on an amortized cost basis.

3. Inventories

Inventories consist of water, valves, and materials in storage and are valued using the average cost method. Components of inventories at June 30 are as follows:

	2011	2010
Water in storage	\$ 19,410,786	\$ 24,103,433
Valves in storage	865,270	860,040
Materials in storage	<u>419,906</u>	<u>435,101</u>
Total inventories	<u>\$ 20,695,962</u>	<u>\$ 25,398,574</u>

4. Prepaid Expenses

In March 2008, the Water Authority executed an agreement with Butte Water District and Sutter Extension Water District to purchase 10,006 and 13,071 respectively for a total of 23,077 acre-feet of transfer water. As part of the transfer, the Water Authority incurred a Delta carriage loss of 20 percent, a conveyance loss of 3 percent and evaporative and aquifer losses of 10 percent. After the adjustments, the total acre-feet for Butte Water District and Sutter Extension Water District are 6,930 and 9,187 respectively for total acre-feet of 16,117.

This water is currently stored outside the Water Authority's service area pursuant to a long-term groundwater storage agreement as outlined in Note 7(d). As such, it is classified as Prepaid Expenses on the Statements of Net Assets in the amount of \$4,620,500. Also included in Prepaid Expenses are payments to the benefits administrator in the amount of \$17,514. The balance as of June 30, 2011 and 2010 was \$4,638,014 and \$4,615,500, respectively.

5. Long-Term Loan Receivables

(a) Proposition 1A State Borrowing

Under the provisions of Proposition 1A Borrowing by the State of California and as part of the 2009-10 budget package passed by the California state legislature on July 28, 2009, the State of California borrowed eight percent of the amount of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fee, the triple flip in-lieu sales tax, and supplemental property tax, apportioned to cities, counties, and special districts (excluding redevelopment agencies). The state is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten-year period. The amount of this borrowing pertaining to the Water Authority was \$688,268.

This borrowing by the State of California was recognized as a receivable in the accompanying financial statements. The tax revenues were recognized in Fiscal Year 2010 for which they were levied.

(b) Imperial Irrigation District

In October 2003, the Water Authority amended the Transfer Agreement with IID. As part of this amendment, the Water Authority made initial socioeconomic impact payments of \$10,000,000 in four installments. These funds will be used to pay for the initial administrative costs and estimated and annual cumulative socioeconomic impact costs.

Beginning in Calendar Year 2019, the Water Authority will begin receiving credits from IID to be applied against any payments due and shall continue until Calendar Year 2048 or until the agreement is terminated, whichever comes first. If the agreement terminates before Calendar Year 2048, IID is under no obligation to pay the Water Authority the remaining balance of the loan.

Under the terms of the amended agreement, in December 2007 the Water Authority paid IID \$10,000,000 for future deliveries of water. Interest on the prepayment shall begin to accrue December 31, 2019 using the Water Authority's weighted average cost of funds for its short-term and long-term debt outstanding as shown in the Water Authority's annual financial report for each fiscal year ending June 30th. If not repaid sooner, beginning December 31, 2019 through December 31, 2033, IID shall credit the Water Authority's monthly invoice for conserved water in 180 equal monthly installments of \$55,556 plus accrued interest.

For both fiscal years ended June 30, 2011 and 2010, the total long-term loan receivables balance was \$20,688,268.

6. Capital Assets

Capital asset activity for the fiscal years ended June 30, 2011 and 2010:

	Balance at June 30, 2009, as Restated	Additions	Deletions	Transfers
Capital assets not depreciated:				
Land	\$ 13,128,344	\$ -	\$ (6,248)	\$ 5,943,351
Construction in progress	1,302,928,098 ⁽¹⁾	261,452,590 ⁽²⁾	(1,207)	(364,689,240)
Work in progress	749,017	-	-	(107,952)
Total capital assets not depreciated	1,316,805,459	261,452,590	(7,455)	(358,853,841)
Other capital assets:				
Olivenhain Dam	175,971,199	-	-	-
Water transportation pipelines	994,213,762	25,944	(1,160,323)	59,236,422
Pumping plants and facilities	173,706,256	-	(143,227)	162,803,773
Treatment plants and facilities	25,620,355	-	-	-
Automobiles	6,115,851	-	(357,468)	107,952
Miscellaneous	48,952,829	338,045	(4,300,891)	8,525,763
Intangible assets (Note 1e):				
Easements	155,556	-	(1,368)	869,699
Computer systems software	3,253,579	-	-	-
Participation and capacity rights (Note 7)	132,579,741	-	(1,211,343)	127,310,232
Total other capital assets and intangible assets	1,560,569,128	363,989	(7,174,620)	358,853,841
Accumulated depreciation (Note 1e):				
Olivenhain Dam	(8,798,560)	(1,759,712)	-	-
Water transportation pipelines	(185,829,428)	(13,896,046)	984,221	-
Pumping plants and facilities	(28,355,779)	(4,668,756)	118,846	-
Treatment plants and facilities	(4,468,182)	(640,975)	-	-
Automobiles	(5,261,986)	(351,274)	338,320	-
Miscellaneous	(25,676,191)	(3,356,944)	3,258,730	56,478
Accumulated amortization (Note 1e):				
Computer systems software	(2,343,657)	(758,474)	-	-
Participation and capacity rights (Note 7)	(11,448,461)	(5,221,029)	1,211,343	(56,478)
Total accumulated depreciation and amortization	(272,182,244)	(30,653,210)	5,911,460	-
Other capital assets, net	1,288,386,884	(30,289,221)	(1,263,160)	358,853,841
Total capital assets, net	\$ 2,605,192,343	\$ 231,163,369	\$ (1,270,615)	\$ -

Notes:

(1) Construction in progress at June 30, 2009 were restated by \$827,976 to reflect the capitalization of delay damages related to the Olivenhain-Hodges Pumped Storage Facility.

(2) Additions include capitalized interest of \$41.2 million and \$51.6 million for Fiscal Year 2011 and Fiscal Year 2010 respectively.

6. Capital Assets, (continued)

Balance at June 30, 2010	Additions	Deletions	Transfers	Balance at June 30, 2011
\$ 19,065,447	\$ -	\$ -	\$ 412,219	\$ 19,477,666
1,199,690,241	132,302,392 ⁽²⁾	-	(812,575,063)	519,417,570
641,065	-	-	-	641,065
1,219,396,753	132,302,392	-	(812,162,844)	539,536,301
175,971,199	-	-	24,484,939	200,456,138
1,052,315,805	143,288	-	513,512,504	1,565,971,597
336,366,802	24,953	-	86,022,787	422,414,542
25,620,355	-	-	-	25,620,355
5,866,335	6,152	-	-	5,872,487
53,515,746	448,526	-	9,715,337	63,679,609
1,023,887	-	-	6,277,799	7,301,686
3,253,579	-	-	-	3,253,579
258,678,630	51,214,595	-	172,149,478	482,042,703
1,912,612,338	51,837,514	-	812,162,844	2,776,612,696
(10,558,272)	(1,781,632)	-	-	(12,339,904)
(198,741,253)	(15,291,239)	-	-	(214,032,492)
(32,905,689)	(8,579,870)	-	-	(41,485,559)
(5,109,157)	(640,975)	-	-	(5,750,132)
(5,274,940)	(267,719)	-	-	(5,542,659)
(25,717,927)	(2,449,647)	-	-	(28,167,574)
(3,102,131)	(151,448)	-	-	(3,253,579)
(15,514,625)	(8,202,291)	-	-	(23,716,916)
(296,923,994)	(37,364,821)	-	-	(334,288,815)
1,615,688,344	14,472,693	-	812,162,844	2,442,323,881
\$ 2,835,085,097	\$ 146,775,085	\$ -	\$ -	\$ 2,981,860,182

7. Participation and Capacity Rights

The Water Authority builds capital assets that, by agreement, entitle it to certain participation and capacity rights. The total participation and capacity rights, net of amortization, were \$458,325,787 as of June 30, 2011.

(a) Quantification Settlement Agreement Joint Powers Authority Participation Rights

Pursuant to the Quantification Settlement Agreement Joint Powers Authority Creation and Funding Agreement (the Agreement), the Water Authority agreed with IID, Coachella Valley Water District (CVWD), and the State of California, to accept responsibility for certain environmental mitigation requirements.

Under Article IX of the Agreement, the environmental mitigation contribution required by the Water Authority was \$52,220,859. Amortization is computed using the acre-feet assigned per calendar year over the life of the agreement, which is 75 years.

In addition, the Agreement required the Water Authority to pay \$11,779,141 as a contribution to the Salton Sea Restoration Fund. Amortization is computed utilizing the straight-line method over the life of the agreement, which is 45 years.

Legal expenses associated with the right to purchase water capitalized due to the MWD litigation for June 30, 2011 totalled \$1,214,595 and are amortized utilizing the straight-line method over the life of the agreement of 75 years.

(b) Imperial Irrigation District Socioeconomic Participation Rights

IID and the Water Authority resolved a dispute concerning the nature and extent of the obligations and covenants under Section 14.5 of the Revised Fourth Amendment to the Agreement between IID and the Water Authority for the Transfer of Conserved Water by agreeing to additional annual payments to be made to IID totalling \$29,520,000 over the period of ten years.

(c) Canal Lining Participation Rights

On October 10, 2003 the Water Authority assumed MWD's rights and obligations for the All-American Canal and Coachella Canal Lining Projects under Article 4A of the Colorado River Water Delivery Settlement Allocation Agreement between the United States, MWD, IID, CVWD, and the San Luis Rey Indian Water Authority (SLR). The agreement required payment of \$4,321,185 to IID for MWD's outstanding obligations.

The Agreement specifically assigned the project of lining the Coachella Canal, which is a branch from the Colorado River and is owned by the U.S. Bureau of Reclamation, to the Water Authority. The lining of the canal was in order to control water seepage through the previous unlined canal. The Coachella Canal now provides a firm supply of 21,500 acre-feet per year to the Water Authority. The cost of the project was offset by a funding agreement with the Department of Water Resources for \$79,447,974. Participation rights for this project totalled \$116,652,602 and are amortized utilizing the straight-line method over the life of the agreement, which is 110 years.

The Agreement executed January 13, 2006 between the U.S. Bureau of Reclamation (BOR), IID, and the Water Authority for the construction of the All-American Canal Lining Project provides for the construction of the canal by IID with oversight by the Water Authority and the BOR. The All-American Canal provides 56,200 acre-feet per year to the Water Authority annually for 110 years. The Department of Water Resources funded \$135.65 million for construction of the All-American Canal Lining Project, and the Water Authority funded the amount over the state subsidy. Participation rights for this project totalled \$151,809,785 as of June 30, 2011 and are amortized utilizing the straight-line method over the life of the agreement of 110 years.

7. Participation and Capacity Rights, (continued)

(d) Vidler and Semitropic Participation Rights

In July 2008, the Water Authority entered into agreements with Vidler Water Company (Vidler) and Semitropic-Rosamond Water Bank (Semitropic) that entitles the Water Authority to storage, withdrawal, and exchange rights within the Semitropic Water Banking and Exchange Program, the Semitropic Water Bank Recovery Unit, and the Antelope Valley Water Bank.

The Water Authority bought Vidler's 30,000 acre-feet of storage and recovery rights in the Semitropic Water Storage District's underground basin in Kern County. The Water Authority also invested in Semitropic, which will provide a total of 40,000 acre-feet of storage rights, for a total amount of 70,000 acre-feet.

Storage and recovery rights for this program totalled \$11,749,900 for Vidler and \$15,000,000 for Semitropic as of June 30, 2011. These rights are amortized using the straight-line method over the life of the agreement, which ends in 2035.

(e) Levy Treatment Plant Capacity Rights

In April 1997, the Water Authority entered into a capacity agreement with Helix Water District (Helix) for installation of an untreated water transmission pipeline, a flow control facility and expansion of the R.M. Levy Water Treatment Plant. Helix owns, operates, and maintains the R.M. Levy Water Treatment Plant and agreed to its phased expansion to 106 million gallons per day (mgd). In accordance with the April 1997 agreement, the Water Authority has capacity rights of 26 mgd. In April 2006, a third amendment to the agreement with Helix transferred to the Water Authority an additional 10 mgd capacity in the R.M. Levy Water Treatment Plant, for total capacity rights of 36 mgd. The Water Authority paid \$10,600,000 to Helix for 10 mgd of additional capacity in Levy Plant, \$300,000 to Helix for 4 mgd of additional capacity in the 54 Inch Transmission Main (for Lakeside), \$1,500,000 to Helix for 8 mgd of additional capacity in Helix Flume (for Otay), and \$600,000 to Helix for 12 mgd of additional capacity in Helix Flume (for Padre Dam). Capacity rights for Levy Treatment Plant Capacity Purchases totalled \$13,310,224 as of June 30, 2011 and are being amortized using the straight-line method over 35 years.

(f) Los Coches Pump Station and Helix Flume Pipeline Capacity Rights

In April 2006, the Water Authority entered into an agreement with Helix Water District regarding implementation of the East County Regional Treated Water Improvement Program (ECRTWIP). The purpose of the ECRTWIP is to significantly improve the regional water treatment capacity in East County by maximizing utilization of the R.M. Levy Water Treatment Plant to provide additional capacity to Otay Water District, Lakeside Water District, and Padre Dam Municipal Water District. The Los Coches Pump Station, which pumps into the Helix Flume Pipeline, was increased from 22 mgd to 64 mgd, with the Water Authority having capacity rights to 24 mgd. A section of the Helix Flume Pipeline had to be replaced with a new 48-inch steel pipe to withstand the increased pressure, with the Water Authority having capacity rights to 12 mgd. Capacity rights for Los Coches Pump Station totalled \$5,625,153 and for Helix Flume Pipeline totalled \$5,032,477 as of June 30, 2011, and are being amortized using the straight-line method over ten years.

7. Participation and Capacity Rights, (continued)

(g) Moreno-Lakeside Pipeline Capacity Rights

In June 2001, the Water Authority and Helix Water District executed the first amendment to the 1997 Capacity Agreement. Capacity rights for this project totalled \$6,777,313 as of June 30, 2011 and are being amortized using the straight-line method over ten years. Otay Water District (Otay) constructed a new pipeline from the Otay 14 Flow Control Facility (FCF) location to the regulatory reservoirs in the Otay System. The Water Authority reimbursed Otay for the new pipeline and Otay agreed to purchase at least 10,000 acre-feet of water per calendar year from the Water Authority. The capacity rights added to the Moreno-Lakeside Pipeline totalled \$4,803,299 as of June 30, 2011 and are being amortized using the straight-line method over ten years.

(h) Imperial Irrigation District Water Transfer – Base Contract Price Settlement Participation Rights

IID and the Water Authority executed an agreement that settled all disputes related to the Base Contract Price and the Water Authority/IID Conserved Water Transfer Agreement as stated in the Fifth Amendment to the agreement. Participation rights for this agreement totalled \$52,226,170 as of June 30, 2011 and are being amortized utilizing the straight-line method over the 110-year life of the agreement.

8. Short-Term Liabilities

Short-term liabilities activity for the fiscal years ended June 30, 2011 and 2010:

The Water Authority has a Tax-Exempt Commercial Paper (TECP) program through which it can borrow funds on a tax-exempt basis for periods up to 270 days to provide financing for the Water Authority's capital improvement program. The TECP program is comprised of six separate series with a total maximum authorized amount of \$460,000,000.

The Water Authority has remarketing agreements with five separate broker-dealers: Banc of America Securities LLC/ Merrill Lynch, JPMorgan Chase & Co., Citigroup Global Markets Inc., Barclays Capital Inc., and Goldman, Sachs and Co. The remarketing fees for the various dealer agreements range from 0.075 percent to 0.100 percent per annum on the par amount of TECP outstanding. No advances have been made under any of the revolving credit and term loan agreements during the fiscal year ended June 30, 2011.

	Balance at June 30, 2009	Additions	Deletions	Balance at June 30, 2010	Additions
Short-term debt:					
Commercial Paper - Series 1	\$ 110,000,000	\$ 934,570,000	\$ (934,570,000)	\$ 110,000,000	\$ 1,023,435,000
Commercial Paper - Series 2	175,000,000	904,750,000	(904,750,000)	175,000,000	1,736,750,000
Commercial Paper - Series 3	175,000,000	3,029,675,000	(3,029,675,000)	175,000,000	3,263,750,000
Commercial Paper - Series 4	-	-	-	-	100,000,000
Commercial Paper - Series 5	-	-	-	-	100,000,000
Commercial Paper - Series 6	-	-	-	-	50,000,000
Total short-term debt	\$ 460,000,000	\$ 4,868,995,000	\$ (4,868,995,000)	\$ 460,000,000	\$ 6,273,935,000

8. Short-Term Liabilities, (continued)

The TECP notes are secured and payable on a parity basis solely from net water revenues and are subordinate to the Water Revenue Certificates of Participation (COPs) and Water Revenue Bonds. At June 30, 2011 and 2010, the Water Authority had \$460,000,000 of commercial paper outstanding.

(a) Commercial Paper Series 1

The total maximum authorized amount of Series 1 is \$110,000,000. Series 1 has liquidity support in the form of a revolving credit and term loan agreement with Bayerische Landesbank and, unless otherwise extended, will terminate on June 30, 2013. During the term of the agreement the Water Authority pays annual commitment fees based on the par amount of the commitment or 0.50 percent.

(b) Commercial Paper Series 2

The total maximum authorized amount of Series 2 is \$175,000,000, of which \$100,000,000 was outstanding at June 30, 2011, and it was issued on November 15, 2006. Series 2 has liquidity support in the form of a revolving credit and term loan agreement with BNP Paribas and, unless otherwise extended, will terminate on November 15, 2011. During the term of the agreement the Water Authority pays annual commitment fees based on the par amount of the commitment or 0.095 percent.

(c) Commercial Paper Series 3

The total maximum authorized amount of Series 3 is \$175,000,000, of which \$0 is outstanding as of June 30, 2011, and the TECP was issued on November 15, 2006. Series 3 has liquidity support in the form of a revolving credit and term loan agreement with Dexia Credit Local, and unless otherwise extended, will terminate on November 15, 2011. During the term of the agreement the Water Authority pays annual commitment fees based on the par amount of the commitment or 0.095 percent. On June 29, 2011 the Water Authority terminated this agreement.

(d) Commercial Paper Series 4

The total maximum authorized amount of Series 4 is \$100,000,000 and it was issued on June 29, 2011. Series 4 has liquidity support in the form of a revolving credit and term loan agreement with Barclays Bank PLC and, unless otherwise extended, will terminate on June 28, 2013. During the term of the agreement the Water Authority pays annual commitment fees based on the par amount of the commitment or 0.60 percent.

(e) Commercial Paper Series 5

The total maximum authorized amount of Series 5 is \$100,000,000 and it was issued on June 29, 2011. Series 5 has liquidity support in the form of a revolving credit and term loan agreement with Wells Fargo Bank, National Association and, unless otherwise extended, will terminate on June 27, 2014. During the term of the agreement the Water Authority pays annual commitment fees based on the par amount of the commitment or 0.60 percent.

Deletions	Balance at June 30, 2011	Amounts Due Within One Year
\$ (1,023,435,000)	\$ 110,000,000	\$ 110,000,000
(1,811,750,000)	100,000,000	100,000,000
(3,438,750,000)	-	-
-	100,000,000	100,000,000
-	100,000,000	100,000,000
-	50,000,000	50,000,000
\$ (6,273,935,000)	\$ 460,000,000	\$ 460,000,000

8. Short-Term Liabilities, (continued)

(f) Commercial Paper Series 6

The total maximum authorized amount of Series 6 is \$50,000,000 and it was issued on June 29, 2011. Series 6 has liquidity support in the form of a revolving credit and term loan agreement with Citibank, N.A. and, unless otherwise extended, will terminate on June 27, 2014. During the term of the agreement the Water Authority pays annual commitment fees based on the par amount of the commitment or 0.60 percent.

9. Long-Term Liabilities

Long-term liabilities activity for the fiscal years ended June 30, 2011 and 2010:

	Balance at June 30, 2009	Additions	Deletions
Long-term debt:			
1997A Water Revenue COPs (Note 9a)	\$ 23,610,000	\$ -	\$ -
1998A Water Revenue COPs (Note 9b)	62,690,000	-	(51,005,000)
2002A Water Revenue COPs (Note 9c)	249,735,000	-	(6,365,000)
2004A Water Revenue COPs (Note 9d)	425,000,000	-	-
2005A Water Revenue Refunding COPs (Note 9e)	107,455,000	-	-
2008A Water Revenue COPs (Note 9f)	558,015,000	-	-
2010A Water Revenue Non-AMT Tax-Exempt Bonds (Note 9g)	-	98,495,000	-
2010B Water Revenue Taxable BABs (Note 9h)	-	526,135,000	-
Total long-term debt	<u>1,426,505,000</u>	<u>624,630,000</u>	<u>(57,370,000)</u>
Other liabilities:			
Contributions payable (Note 9i)	75,690,444	-	(7,951,649)
Compensated absences (Note 1f)	6,192,003	3,971,547	(3,839,201)
OPEB liability (Note 11)	364,000	436,000	(157,000)
Arbitrage rebate (Note 1g)	407,825	-	(1)
Total long-term liabilities	<u>\$ 1,509,159,272</u>	<u>\$ 629,037,547</u>	<u>\$ (69,317,851)</u>
Unamortized bond discounts/premiums, deferred loss on refunding	25,934,667	8,439,125	(1,177,913)
Total long-term liabilities, net	<u>\$ 1,535,093,939</u>	<u>\$ 637,476,672</u>	<u>\$ (70,495,764)</u>

9. Long-Term Liabilities, (continued)

Balance at June 30, 2010	Additions	Deletions	Balance at June 30, 2011	Amounts Due Within One Year	Amounts Due After One Year
\$ 23,610,000	\$ -	\$ (17,500,000)	\$ 6,110,000	\$ 6,110,000	\$ -
11,685,000	-	-	11,685,000	-	11,685,000
243,370,000	-	(6,620,000)	236,750,000	6,885,000	229,865,000
425,000,000	-	-	425,000,000	-	425,000,000
107,455,000	-	-	107,455,000	11,725,000	95,730,000
558,015,000	-	-	558,015,000	1,865,000	556,150,000
98,495,000	-	-	98,495,000	-	98,495,000
526,135,000	-	-	526,135,000	-	526,135,000
<u>1,993,765,000</u>	<u>-</u>	<u>(24,120,000)</u>	<u>1,969,645,000</u>	<u>26,585,000</u>	<u>1,943,060,000</u>
67,738,795	59,045	(2,940,000)	64,857,840	3,191,732	61,666,108
6,324,349	3,918,395	(3,816,266)	6,426,478	4,241,475	2,185,003
643,000	442,000	(196,000)	889,000	-	889,000
<u>407,824</u>	<u>-</u>	<u>-</u>	<u>407,824</u>	<u>-</u>	<u>407,824</u>
\$ 2,068,878,968	\$ 4,419,440	\$ (31,072,266)	\$ 2,042,226,142	\$ 34,018,207	\$ 2,008,207,935
<u>33,195,879</u>	<u>-</u>	<u>(765,292)</u>	<u>32,430,587</u>	<u>-</u>	<u>32,430,587</u>
<u>\$ 2,102,074,847</u>	<u>\$ 4,419,440</u>	<u>\$ (31,837,558)</u>	<u>\$ 2,074,656,729</u>	<u>\$ 34,018,207</u>	<u>\$ 2,040,638,522</u>

9. Long-Term Liabilities, (continued)

(a) 1997A Water Revenue Certificates of Participation

On December 1, 1997 the Water Authority issued 1997A Water Revenue Refunding Certificates of Participation in the amount of \$162,315,000 with stated interest rates between 4.00 percent and 5.75 percent to refund, in advance, \$74,035,000 of the 1991A Certificates of Participation with stated interest rates between 6.25 percent and 6.40 percent and \$80,000,000 of the 1991B Certificates of Participation with interest payable at rates determined by auction every fifth week, not to exceed a blended rate of 6.30 percent.

On May 1, 2008 the Water Authority issued 2008A Water Revenue Certificates of Participation and executed a current refunding of the 1997A Certificates eligible for optional prepayment. Under this option, the Water Authority may call certificates on or after May 1, 2008 that have a Certificate Payment Date on or after May 1, 2013. On June 23, 2008, \$64,238,181 of the outstanding 1997A Certificates were refunded. The principal balance of outstanding certificates at June 30, 2011 was \$6,110,000.

The outstanding Serial Certificates with an aggregate principal amount of \$6,110,000 have a stated interest rate of 5.75 percent payable semi-annually on May 1 and November 1. An amount of \$6,110,000 is due May 1, 2012.

The Certificates require that a reserve be maintained in an amount equal to the lesser of 10 percent of the principal amount, 100 percent of the maximum annual debt service, or 125 percent of the average annual debt service. A surety bond issued by Financial Security Assurance (FSA) in the amount of \$15,197,000 has been obtained by the Water Authority and issued in satisfaction of the requirement.

The 1997A Water Revenue Certificates were issued at a premium of \$2,958,000 with issuance costs of \$1,342,000. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$17,184,000.

The total debt service payment requirements with respect to the above certificates of participation are as follows:

1997A Water Revenue COPs

Year	Principal	Interest	Total
2012	\$ 6,110,000	\$ 351,325	\$6,461,325
Total	\$ 6,110,000	\$ 351,325	\$6,461,325

9. Long-Term Liabilities, (continued)
(b) 1998A Water Revenue Certificates of Participation

To provide funds for the design and construction of the Water Authority's Emergency Storage Project and other water system improvements in furtherance of the Water Authority's CIP, the Water Authority issued 1998A Water Revenue Certificates of Participation on October 15, 1998 in the aggregate principal amount of \$180,000,000.

During Fiscal Year 2010, \$51,005,000 of the 1998A Certificates were refunded by the 2010A Water Revenue Non-AMT Tax-Exempt Bonds. During Fiscal Year 2006, \$117,310,000 of the 1998A Certificates were refunded by the 2005A Water Revenue Refunding Certificates of Participation. The principal balance of outstanding certificates at June 30, 2011 was \$11,685,000.

The Term Certificates with an aggregate principal amount of \$11,685,000 have a stated interest rate of 4.75 percent payable semi-annually on May 1 and November 1. An amount of \$11,685,000 is due May 1, 2028. The certificates are insured by Financial Guaranty Insurance Company (FGIC).

The 1998A Water Revenue Certificates were issued at a discount of \$1,202,000 and issuance costs of \$965,000. The certificates required that a reserve be maintained in an amount equal to the lesser of \$15,392,000 or maximum annual debt service on the 1998A Certificates. After refundings, the reserve requirement was reduced to \$12,240,775. At June 30, 2011 the reserve was fully funded.

The total debt service payment requirements with respect to the above certificates of participation are as follows:

1998A Water Revenue COPs

Year	Principal	Interest	Total
2012	\$ -	\$ 555,038	\$ 555,038
2013	-	555,038	555,038
2014	-	555,038	555,038
2015	-	555,038	555,038
2016	-	555,038	555,038
2017-2021	-	2,775,188	2,775,188
2022-2026	-	2,775,188	2,775,188
2027-2028	11,685,000	1,110,072	12,795,072
Total	\$ 11,685,000	\$ 9,435,638	\$ 21,120,638

9. Long-Term Liabilities, (continued)

(c) 2002A Water Revenue Certificates of Participation

To provide funds for a portion of the design, acquisition, and construction of the Water Authority's Emergency Storage Project and other water system improvements in furtherance of the Water Authority's CIP, the Water Authority issued 2002A Water Revenue Certificates of Participation on May 1, 2002 in the aggregate principal amount of \$300,000,000. A portion of the proceeds were used to make an early payment of \$12,300,000 on the 1991A Certificates of Participation on July 15, 2002.

The Serial Certificates with an aggregate principal amount of \$186,685,000 have stated interest rates ranging from 4.00 percent to 5.00 percent payable semi-annually on May 1 and November 1. These certificates mature annually through May 1, 2029, subject to optional prepayments beginning May 1, 2012. The Term Certificates with an aggregate principal amount of \$50,065,000 have a stated interest rate of 5.00 percent payable semi-annually on May 1 and November 1. An amount of \$15,880,000 of these certificates is due May 1, 2030, \$16,675,000 is due May 1, 2031, and \$17,510,000 is due May 1, 2032.

The certificates require that a reserve be maintained in an amount equal to the lesser of \$18,385,750 or maximum annual debt service on the 2002A Certificates. At June 30, 2011 the reserve was fully funded. The certificates are insured by Municipal Bond Insurance Association, Inc. (MBIA).

The 2002A Water Revenue Certificates were issued at a discount of \$3,948,000 and issuance costs of \$2,271,000. Included in interest expense for the fiscal year ended June 30, 2011 is an annual amortization for discount of \$131,592. The principal balance of outstanding certificates at June 30, 2011 was \$236,750,000 or, \$233,997,585 net of unamortized discount of \$2,752,415.

The total debt service payment requirements with respect to the above certificates of participation are as follows:

2002A Water Revenue COPs

Year	Principal	Interest	Total
2012	\$ 6,885,000	\$ 11,500,078	\$ 18,385,078
2013	7,160,000	11,224,678	18,384,678
2014	7,455,000	10,929,328	18,384,328
2015	7,770,000	10,612,490	18,382,490
2016	8,115,000	10,270,610	18,385,610
2017-2021	46,660,000	45,253,833	91,913,833
2022-2026	59,390,000	32,526,500	91,916,500
2027-2031	75,805,000	16,117,500	91,922,500
2032	17,510,000	875,498	18,385,498
Total	<u>\$236,750,000</u>	<u>\$ 149,310,515</u>	<u>\$ 386,060,515</u>

9. Long-Term Liabilities, (continued)

(d) 2004A Water Revenue Certificates of Participation

To provide funds for a portion of the design, acquisition, and construction of various capital projects in furtherance of the Water Authority's CIP, the Water Authority issued 2004A Water Revenue Certificates of Participation on September 1, 2004 in the aggregate principal amount of \$425,000,000. A portion of the proceeds were used to make an early payment of \$56,700,000 on the 1991B Certificates of Participation on December 1, 2004.

The Serial Certificates with an aggregate principal amount of \$318,295,000 have stated interest rates between 4.00 percent and 5.25 percent payable semi-annually on May 1 and November 1. These certificates mature annually through May 1, 2031. The Term Certificates with an aggregate principal amount of \$106,705,000 have a stated interest rate of 5.00 percent payable semi-annually on May 1 and November 1. These certificates are due May 1, 2034.

The certificates require that a reserve be maintained in an amount equal to the lesser of \$38,568,617 or maximum annual debt service on the 2004A Certificates. At June 30, 2011 the reserve was fully funded. The certificates are insured by FSA.

The 2004A Water Revenue Certificates were issued at a premium of \$11,438,625 and issuance costs of \$2,837,544. The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$6,200,156. This difference, reported in the accompanying financial statements as a decrease in bonds payable, is being charged to operations through the year 2011. Included in interest expense for the fiscal year ended June 30, 2011 is an annual amortization for premium of \$386,652 and for loss on refunding of \$805,208. The principal balance of outstanding certificates at June 30, 2011 was \$425,000,000 or, \$433,829,057 net of unamortized premium of \$8,829,057.

The total debt service payment requirements with respect to the above certificates of participation are as follows:

2004A Water Revenue COPs

Year	Principal	Interest	Total
2012	\$ -	\$ 20,929,425	\$ 20,929,425
2013	-	20,929,425	20,929,425
2014	-	20,929,425	20,929,425
2015	-	20,929,425	20,929,425
2016	-	20,929,425	20,929,425
2017-2021	56,985,000	102,427,325	159,412,325
2022-2026	114,770,000	81,142,825	195,912,825
2027-2031	146,540,000	49,371,500	195,911,500
2032-2034	106,705,000	10,843,750	117,548,750
Total	<u>\$425,000,000</u>	<u>\$ 348,432,525</u>	<u>\$ 773,432,525</u>

9. Long-Term Liabilities, (continued)

(e) 2005A Water Revenue Refunding Certificates of Participation

On February 1, 2005 the Water Authority issued 2005A Water Revenue Refunding Certificates of Participation in the amount of \$107,455,000 to refund, in advance, \$117,310,000 of the 1998A Certificates of Participation with stated interest rates between 4.75 percent and 5.25 percent.

The Serial Certificates, with an aggregate principal amount of \$107,455,000, have stated interest rates ranging from 5.00 percent to 5.25 percent payable semi-annually on May 1 and November 1. These certificates mature serially through May 1, 2022.

The certificates require that a reserve be maintained in an amount equal to the lesser of \$10,745,500 or maximum annual debt service on the 2005A Certificates. At June 30, 2011 the reserve requirement was fully satisfied by a Reserve Surety Policy issued by FGIC. FGIC also insures the certificates.

The 2005A Water Revenue Refunding Certificates were issued at a premium of \$14,343,160 with issuance costs of \$1,152,055. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$9,890,822. This difference, reported in the accompanying financial statements as a decrease in bonds payable, is being charged to operations through Fiscal Year 2022. Included in interest expense for the fiscal year ended June 30, 2011 is an annual amortization for premium of \$835,524 and for loss on refunding of \$581,808. The principal balance of outstanding certificates at June 30, 2011 was \$107,455,000 or \$110,300,492, net of unamortized premium of \$9,051,508 and unamortized loss on refunding of \$6,206,016.

The total debt service payment requirements with respect to the above Certificates of Participation are as follows:

2005A Water Revenue Refunding COPs

Year	Principal	Interest	Total
2012	\$ 11,725,000	\$ 5,580,563	\$ 17,305,563
2013	12,240,000	4,994,313	17,234,313
2014	12,605,000	4,351,713	16,956,713
2015	13,510,000	4,351,713	17,861,713
2016	13,880,000	3,721,463	17,601,463
2017-2021	36,420,000	5,952,713	42,372,713
2022	7,075,000	371,435	7,446,435
Total	<u>\$107,455,000</u>	<u>\$ 29,323,913</u>	<u>\$ 136,778,913</u>

9. Long-Term Liabilities, (continued)

(f) 2008A Water Revenue Certificates of Participation

To provide funds for a portion of the design, acquisition, and construction of various capital projects in furtherance of the Water Authority's CIP, the Water Authority issued 2008A Water Revenue Certificates of Participation on May 1, 2008 in the aggregate principal amount of \$558,015,000. A portion of the proceeds were used to make an early payment of \$64,238,181 on the outstanding 1997A COPs on June 23, 2008.

The Serial Certificates, with an aggregate principal amount of \$558,015,000, have stated interest rates ranging from 4.00 percent to 5.00 percent payable semi-annually on May 1 and November 1.

The certificates require that a reserve be maintained in an amount equal to the lesser of \$23,670,625 or one-half of maximum annual debt service of the 2008A Certificates. At June 30, 2011 the reserve requirement was fully satisfied by a Reserve Surety Policy issued by FSA. The certificates are also insured by FSA.

The 2008A Water Revenue Certificates were issued at a premium of \$19,063,710 with issuance costs of \$7,147,600. Included in the interest expense for the fiscal year ended June 30, 2011 is an annual premium amortization of \$614,400. The principal balance of outstanding certificates at June 30, 2011 was \$558,015,000 or \$574,552,658, net of unamortized premium of \$16,537,658.

The total debt service payment requirements with respect to the above Certificates of Participation are as follows:

2008A Water Revenue COPs

Year	Principal	Interest	Total
2012	\$ 1,865,000	\$ 27,790,900	\$ 29,655,900
2013	9,120,000	27,716,300	36,836,300
2014	10,920,000	27,351,500	38,271,500
2015	11,360,000	27,351,500	38,711,500
2016	13,250,000	26,805,500	40,055,500
2017-2021	76,185,000	119,929,000	196,114,000
2022-2026	57,585,000	103,165,250	160,750,250
2027-2031	106,980,000	85,084,500	192,064,500
2032-2036	182,725,000	50,557,250	233,282,250
2037-2038	88,025,000	6,655,500	94,680,500
Total	<u>\$558,015,000</u>	<u>\$ 502,407,200</u>	<u>\$1,060,422,200</u>

9. Long-Term Liabilities, (continued)

(g) 2010A Water Revenue Non-AMT Tax-Exempt Bonds

To provide funds for a portion of the design, acquisition, and construction of various capital projects in furtherance of the Water Authority's CIP, the SDCWafa issued 2010A Water Revenue Non-AMT Tax-Exempt Bonds on February 4, 2010 in the aggregate principal amount of \$98,495,000. A portion of the proceeds were used to refund \$51,005,000 of the outstanding 1998A Certificates of Participation on March 8, 2010. The balance of proceeds will be used to finance CIP projects, including interest incurred during construction. At June 30, 2011, \$11,685,000 of 1998A Certificates of Participation remains outstanding.

The tax-exempt bonds, with an aggregate principal amount of \$98,495,000, have stated interest rates ranging from 4.00 percent to 5.25 percent payable semi-annually on May 1 and November 1.

The 2010A bonds are limited obligations of the SDCWafa and are payable solely from revenues and the other assets pledged therefore under the Trust Agreement. The Water Authority is obligated to make contract payments, solely from net water revenues, the combined totals of which equal the principal of and interest on the 2010A bonds. No debt service reserve fund was created to secure the 2010A bonds.

The 2010A Water Revenue Non-AMT Tax-Exempt Bonds were issued at a premium of \$8,439,125 with issuance costs of \$648,183. The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$834,620. This difference, reported in the accompanying financial statements as a decrease in bonds payable, is being charged to operations through the year 2027 using the life of the new debt, which was shorter than the remaining life of the old debt. This transaction resulted in an economic gain of \$1,984,683. In addition, the refunding resulted in a cash flow savings (difference in cash flows between the refunded bonds and the new bonds) of \$3,626,860.

Included in interest expense for the fiscal year ended June 30, 2011 is an annual amortization for premium of \$496,416 and for loss on refunding of \$49,092. The principal balance of outstanding bonds at June 30, 2011 was \$98,495,000 or \$105,465,795, net of unamortized premium of \$7,735,868 and unamortized loss on refunding of \$765,073.

The total debt service payment requirements with respect to the above bonds are as follows:

2010A Water Revenue Non-AMT Tax-Exempt Bonds

Year	Principal	Interest	Total
2012	\$ -	\$ 4,722,425	\$ 4,722,425
2013	-	4,722,425	4,722,425
2014	1,570,000	4,722,425	6,292,425
2015	2,560,000	4,659,625	7,219,625
2016	3,975,000	4,557,225	8,532,225
2017-2021	22,470,000	20,180,125	42,650,125
2022-2026	57,460,000	11,649,350	69,109,350
2027	10,460,000	498,000	10,958,000
Total	\$ 98,495,000	\$ 55,711,600	\$ 154,206,600

9. Long-Term Liabilities, (continued)
(h) 2010B Water Revenue Taxable Build America Bonds

To provide funds for a portion of the design, acquisition, and construction of various capital projects in furtherance of the Water Authority's CIP, the SDCWafa issued 2010B Water Revenue Taxable Build America Bonds (BABs) on February 4, 2010 in the aggregate principal amount of \$526,135,000.

The taxable bonds, with an aggregate principal amount of \$526,135,000, have a stated interest rate of 6.138 percent payable semi-annually on May 1 and November 1.

The 2010B bonds were designated as BABs under the provisions of the American Recovery and Reinvestment Act of 2009, the interest with respect to which is not excluded from gross income for federal income tax purposes, but is exempt from State of California personal income taxes. The Water Authority will receive interest subsidy payments from the United States Treasury equal to 35 percent of the interest payable.

The 2010B bonds are limited obligations of the SDCWafa and are payable solely from revenues and the other assets pledged therefore under the Trust Agreement. The Water Authority is obligated to make contract payments, solely from net water revenues, the combined totals of which equal the principal of and interest on the 2010B bonds. No debt service reserve fund was created to secure the 2010B bonds.

The 2010B Water Revenue BABs were issued at par for \$526,135,000 with issuance costs of \$4,991,033. The principal balance of outstanding bonds at June 30, 2011 was \$526,135,000.

The total debt service payment requirements with respect to the above bonds are as follows:

2010B Water Revenue Taxable BABs

Year	Principal	Interest	Total
2012	\$ -	\$ 32,294,166	\$ 32,294,166
2013	-	32,294,166	32,294,166
2014	-	32,294,166	32,294,166
2015	-	32,294,166	32,294,166
2016	-	32,294,166	32,294,166
2017-2021	-	161,470,832	161,470,832
2022-2026	7,960,000	161,364,337	169,324,337
2027-2031	35,060,000	154,891,816	189,951,816
2032-2036	88,635,000	139,457,508	228,092,508
2037-2041	128,560,000	105,900,755	234,460,755
2042-2046	156,335,000	63,169,534	219,504,534
2047-2049	109,585,000	13,627,897	123,212,897
Total	<u>\$526,135,000</u>	<u>\$961,353,509</u>	<u>\$ 1,487,488,509</u>

9. Long-Term Liabilities, (continued)

(i) Contributions Payable

Contributions Payable concern the Water Authority's payment obligations for environmental and socioeconomic impacts related to the Quantification Settlement and other connected Agreements. These payments include contributions to the Quantification Settlement Agreement Joint Powers Authority (QSA JPA) for environmental mitigation pursuant to the QSA JPA Creation and Funding Agreement, and payments to the IID on behalf of the Imperial Valley Socioeconomic Improvement Committee, the Local Entity, to mitigate third-party socioeconomic impacts of the Conserved Water Transfer Agreement.

(1) On April 25, 2007 the QSA JPA approved an agreement to modify the schedule of contributions payable pursuant to the QSA JPA Creation and Funding Agreement in order to more appropriately match environmental mitigation funding obligations. Contributions payable at June 30, 2011 was \$47,217,840.

The total contributions payable with respect to the QSA JPA Creation and Funding Agreement are as follows:

Year	QSA JPA		Total
	Principal	Interest	
2012	\$ 251,732	\$ 2,833,071	\$ 3,084,803
2013	678,281	2,817,966	3,496,247
2014	2,467,932	2,777,269	5,245,201
2015	2,662,795	2,629,194	5,291,989
2016	3,606,920	2,469,426	6,076,346
2017-2021	17,830,313	7,764,443	25,594,756
2022-2026	19,719,867	3,822,317	23,542,184
Total	\$ 47,217,840	\$ 25,113,686	\$ 72,331,526

9. Long-Term Liabilities, (continued)

(i) Contributions Payable, (continued)

(2) On May 14, 2007 the Water Authority and the IID executed the Settlement Agreement Resolving Present and Future Disputes under Sections 14.5 and 18.1 of the Revised Fourth Amendment to the IID/ Water Authority Conserved Water Transfer Agreement pursuant to which the Water Authority will pay \$40 million according to a payment schedule in the Agreement for third-party socioeconomic impacts as a result of the Conserved Water Transfer Agreement by and between the two agencies. The outstanding balance of the payment obligation at June 30, 2011 was \$17,640,000.

The remaining total contributions payable are as follows:

Year	IID Socioeconomic		
	Principal	Interest	Total
2012	\$ 2,940,000	\$ -	\$ 2,940,000
2013	2,940,000	-	2,940,000
2014	2,940,000	-	2,940,000
2015	2,940,000	-	2,940,000
2016	2,940,000	-	2,940,000
2017	2,940,000	-	2,940,000
Total	\$ 17,640,000	\$ -	\$ 17,640,000

(j) Rate Covenants

The General Resolution requires the Water Authority to set rates and charges to provide a minimum level of net revenue. Exclusive of the tax revenue and debt servicing costs associated with voter-approved general obligation bonds and other voter-approved debt, net water revenues as defined by the agreement must equal or exceed 120 percent of senior lien debt service costs (principal and interest). The Water Authority was in compliance with its rate covenants under the General Resolution.

In Fiscal Year 1990 the Water Authority established a water Rate Stabilization Fund (RSF) for the purpose of identifying amounts available to mitigate future water rate increases. The Water Authority will transfer portions of its net water revenues as defined, which exceed its debt service ratio requirement, into the RSF and from time to time transfer amounts from the RSF into net water revenues to meet its debt service coverage ratio requirements. No transfers were made during the fiscal years ended June 30, 2011 and 2010.

(k) Unamortized Bond Issuance Costs

Included in noncurrent assets at June 30, 2011 and 2010 are deferred financing costs of \$16,931,743 and \$17,282,596 respectively. The deferred financing costs are being amortized over the life of the related obligations.

10. Defined Benefit Pension Plans

(a) California Public Employees Retirement System

Plan Description

The Water Authority contributes to the California Public Employees Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement, disability benefits, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. A menu of benefit provisions as well as other requirements is established by state statutes within the Public Employee's Retirement Law. The Water Authority selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through Board approval. Copies of CalPERS' annual financial report may be obtained from their executive office at: Lincoln Plaza North, 400 Q Street, Sacramento, CA 95811.

Funding Policy

Participants are required to contribute eight percent of their annual covered salary. Effective July 1, 2006, the Water Authority pays seven percent of the employees required contribution and the employee pays the remaining one percent required contribution. For the fiscal years ended June 30, 2011 and 2010, the amount contributed by the Water Authority on behalf of the employees was (the seven percent contribution) \$1,967,249 and \$2,047,687, respectively. Benefit provisions and all other requirements are established by state statute and contracts with employee bargaining groups.

Effective July 1, 2010, Technical/Support, Professional/Administrative, Confidential and Managerial/Supervisory employees increased the amount they paid toward their retirement plan (CalPERS) by one percent for a total contribution of 2 percent. Also effective July 1, 2010, Executive and Senior Management employees increased the amount they paid by an additional 3.5 percent, for a total contribution of 4.5 percent.

Effective July 1, 2011, Technical/Support, Professional/Administrative, Managerial/Supervisory, and Confidential employees will increase the amount they pay toward their retirement plan (CalPERS) by 2.5 percent for a total contribution of 4.5 percent. Executive and Senior Management employees will continue to contribute 4.5 percent.

10. Defined Benefit Pension Plans, (continued)
(a) California Public Employees Retirement System, (continued)
Annual Pension Cost and Net Pension Obligation

Under Governmental Accounting Standards Board Statement Number 27 for Pensions by State and Local Government Employees, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period July 1, 2010 to June 30, 2011 is determined by an actuarial valuation of the plan as of June 30, 2009. The contribution rate indicated for the period is 16.552 percent of payroll. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2011, this contribution rate was multiplied by the payroll of covered employees that was actually paid during the period July 1, 2010 to June 30, 2011.

Fiscal Year	Three-Year Trend Information		
	% of APC Contribution	Annual Pension Cost (APC)	Net Pension Obligation
6/30/09	100%	\$ 4,526,549	\$ -
6/30/10	100%	4,771,669	-
6/30/11	100%	4,681,887	-

Annual Pension Cost and Net Pension Obligation

A summary of principal assumptions and methods is shown below.

Valuation Date	June 30, 2010
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	24 Years as of the Valuation Date
Asset Valuation Method	15 Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	7.75 percent (net of administrative expenses)
Projected Salary Increases	3.55 percent to 14.45 percent depending on age, service, and type of employment
Inflation	3.00 percent
Payroll Growth	3.25 percent
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00 percent and an annual production growth of 0.25 percent

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of six percent of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30-year amortization period.

10. Defined Benefit Pension Plans, (continued)

(a) California Public Employees Retirement System, (continued)

Annual Pension Cost and Net Pension Obligation, (continued)

The Schedule of Funding Progress below shows the recent history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded actuarial accrued liability (UAAL) to payroll.

Valuation Date	Accrued Liability (a)	Actuarial Value of Assets (AVA) (b)	Unfunded Liability (UL) (a)-(b)	Funded Ratios (AVA) (b)/(a)	Market Value	Annual Covered Payroll (c)	UL as a % of Payroll [(a)-(b)]/(c)
6/30/08	111,911,416	84,191,512	27,719,904	75.2%	75.5%	26,399,083	105.0%
6/30/09	132,508,162	92,359,485	40,148,677	69.7%	50.8%	28,576,413	140.5%
6/30/10	144,117,822	102,303,197	41,814,625	71.0%	56.3%	28,920,921	144.6%

(b) Terminal Pay Plan

Plan Description

The Water Authority established a Terminal Pay Plan (TPP) effective December 10, 2007, which is administered by the Water Authority's Controller who also serves as trustee. The TPP is a defined benefit pension plan established and governed under the Internal Revenue Code Section 401(a) that provides retirement benefits to participants. Each employee of the Water Authority who is entitled to vacation-leave pay or sick-leave pay (under the applicable rules, regulations, and policies) is required to participate in the TPP if the participant terminates employment with the Water Authority on or after reaching the age of 55.

Employees may elect benefits from the TPP be received in a lump sum or in monthly installments over a 60 month period (with no interest). Also, an employee has the right to elect that all or a portion of benefits be rolled over or transferred to an individual retirement account (IRA), a tax sheltered annuity, another tax-qualified retirement plan, or an eligible deferred compensation plan such as a Section 457 deferred compensation plan. A separate financial report is not prepared for the TPP.

Funding Policy

Contributions are made by the Water Authority to the TPP for eligible employees who terminate employment after age 55, and are made as soon as administratively practicable after termination of employment. Amounts held on behalf of participants are fully vested and held in trust at all times. TPP benefits for a participant who separates from Water Authority service or retires are fully vested once they are accrued and the value of TPP benefits is the amount of an employee's terminal pay. No employee contributions are permitted.

Distribution

If the value of benefits is over \$5,000, a distribution will only be made if the employee consents before April 1st following the calendar year in which they reach age 70½. If the value of an employee's vested benefit is \$5,000 or less on the date of termination, benefits will be distributed in a single lump sum.

10. Defined Benefit Pension Plans, (continued)

(b) Terminal Pay Plan, (continued)

Changes or Termination of Plan

The Water Authority reserves the right to amend the TPP at any time and for any reason. In the event the TPP is terminated, no additional contributions will be made, but the persons affected will continue to be entitled to the entire benefits under the TPP. Benefits under the TPP are not insured by the Pension Benefit Guaranty Corporation or any other government agency.

<u>Fiscal Year Ended</u>	<u>Annual Required Contributions</u>	<u>Contribution Made</u>	<u>Percentage of Required Contributions Made</u>
6/30/2009	\$ -	\$ -	100%
6/30/2010	397,052	397,052	100%
6/30/2011	227,125	227,125	100%

11. Other Post-Employment Benefits (OPEB)

Plan Description

The Water Authority has established a Retiree Healthcare Plan (the Plan), a single-employer defined benefit retiree healthcare plan. The Plan, which is administered by the Water Authority, provides employees who retire directly from the Water Authority at age 55 with five years of service a cash subsidy for monthly medical insurance premiums up to a cap of \$200 per employee or \$320 for employee plus spouse. Payments cease at age 65 when the retiree or spouse is eligible for Medicare. If applicable, a cash subsidy for the monthly medical premium continues up to a cap of \$160 for a spouse until age 65 is attained. Surviving spouses are also eligible for this benefit. The Plan and its contribution requirements are established by Memoranda of Understanding with the applicable employee bargaining units and may be amended by agreement between the Water Authority and the bargaining units.

Employees who retire directly from the Water Authority at age 55 with five years of service are eligible to continue medical coverage as a participant with active employees at a blended premium rate until eligible for Medicare at age 65 as an implied subsidy. A separate financial report is not prepared for the Plan.

Funding Policy

The required contribution is based on projected pay-as-you-go financing requirements. For the fiscal years ended June 30, 2011 and 2010, the Water Authority's cash contributions were \$99,000 and \$85,000 in current premiums which covered 43 and 35 retirees or their spouses, respectively. The estimated implied subsidy for the fiscal years ended June 30, 2011 and 2010 was \$97,000 and \$72,000 with a total projected payment of \$196,000 and \$157,000 respectively.

11. Other Post-Employment Benefits (OPEB), (continued)

Annual OPEB Cost and Net OPEB Obligation

The Water Authority's annual OPEB cost is calculated based on the ARC of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The annual OPEB cost and the net OPEB obligation at June 30 is as follows:

	2011	2010
Annual required contribution	\$ 461,000	\$ 446,000
Interest on net OPEB obligation	32,000	18,000
Adjustment to annual required contribution	-	-
Amortization of net OPEB obligation	(51,000)	(28,000)
Annual OPEB cost	442,000	436,000
Contributions made	(196,000)	(157,000)
Increase in net OPEB obligation	246,000	279,000
Net OPEB obligation, beginning of year	643,000	364,000
Net OPEB obligation, end of year	\$ 889,000	\$ 643,000

Annual OPEB Cost and Net OPEB Obligation, (continued)

The Water Authority's annual OPEB cost, the annual OPEB cost contributed to the Plan, and the net obligation for the fiscal year ended June 30, 2011 and the two preceding fiscal years were as follows:

Three-Year Trend Information				
Fiscal Year	Annual OPEB Cost	Annual OPEB Cost Contributed	Percentage of Annual OPEB Cost Contributed	NET OPEB Obligation
6/30/09	\$ 324,000	\$ 139,000	42.9%	\$ 364,000
6/30/10	436,000	157,000	36.0%	643,000
6/30/11	442,000	196,000	44.3%	889,000

11. Other Post-Employment Benefits (OPEB), (continued)

Funded Status and Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress found below presents multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Type of Valuation	Actuarial Valuation Date	Actuarial Accrued Liability	Value of Assets	Unfunded Liability	Funded Status	Annual Covered Payroll	UAAL as a % of Payroll	Interest Rate	Aggregate Payroll Growth
Actual	1/1/2007	\$2,316,000	\$ -	\$2,316,000	0%	\$22,985,000	10%	5%	3%
Actual	1/1/2009	2,997,000	-	2,997,000	0%	23,732,000	13%	5%	3%
Actual	1/1/2011	3,933,126	-	3,933,126	0%	25,670,000	15%	5%	3%

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

A summary of principal assumptions and methods is shown below.

Valuation Date	January 1, 2011
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level percentage of payroll over 30 years on a closed basis effective June 30, 2007
Average Remaining Period	26 years as of the valuation date
Asset Valuation Method	Short-term volatility in the market value of investments is spread over a 30-year period
Actuarial Assumptions:	
Investment Rate of Return	5 percent (net of administrative expenses)
Projected Salary Increases	3.25 percent
Inflation	3 percent
Annual healthcare cost trend rates:	
HMO	8.0 percent reduced by increments to an ultimate rate of 4.5 percent after 10 years
PPO	8.5 percent reduced by increments to an ultimate rate of 4.5 percent after 10 years
Number of active plan participants	252

12. Deferred Compensation Plans & Defined Contribution Plans

The Water Authority has adopted deferred compensation plans and defined contribution plans (the Plans) in accordance with Sections 457(f) and 401(a), respectively, of the Internal Revenue Code. Generally, all eligible employees may defer receipt of a portion of their salary until future years. The employees are not liable for income taxes on amounts deferred until the funds are withdrawn. At June 30, 2011 and 2010 assets of the Plans totaled \$28,266,707 and \$22,999,765 respectively.

13. Insurance

The Water Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Water Authority is a participant in the Special District Risk Management Authority (SDRMA) pooled insurance program and obtains coverage for general liability, errors and omissions, employment practices liability, auto, property, boiler and machinery, and crime and fidelity coverage through the program. SDRMA liability coverage is \$45.0 million per occurrence with a \$50,000 deductible per occurrence. Property coverage is provided with a \$1.0 billion per occurrence and aggregate coverage limit and a sub-limit of \$100.0 million per occurrence for boiler and machinery coverage. Property and boiler and machinery coverage have a \$25,000 deductible per occurrence.

Liberty Mutual, formerly Wausau Insurance, provides workers' compensation coverage per California statutory limits with \$1.0 million per occurrence employer's liability coverage. There is no deductible per occurrence.

The amount of claims settlements did not exceed insurance coverage for the past three years for all coverage types, individually and collectively.

In 1999, the Water Authority entered into an Owner Controlled Insurance Program (OCIP) to provide workers' compensation and general liability insurance to the contractors, and professional liability, pollution liability, and builders risk for the Emergency Storage Program, the Water Authority's long-term capital plan to increase water storage. In Fiscal Year 2009, the Water Authority obtained an extension of the OCIP at a cost of \$15.0 million to cover the San Vicente Dam raise through Fiscal Year 2013. The OCIP also maintains a loss deduct account that is adjusted annually based upon loss experience and is capped at \$9.1 million. Payments to the loss account are adjusted annually based on loss experience. The general liability deductible is \$250,000 per occurrence. The primary policy coverage limit is \$2.0 million per occurrence and \$4.0 million in aggregate with excess liability coverage to \$100.0 million aggregate and total coverage limit. The workers' compensation program provides full statutory coverage with a \$250,000 deductible for each occurrence. The builders risk insurance has a variable deductible depending on the construction type and has a \$50.0 million per occurrence maximum coverage limit.

14. Jointly Governed Organization

The Water Authority's payment of specific environmental mitigation costs are being made to the QSA JPA, which reviews and approves actual expenditures for required mitigation and environmental costs. The QSA JPA is administered by the Water Authority and is made up of the Water Authority, IID, CVWD, and the State of California's Department of Fish and Game. The QSA JPA board is comprised of one member from each participating entity.

15. Commitments and Contingencies

(a) Construction Projects

At June 30, 2011, the Water Authority had material commitments under construction contracts as follows:

Project Name	
San Vicente Dam Raise (Roller-Compacted Concrete Dam & Facilities)	\$ 108,861,410
Miramar Hill to Scripps Ranch Reline	<u>18,964,750</u>
Total	<u>\$ 127,826,160</u>

(b) Litigation

The Water Authority is subject to lawsuits and claims which arise out of the normal course of business. In the opinion of management, based upon the opinion of legal counsel, the disposition of such actions of which it is aware will not have a material effect on the financial position, results of operations, or liquidity of the Water Authority.

16. Subsequent Events

Following the guidelines set forth in the Water Authority's Debt Management Policy, three transactions took place subsequent to June 30, 2011. On July 12, 2011 the Water Authority sold \$86,630,000 of Subordinate Lien Water Revenue Refunding Bonds, Series 2011S-1 to retire \$100,000,000 of the outstanding Commercial Paper Notes. The term of the fixed-rate bonds is five years, maturing on July 1, 2016. On July 27, 2011 the Water Authority sold \$139,945,000 of Water Revenue Refunding Bonds, Series 2011A to refund a portion of the outstanding Water Revenue Certificates of Participation, Series 2002A. On September 7, 2011 the Water Authority sold \$94,540,000 of Water Revenue Refunding Bonds, Series 2011B to refund a portion of the outstanding Water Revenue Certificates of Participation, Series 2002A and a portion of the outstanding Water Revenue Certificates of Participation, Series 2004A.

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**San Diego County Water Authority
Budgetary Comparison ⁽¹⁾
For the Two-Year Budget Ended June 30, 2011 - Budgetary Basis ⁽²⁾**

Revenues and Other Funding Sources/Uses	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
Water sales	\$ 964,292,000	\$ 770,793,254	\$ (193,498,746)
Property taxes and in-lieu charges	20,846,000	18,937,864	(1,908,136)
Infrastructure access charges	45,551,000	45,748,630	197,630
Investment income	26,876,000	18,224,921	(8,651,079)
Hydroelectric revenue	2,613,000	1,745,147	(867,853)
Other income	30,867,000	28,321,765	(2,545,235)
Capital contributions:			
Capacity charges	12,400,000	20,620,004	8,220,004
Water standby availability charges	22,245,000	22,495,518	250,518
Contributions in aid of capital assets	22,143,000	5,000,108	(17,142,892)
Other funding sources/uses ⁽³⁾	546,650,815	321,899,124	(224,751,691)
Total Revenues and Other Funding Sources/Uses	\$ 1,694,483,815	\$ 1,253,786,335	\$ (440,697,480)
Expenditures			
Water purchases and treatment	\$ 736,432,000	\$ 566,484,559	\$ 169,947,441
Stored water purchases	10,650,000	-	10,650,000
Capital improvement program	555,700,000	350,701,477	204,998,523
Equipment replacement	3,805,000	2,819,769	985,231
Debt service	240,008,000	220,750,377	19,257,623
QSA mitigation	22,792,000	22,792,358	(358)
Other expenditures	30,646,000	9,463,387	21,182,613
Operating departments/programs	94,450,815	80,774,408	13,676,407
Total Expenditures	\$ 1,694,483,815	\$ 1,253,786,335	\$ 440,697,480
Operating Departments/Programs			
Administrative Services	\$ 11,019,018	\$ 10,542,314	\$ 476,704
Colorado River Program	2,880,763	2,137,924	742,839
Engineering	1,786,459	1,441,402	345,057
Finance	4,731,650	4,195,732	535,918
General Counsel	5,481,425	4,547,774	933,651
General Manager & Board of Directors	5,183,340	4,901,303	282,037
Human Resources	2,312,837	2,015,544	297,293
MWD Program	2,859,859	2,539,222	320,637
Operations & Maintenance	28,654,538	25,759,300	2,895,238
Public Affairs	4,275,932	4,061,276	214,656
Right of Way	5,704,234	4,909,208	795,026
Water Conservation Program	10,216,662	4,526,683	5,689,979
Water Resources	9,344,098	9,196,726	147,372
Total Operating Departments/Programs	\$ 94,450,815	\$ 80,774,408	\$ 13,676,407

Notes:

(1) The Water Authority adopted a multi-year budget for fiscal years 2010 and 2011.

(2) Actual amounts have been adjusted to more accurately compare it to the adopted two-year budget which is prepared on a cash basis.

(3) Includes withdrawals funded by bond proceeds and other fund balances.

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This part of the San Diego County Water Authority’s Comprehensive Annual Financial Report (CAFR) presents detailed information as a context for understanding what the information in the financial statements, notes to the financial statements, and required supplementary information says about the Water Authority’s overall financial performance.

Contents.....	Page
Financial Trends	68
These tables and charts contain trend information to help the reader understand how the Water Authority’s financial performance has changed over time.	
Revenue Capacity.....	74
These tables and charts contain information to help the reader assess the Water Authority’s most significant revenue sources.	
Debt Capacity	80
These tables and charts present information to help the reader assess the ability of the Water Authority to pay debt service on outstanding debt.	
General Information.....	86
These tables and charts contain service and infrastructure data to help the reader understand how information in its financial report relates to Water Authority provided services and activities.	
Demographic and Economic Information.....	87
These tables offer demographic and economic indicators to help the reader understand the environment in which the Water Authority’s financial activities take place.	

Note: Unless otherwise noted, the information in these schedules is derived from the Water Authority’s comprehensive annual financial statements for the relevant year.

TABLE 1
Net Assets - Last 10 Fiscal Years

Fiscal Year	Invested in Capital Assets, Net of Related Debt	Restricted for Construction Projects	Restricted for Debt Service	Unrestricted	Total Net Assets	Changes in Net Assets	% of Change in Net Assets
2011	\$ 976,570,300	\$ 121,172,255	\$ 586,217	\$ 196,082,943	\$ 1,294,411,715	\$38,809,920	3.1%
2010	954,037,294	115,506,824	597,315	185,460,362	1,255,601,795	48,261,746	4.0%
2009	964,225,706	79,790,128	614,622	162,709,593	1,207,340,049 ⁽¹⁾	76,296,511	6.7%
2008	873,060,643	97,515,721	637,302	159,829,872	1,131,043,538 ⁽¹⁾	55,277,185	5.5%
2007	523,870,502	377,044,103	69,195,142	32,198,811	1,002,308,558	67,531,849	7.2%
2006	540,181,424	289,266,824	69,195,142	36,133,319	934,776,709 ⁽¹⁾	43,578,846	4.9%
2005	303,522,426	447,808,344	69,195,142	70,671,951	891,197,863	31,484,030	3.7%
2004	553,641,421	185,705,999	55,106,344	65,260,069	859,713,833	38,634,221	4.7%
2003	344,847,538	285,556,306	55,106,344	135,569,424	821,079,612	63,575,969	8.4%
2002	176,218,643	413,256,676	55,106,344	112,921,980	757,503,643	78,894,463	11.6%

Notes:

(1) Net assets at June 30, 2009 and 2008 were restated to reflect the capitalization of project costs. Net assets at June 30, 2008 and 2006 were restated to reflect the cancellation of projects.

TABLE 2
Revenues and Capital Contributions by Source - Last 10 Fiscal Years

Fiscal Year	Operating Revenues			Nonoperating Revenues				
	Water Sales ⁽¹⁾	Other Revenues	Total Operating Revenues	Property Taxes	In-Lieu ⁽²⁾ Charges	Infrastructure Access Charges	Investment Income	Other, net
2011	\$ 382,922,036	\$ 634,572	\$ 383,556,608	\$ 8,071,041	\$ 1,583,467	\$ 24,507,570	\$ 6,960,755	\$ 19,250,470
2010	387,871,218	4,965,060	392,836,278	8,341,559 ⁽³⁾	1,630,065	21,241,060	5,217,031	7,100,636
2009	359,951,622	3,608,350	363,559,972	8,760,552	1,706,932	19,389,790	18,507,476	5,396,592
2008	343,455,834	9,500,104	352,955,938	8,608,767	1,694,569	17,457,819	22,163,684	341,694
2007	343,081,511	-	343,081,511	8,009,243	580,364	16,188,099	28,966,917	7,592,838
2006	299,083,926	-	299,083,926	3,645,182 ⁽⁴⁾	408,745	13,863,726	16,607,792	4,082,256
2005	271,465,862	-	271,465,862	845,429 ⁽⁴⁾	1,308,433	11,947,760	15,735,372	8,725,610
2004	298,467,548	-	298,467,548	7,496,127	1,215,828	11,015,856	7,132,420	1,811,677
2003	283,043,676	-	283,043,676	6,968,758	1,110,350	10,091,269	19,954,975	993,914
2002	294,526,126 ⁽⁵⁾	-	294,526,126	6,535,844	1,039,222	9,967,572	16,880,033	1,104,135

Notes:

(1) Includes readiness-to-serve and capacity charges assessed by the Metropolitan Water District (MWD).

(2) The City of San Diego elects to pay in-lieu charges rather than the tax levy. This calculation is based on prior year assessed valuation.

(3) Proposition 1A Borrowing by the State of California of \$688,268 in Fiscal Year 2010 was recognized as tax revenues in the fiscal year for which they were levied.

(4) Net of Educational Revenue Augmentation Fund (ERAF) shift of \$5,787,380 in Fiscal Year 2006 and \$5,787,380 in Fiscal Year 2005. In Fiscal Year 2006 the Water Authority also received a refund of \$2,078,444 from the State of California for over-collected amounts from Fiscal Year 2005.

(5) Net of one-time refund to member agencies of \$7,159,000.

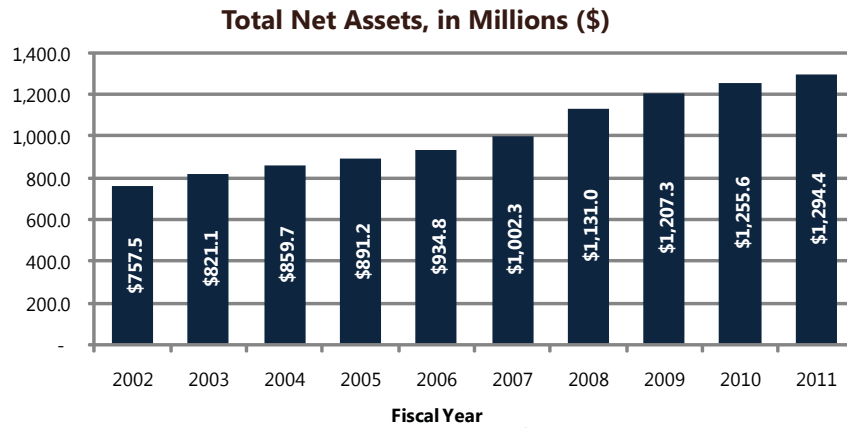


TABLE 2
Revenues and Capital Contributions by Source - Last 10 Fiscal Years, (continued)

Total Nonoperating Revenues	Capital Contributions			Total Capital Contributions	Total Revenues & Capital Contributions
	Capacity Charges	Water Standby Availability Charges	Contributions in Aid of Capital Assets		
\$ 60,373,303	\$ 10,321,076	\$ 11,255,132	\$ 913,097	\$ 22,489,305	\$ 466,419,216
43,530,351	10,298,928	11,240,386	4,087,011	25,626,325	461,992,954
53,761,342	13,265,608	11,311,384	25,027,314	49,604,306	466,925,620
50,266,533	23,883,745	11,256,386	3,986,450	39,126,581	442,349,052
61,337,461	31,081,264	11,140,380	1,581,070	43,802,714	448,221,686
38,607,701	33,869,853	10,942,483	2,001,506	46,813,842	384,505,469
38,562,604	23,458,571	10,796,776	3,174,671	37,430,018	347,458,484
28,671,908	27,020,944	10,702,066	(349,133)	37,373,877	364,513,333
39,119,266	26,305,264	10,743,061	11,079,371	48,127,696	370,290,638
35,526,806	24,951,437	10,696,052	14,338,403	49,985,892	380,038,824

Total Revenue and Capital Contributions by Source, in Millions (\$)

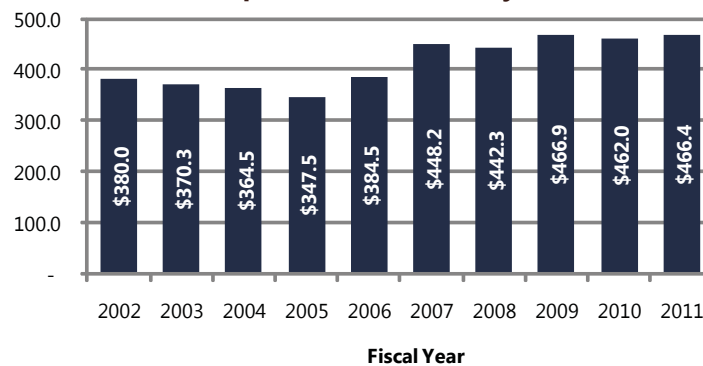


TABLE 3
Operating Expenses - Last 10 Fiscal Years

Fiscal Year	Cost of Water Sold	Operating Expenses by Function				Depreciation & Amortization	Total Operating Expenses	Interest Expense ⁽¹⁾	Other, net
		Operations & Maintenance	Planning	General & Administrative					
2011	\$275,099,372	\$ 16,576,465	\$ 9,754,403	\$ 13,238,715	\$ 37,364,821	\$ 352,033,776	\$ 67,886,725	\$ 7,688,795	
2010	291,385,187	15,482,609	8,642,260	15,270,175	30,657,250	361,437,481	38,982,442	13,311,285	
2009	269,835,859	17,409,496	10,004,616	15,309,407	30,038,388	342,597,766	40,828,498	7,202,845	
2008	262,538,493	14,475,780	8,882,047	13,561,452	28,480,207	327,937,979	52,170,107	6,963,781	
2007	266,349,351	13,935,397	7,796,355	12,791,751	23,778,986	324,651,840	49,278,087	6,759,910	
2006	233,690,170	11,573,131	7,116,647	10,945,133	22,057,478	285,382,559	36,305,443	3,602,413	
2005	216,631,544	12,572,374	6,762,765	11,932,626	21,388,027	269,287,336	46,109,407	577,711	
2004	241,136,768	9,542,063	5,249,187	10,583,270	17,893,779	284,405,067	29,103,901	12,371,143 ⁽²⁾	
2003	224,346,665	9,056,787	4,862,234	10,882,675	17,644,556	266,792,917	25,603,186	14,317,565 ⁽³⁾	
2002	242,255,338	7,678,634	3,328,115	12,001,965	17,773,053	283,037,105	17,795,262	311,993	

Notes:

(1) Net of interest expense incurred during construction, "capitalized interest".

(2) Includes a refund of \$11,990,000 from the Operating Fund reserve to member agencies to comply with the reserve policy.

(3) Includes a refund of \$14,000,000 from the Operating Fund reserve due to a change in the Operating Fund reserve policy decreasing the maximum ending balance to 45 days.

TABLE 4
Operating Departmental/Programmatic Expenses by Major Expense Category - Last 10 Fiscal Years

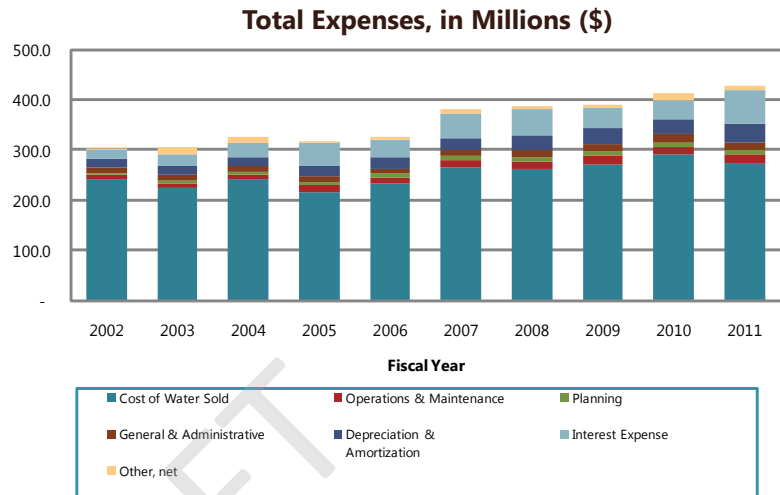
Fiscal Year	Labor & Benefits	Outside Services	Supplies, Utilities, Insurance	Other Expenses	Capitalized Overhead	Total Operating Departmental/Programmatic Expenses ⁽¹⁾
2011	\$ 30,972,738	\$ 9,928,970	\$ 3,078,911	\$ 1,491,077	\$ (5,902,113)	\$ 39,569,583
2010	30,934,843	8,588,898	2,614,997	1,622,306	(4,366,000)	39,395,044
2009	30,579,263	11,880,022	3,491,169	3,733,747	(6,960,682)	42,723,519
2008	27,488,581	9,908,019	2,807,336	1,937,361	(5,222,018)	36,919,279
2007	26,002,349	8,789,610	3,282,717	1,925,411	(5,476,584)	34,523,503
2006	22,671,426	7,957,341	2,933,346	1,690,382	(5,617,584)	29,634,911
2005	20,973,393	9,372,642	3,307,774	1,913,736	(4,299,780)	31,267,765
2004	18,377,226	7,224,945	2,425,344	1,646,785	(4,299,780)	25,374,520
2003	16,071,050	7,875,041	2,549,110	1,637,495	(3,331,000)	24,801,696
2002	14,686,270	7,112,439	1,984,110	1,533,895	(2,308,000)	23,008,714

Notes:

(1) Excludes equipment purchases.

TABLE 3
Operating Expenses - Last 10 Fiscal Years, (continued)

Total Nonoperating Expenses	Total Expenses
\$ 75,575,520	\$ 427,609,296
52,293,727	413,731,208
48,031,343	390,629,109
59,133,888	387,071,867
56,037,997	380,689,837
39,907,856	325,290,415
46,687,118	315,974,454
41,475,044	325,880,111
39,920,751	306,713,668
18,107,255	301,144,360



Total Operating Departmental/Programmatic Expenses, in Millions (\$)

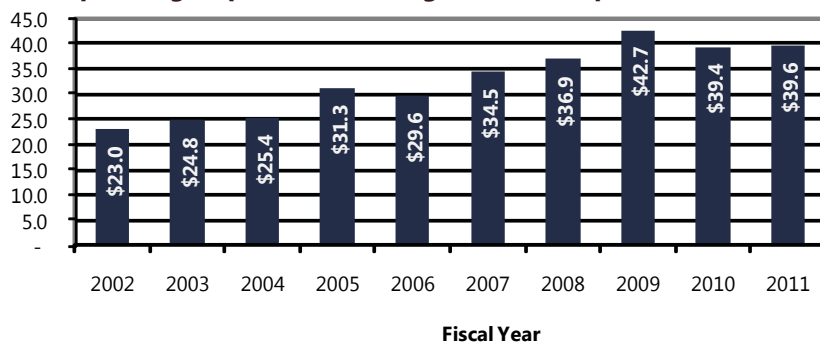


TABLE 5
Capital Assets - Last 10 Fiscal Years

Fiscal Year	Capital Assets Not Depreciated			Total Capital Assets Not Depreciated	Water Systems		
	Land ⁽¹⁾	Construction in Progress	Work in Progress		Olivenhain Dam	Water Transportation Pipelines	Pumping Plants & Facilities
2011	\$ 19,477,666	\$ 519,417,570	\$ 641,065	\$ 539,536,301	\$ 200,456,138	\$ 1,565,971,597	\$ 422,414,542
2010	19,065,447	1,199,690,241	641,065	1,219,396,753	175,971,199	1,052,315,805	336,366,802
2009	13,128,344	1,302,928,098 ⁽²⁾	749,017	1,316,805,459	175,971,199	994,213,762	173,706,256
2008	13,283,900	1,051,556,553 ⁽²⁾	612,973	1,065,453,426	175,971,199	960,401,118	171,651,588
2007	13,283,900	720,889,855	977,807	735,151,562	175,971,199	928,406,598	168,533,417
2006	13,193,281	480,320,115 ⁽²⁾	367,223	493,880,619	175,971,199	907,651,466	137,664,442
2005	11,667,917	323,383,524	-	335,051,441	175,971,199	848,440,047	149,456,005
2004	11,667,917	298,520,667	-	310,188,584	175,971,199	798,800,178	115,742,495
2003	8,560,585	404,863,991	-	413,424,576	-	791,296,280	74,573,801
2002 ⁽⁶⁾	8,399,965	279,976,532	-	288,376,497	-	788,829,853	58,289,611

DRAFT

TABLE 5
Capital Assets - Last 10 Fiscal Years, (continued)

Treatment Plants & Facilities	Automobiles & Miscellaneous Equipment ⁽³⁾	Intangible Assets ⁽⁴⁾	Total Other Capital Assets	Accumulated Depreciation/ Amortization	Other Capital Assets, Net ⁽⁵⁾	Net Capital Assets
\$ 25,620,355	\$ 69,552,096	\$ 492,597,968	\$ 2,776,612,696	\$ (334,288,815)	\$ 2,442,323,881	\$ 2,981,860,182
25,620,355	59,382,081	262,956,096	1,912,612,338	(296,923,994)	1,615,688,344	2,835,085,097
25,620,355	55,068,680	135,988,876	1,560,569,128	(272,182,244)	1,288,386,884	2,605,192,343
25,620,355	56,100,131	105,829,841	1,495,574,232	(245,651,212)	1,249,923,020	2,315,376,446
25,620,355	58,198,582	99,052,528	1,455,782,679	(220,903,739)	1,234,878,940	1,970,030,502
25,620,355	56,674,342	69,532,528	1,373,114,332	(196,968,527)	1,176,145,805	1,670,026,424
25,620,355	35,402,318	-	1,234,889,924	(174,036,504)	1,060,853,420	1,395,904,861
25,620,355	30,463,915	-	1,146,598,142	(154,495,721)	992,102,421	1,302,291,005
25,620,355	28,908,254	-	920,398,690	(138,719,779)	781,678,911	1,195,103,487
25,620,355	28,389,538	-	901,129,357	(123,397,037)	777,732,320	1,066,108,817

Notes:

- (1) Includes land used for environmental mitigation.
- (2) Construction in progress at June 30, 2009 and 2008 were restated to reflect the capitalization of project costs; at June 30, 2008 and 2006, were restated to reflect the cancellation of projects.
- (3) Includes vehicles, computers, office equipment, furniture, and fixtures.
- (4) Intangible assets are reclassified to Capital Assets beginning with Fiscal Year 2006.
- (5) Depreciable assets less accumulated depreciation and amortization.
- (6) Capital asset amounts restated to reflect changes in asset classifications made during Fiscal Year 2002.

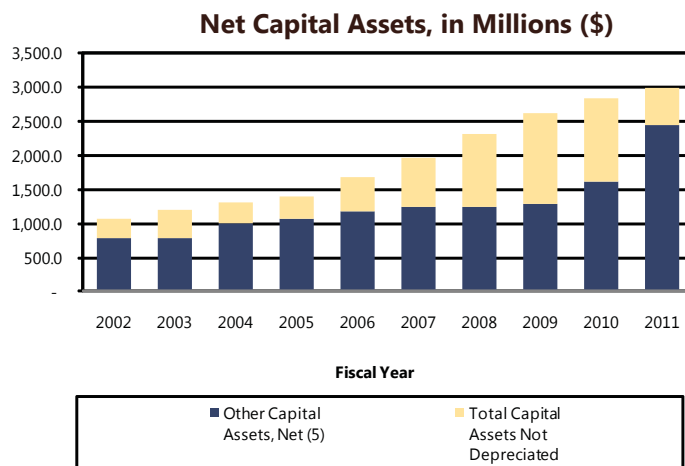


TABLE 6
Schedule of Rates and Charges - Last 10 Calendar Years ⁽¹⁾

Metropolitan Water District												
Supply Charges ⁽²⁾												
	Full Service Tier 1 ⁽³⁾		Full Service Tier 2 ⁽³⁾		Interim Agricultural Water Program ⁽⁴⁾		Surface Storage Operating Agreement ⁽⁵⁾		Special Agricultural Water Rate ⁽⁶⁾		Replenishment Water Rate ⁽⁷⁾	
	UTR	TR	UTR	TR	UTR	TR	UTR	TR	UTR	TR	UTR	TR
2011	\$ 597	\$ 812	\$ 652	\$ 867	\$ 482	\$ 687	-	-	\$ 527	\$ 742	\$ 409	\$ 601
2010	532	747	594	809	416	615	-	-	484	699	n/a	n/a
2009 ⁽¹³⁾	532	747	564	732	394	587	-	-	484	699	n/a	n/a
2009	463	631	528	696	322	465	-	-	412	580	n/a	n/a
2008	390	554	449	606	261	394	320	484	-	-	n/a	n/a
2007	365	512	427	574	241	364	295	442	-	-	n/a	n/a
2006	360	485	427	552	241	339	290	415	-	-	n/a	n/a
2005	349	461	412	524	241	329	279	391	-	-	n/a	n/a
2004	326	418	407	499	236	304	256	348	-	-	n/a	n/a
2003	326	408	407	489	236	294	256	338	-	-	n/a	n/a
2002	444	526	-	-	-	374	-	-	-	-	n/a	n/a

Notes:

- (1) All rates are calendar year except for the water standby charge, which is fiscal year and Surface Storage Operating Agreement (SSOA) rates, which apply from October 1 through April 30.
- (2) Effective January 1, 2003, Metropolitan Water District (MWD) separated its full service rates into Tier 1 and Tier 2 components. In addition, the Water Authority implemented a rate structure resulting in a reduced water rate per acre-foot, a new transportation charge, and two fixed charges:
 - The customer service charge is allocated to member agencies based on each agency's three-year rolling average of all deliveries. It recovers operating and capital costs associated with the overall functioning of the Water Authority.
 - The storage charge is allocated to member agencies based on a pro-rata share of each agency's three-year rolling average of non-agricultural deliveries, and recovers costs associated with the Emergency Storage Project.
- (3) Reflects Municipal and Industrial (M&I) Supply rates per acre-foot of water before SSOA and seasonal storage credits given by MWD. A melded untreated supply rate was implemented in Calendar Year 2005 and a melded treatment rate was implemented in Calendar Year 2006, which blend the costs of different supply and treatment sources. Supply rates include Water Authority charges prior to the rate restructuring effective January 1, 2003.
- (4) Reflects MWD treated Interim Agricultural Water Program (IAWP) rate and Water Authority charges prior to January 1, 2003. The IAWP will be discontinued in 2012.
- (5) This schedule represents the contractual seasonal storage rate. Noncontractual participants pay a higher rate. Effective January 1, 2003, MWD instituted a SSOA offering a discount of \$70/acre-foot for "scheduled" water placed into reservoirs by member agencies. An increased discount rate of \$105/acre-foot is offered for "call" water, which is withdrawn from reservoirs per MWD's usage needs. SSOA was not renewed in 2009.
- (6) A new transitional rate was adopted on December 10, 2008 for customers opting out of MWD's IAWP. Customers that are participating in the Special Agricultural Water Rate (SAWR) program are considered M&I customers by MWD.
- (7) MWD's Replenishment Rate is a discounted rate for surplus system supplies available for the purpose of replenishing local supplies.
- (8) Per acre-foot of water.
- (9) Per parcel or acre, whichever is greater.
- (10) Per equivalent meter (less than one inch) and includes system and treatment capacity charges.
- (11) Per \$100 of assessed valuation.
- (12) Per equivalent meter.
- (13) Reflects a mid-year rate increase effective September 1, 2009 to match MWD's mid-year rate increase.

UTR=untreated
TR=treated

TABLE 6
Schedule of Rates and Charges - Last 10 Calendar Years ⁽¹⁾, (continued)

San Diego County Water Authority							
Fixed Charges ⁽²⁾			Variable Charges				
Transportation Rate ⁽⁸⁾	Customer Service	Storage	Standby Charge ⁽⁹⁾	Capacity Charge ⁽¹⁰⁾	Secured Tax Rate ⁽¹¹⁾	Unsecured Tax Rate ⁽¹¹⁾	Infrastructure Access Charge ⁽¹²⁾
\$ 75	\$ 23,200,000	\$ 44,300,000	\$ 10	\$ 4,492	0.00000	0.00000	\$ 2.49
67	18,000,000	34,000,000	10	4,492	0.00000	0.00000	2.02
67	16,000,000	23,000,000	10	4,492	0.00000	0.00000	1.90
64	16,000,000	23,000,000	10	4,492	0.00000	0.00000	1.90
60	15,200,000	22,200,000	10	4,492	0.00000	0.00000	1.70
60	14,200,000	17,700,000	10	4,492	0.00000	0.00000	1.56
60	14,200,000	17,700,000	10	4,313	0.00000	0.00000	1.48
55	13,600,000	14,600,000	10	2,465	0.00000	0.00000	1.15
55	13,600,000	14,600,000	10	2,004	0.00067	0.00075	1.15
55	13,753,401	13,375,295	10	2,004	0.00075	0.00083	1.00
-	-	-	10	2,004	0.00083	0.00091	1.00

TABLE 7
Principal Water Customers for Fiscal Years Ended June 30, 2011 and 2002

Fiscal Year Ended June 30, 2011			Fiscal Year Ended June 30, 2002		
Member Agency	Sales (acre-feet)	Percent of Water Sold	Member Agency	Sales (acre-feet)	Percent of Water Sold
City of San Diego	168,161	40.1%	City of San Diego	240,445	36.6%
Otay W.D.	29,861	7.1%	Valley Center M.W.D.	49,524	7.5%
Valley Center M.W.D.	25,674	6.1%	Helix W.D.	42,447	6.4%
City of Oceanside	21,559	5.1%	Otay W.D.	35,579	5.4%
Helix W.D.	19,192	4.6%	City of Oceanside	32,241	4.9%
Rainbow M.W.D.	18,495	4.4%	Rainbow M.W.D.	31,633	4.8%
Olivenhain M.W.D.	18,440	4.4%	City of Escondido	29,706	4.5%
Carlsbad M.W.D.	15,786	3.8%	Sweetwater Authority ⁽¹⁾	23,141	3.5%
Vallecitos W.D.	15,433	3.7%	Olivenhain M.W.D.	22,285	3.4%
City of Escondido	11,592	2.8%	Padre Dam M.W.D.	21,331	3.2%
Total Top Ten Customers	344,193	82.1%	Total Top Ten Customers	528,332	80.2%
Fallbrook P.U.D.	11,998	2.9%	City of Carlsbad	20,590	3.1%
Padre Dam M.W.D.	11,450	2.7%	Vista I.D.	19,752	3.0%
City of Poway	10,904	2.6%	Vallecitos W.D.	17,560	2.7%
Vista I.D.	10,818	2.5%	Fallbrook P.U.D.	17,173	2.6%
Sweetwater Authority ⁽¹⁾	6,966	1.7%	City of Poway	15,190	2.3%
Rincon Del Diablo M.W.D.	5,770	1.4%	Ramona M.W.D.	13,201	2.0%
Ramona M.W.D.	5,410	1.3%	Rincon Del Diablo M.W.D.	8,998	1.4%
Santa Fe I.D.	4,092	0.9%	Santa Fe I.D.	8,723	1.3%
Lakeside W.D. ⁽²⁾	3,251	0.8%	San Dieguito W.D.	4,604	0.7%
San Dieguito W.D.	1,901	0.4%	Yuima M.W.D.	3,601	0.5%
Yuima M.W.D.	1,619	0.4%	City of Del Mar	1,354	0.2%
City of Del Mar	1,088	0.3%	Camp Pendleton Marine Corps Base	94	0.0%
Camp Pendleton Marine Corps Base	51	0.0%	Lakeside W.D. ⁽²⁾	-	0.0%
Other Customers	75,318	17.9%	Other Customers	130,840	19.8%
Total Water Sales	419,511	100.0%	Total Water Sales	659,172	100.0%

Notes:

(1) Sweetwater Authority includes National City and South Bay I.D.

(2) Effective January 1, 2007, Padre Dam M.W.D. was reorganized into Padre Dam M.W.D. and Lakeside W.D.

Water Sales by Customer for Fiscal Year Ended June 30, 2011

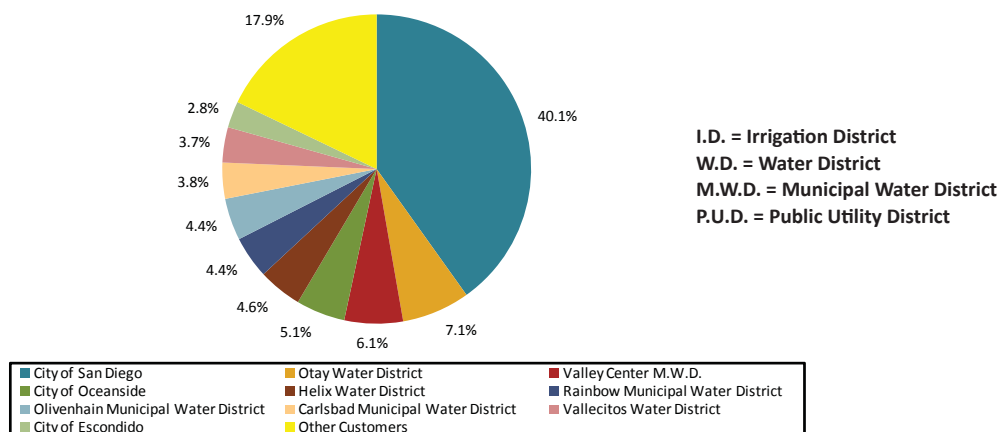


Table 8
Total Treated and Untreated Water Sales ⁽¹⁾ - Last 10 Fiscal Years

Fiscal Year	Treated Water		Untreated Water		Total			
	Acre-Feet	Sales	Acre-Feet	Sales	Acre-Feet	Change in Acre-Feet	Sales ⁽¹⁾	Change in Sales
2011	177,098	\$ 138,798,942	242,413	\$ 156,580,614	419,511	(71,318)	\$ 295,379,556	(23,150,056)
2010	195,937	147,719,098 ⁽²⁾	294,892	170,810,514 ⁽²⁾	490,829	(66,933)	318,529,612 ⁽²⁾	16,455,644
2009	240,808	145,040,752 ⁽²⁾	316,954	157,033,216 ⁽²⁾	557,762	(55,333)	302,073,968 ⁽²⁾	11,852,147
2008	265,421	142,182,057 ⁽²⁾	347,674	148,039,764 ⁽²⁾	613,095	(47,360)	290,221,821 ⁽²⁾	(2,775,890)
2007	273,989	135,190,065 ⁽²⁾	386,466	157,807,646 ⁽²⁾	660,455	79,241	292,997,711 ⁽²⁾	42,039,317
2006	260,720	114,558,835 ⁽²⁾	320,494	136,399,559 ⁽²⁾	581,214	29,326	250,958,394 ⁽²⁾	24,995,729
2005	247,776	104,722,566 ⁽²⁾	304,112	121,240,099 ⁽²⁾	551,888	(92,359)	225,962,665 ⁽²⁾	(29,743,611)
2004	292,392	123,629,162 ⁽²⁾	351,855	132,077,114 ⁽²⁾	644,247	29,308	255,706,276 ⁽²⁾	(2,755,746)
2003	273,707	126,412,573 ⁽²⁾	341,232	132,049,449 ⁽²⁾	614,939	(44,233)	258,462,022 ⁽²⁾	(33,789,194)
2002	299,163	143,469,479	360,009	148,781,737	659,172	70,273	292,251,216	35,285,119

Notes:

(1) Total water sales do not include MWD's readiness-to-serve and capacity charges; and are net of surface storage, seasonal storage, agriculture, and reclamation credits passed on to member agencies.

(2) Amounts are reduced as a result of a rate structure implemented effective January 2003, which reduced the per acre-foot water rate and implemented two new fixed charges.

Total Treated and Untreated Water Sales, Acre-Feet (Thousands)

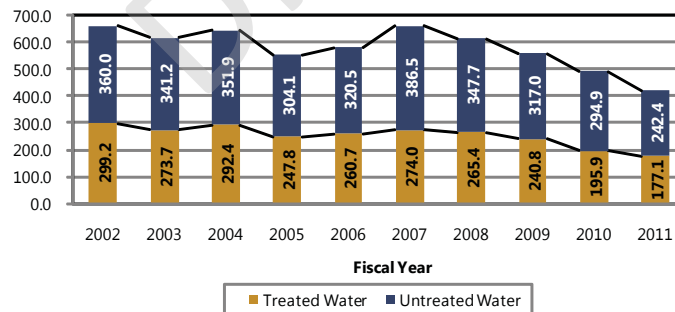


TABLE 9
Assessed Value of Taxable Property - Last 10 Fiscal Years

Fiscal Year	Local Secured Property	State Secured Property	Redevelopment & Homeowners Exemptions	Net Secured Assessed Value	Net Unsecured Assessed Value	Total Assessed Value	Secured Tax Rate ⁽¹⁾	Unsecured Tax Rate ⁽¹⁾
2011	\$366,269,865,985	\$ 987,948,775	\$ 42,289,669,823	\$ 324,968,144,937	\$ 16,103,138,802	\$ 341,071,283,739	0.00000	0.00000 ⁽²⁾
2010	371,808,214,146	747,943,167	40,999,711,071	331,556,446,242	12,538,322,810	344,094,769,052	0.00000	0.00000 ⁽²⁾
2009	381,979,733,503	589,927,644	42,074,337,530	340,495,323,617	11,869,245,103	352,364,568,720	0.00000	0.00000 ⁽²⁾
2008	365,569,092,586	528,298,785	39,509,437,047	326,587,954,324	11,367,464,025	337,955,418,349	0.00000	0.00000 ⁽²⁾
2007	332,684,762,248	764,249,126	34,464,826,993	298,984,184,381	11,704,409,707	310,688,594,088	0.00000	0.00000 ⁽²⁾
2006	297,241,134,929	675,774,089	29,042,761,077	268,874,147,941	10,364,695,733	279,238,843,674	0.00000	0.00000 ⁽²⁾
2005	260,789,184,612	639,767,553	22,371,576,753	239,057,375,412	9,868,477,797	248,925,853,209	0.00000	0.00000 ⁽²⁾
2004	234,796,344,077	783,602,175	20,030,159,591	215,549,786,661	10,054,422,048	225,604,208,709	0.00067	0.00075
2003	213,411,716,593	106,087,120	17,361,329,140	196,156,474,573	9,425,146,125	205,581,620,698	0.00075	0.00083
2002	195,543,487,502	116,762,403	15,198,976,703	180,461,273,202	9,469,691,227	189,930,964,429	0.00083	0.00091

Notes:

(1) Per \$100 of assessed valuation.

(2) The 1966 General Obligation Bonds matured in October 2004; therefore, the debt service tax rate levy is no longer required.

Source: County of San Diego's Office of the Auditor & Controller

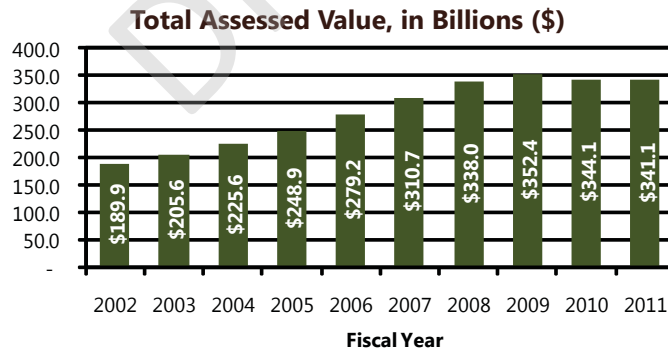


TABLE 10
Property Tax and Assessment Levies and Collections - Last 10 Fiscal Years

Fiscal Year	Property Taxes	Special Assessments ⁽¹⁾	Total Levy	Total Collections	Net Delinquent	% of Delinquent/Collections
2011	\$ 8,885,757	\$ 12,443,203	\$ 21,328,960	\$ 19,878,227	\$ 1,450,733	6.80%
2010	9,103,831	12,370,600	21,474,431	19,788,939	1,685,492	7.85%
2009	9,445,331	12,261,787	21,707,118	20,046,360	1,660,758	7.65%
2008	9,186,799	12,014,079	21,200,878	19,674,672	1,526,206	7.20%
2007	8,491,306	11,767,140	20,258,446	19,108,822	1,149,624	5.67%
2006	7,739,618	11,522,736	19,262,354	18,365,178	897,176	4.66%
2005	6,845,910	11,569,000	18,414,910	17,599,443	815,467	4.43%
2004	6,113,087	13,202,278	19,315,365	18,475,217	840,148	4.35%
2003	5,559,976	13,334,244	18,894,220	17,987,721	906,499	4.80%
2002	6,643,136	10,674,464	17,317,600	16,952,618	364,982	2.11%

Notes:

(1) Represents the tax levy for the Water Authority's Water Standby Availability Charge.

Source: County of San Diego's Office of the Auditor & Controller and the San Diego County Water Authority

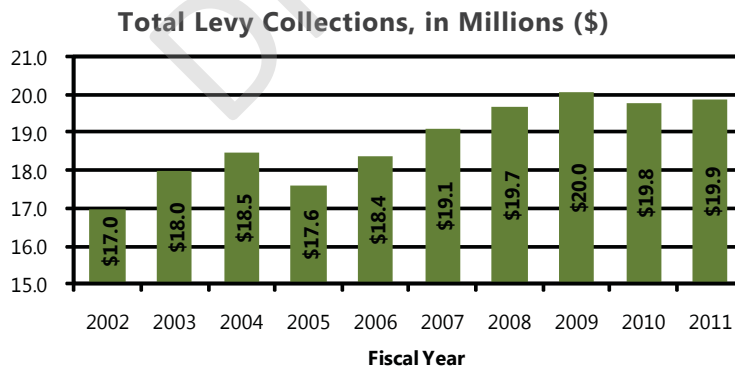


TABLE 11
Short-term and Long-term Debt Outstanding - Last 10 Fiscal Years (in Thousands)

Fiscal Year	Short-term Debt	Long-term Debt			Total Debt Outstanding	% of Personal Income ⁽¹⁾	Debt Per Capita (in dollars) ⁽¹⁾
	Commercial Paper	Government Obligations	Certificates of Participation (COPs)	Revenue Bonds			
2011	\$ 460,000	\$ -	\$ 1,345,015	\$ 624,630	\$ 2,429,645	1.73%	\$ 746
2010	460,000	-	1,369,135	624,630	2,453,765	1.84%	762
2009	460,000	-	1,426,505	-	1,886,505	1.35%	618
2008	460,000	-	1,446,325	-	1,906,325	1.35%	631
2007	460,000	-	986,160	-	1,446,160	1.06%	486
2006	110,000	-	1,019,845	-	1,129,845	0.87%	383
2005	110,000	-	1,051,425	-	1,161,425	0.95%	395
2004	110,000	-	723,640	-	833,640	0.71%	284
2003	110,000	1,645	752,220	-	863,865	0.80%	295
2002	110,000	3,220	791,590	-	904,810	0.87%	312

Notes:

- (1) See Table 16 for personal income and population data.
- (2) \$64,238,181 of proceeds were used to make an early payment on the 1997A COPs in June 2008.
- (3) \$56,700,000 of proceeds were used to make an early payment on the 1991B COPs in December 2004.
- (4) Issued to advance refund \$117,310,000 of the 1998A COPs in February 2005.
- (5) \$12,300,000 of proceeds were used to make an early payment on the 1991A COPs in July 2002.
- (6) Balance satisfied with surety bond.

Original Par Amount

Debt Service Reserve Funds

Final Maturity

TABLE 11
Short-term and Long-term Debt Outstanding - Last 10 Fiscal Years (in Thousands), (continued)

Certificates of Participation								Revenue Bonds	
1991A&B	1993A	1997A	1998A	2002A	2004A	2005A	2008A	2010A	2010B
\$	\$ -	\$ 6,110	\$ 11,685	\$ 236,750	\$ 425,000	\$ 107,455	\$ 558,015	\$ 98,495	\$ 526,135
-	-	23,610	11,685	243,370	425,000	107,455	558,015	98,495	526,135
-	-	23,610	62,690	249,735	425,000	107,455	558,015	-	-
-	13,700	23,610	62,690	255,855	425,000	107,455	558,015 ⁽²⁾	-	-
-	26,700	102,575	62,690	261,740	425,000	107,455	-	-	-
-	39,000	118,305	62,690	267,395	425,000	107,455	-	-	-
-	50,600	132,845	62,690	272,835	425,000 ⁽³⁾	107,455 ⁽⁴⁾	-	-	-
56,700	61,665	147,210	180,000	278,065	-	-	-	-	-
56,700	71,940	160,485	180,000	283,095	-	-	-	-	-
69,000	81,895	160,695	180,000	300,000 ⁽⁵⁾	-	-	-	-	-
\$ 300,000	\$ 135,650	\$ 162,315	\$ 180,000	\$ 300,000	\$ 425,000	\$ 107,455	\$ 558,015	\$ 98,495	\$ 526,135
\$ -	\$ -	\$ 15,197 ⁽⁶⁾	\$ 12,241	\$ 18,386	\$ 38,569	\$ 10,746 ⁽⁶⁾	\$ 23,671 ⁽⁶⁾	\$ -	\$ -
2004	2009	2012	2028	2032	2034	2022	2038	2027	2049

Total Debt Outstanding, in Thousands (\$)

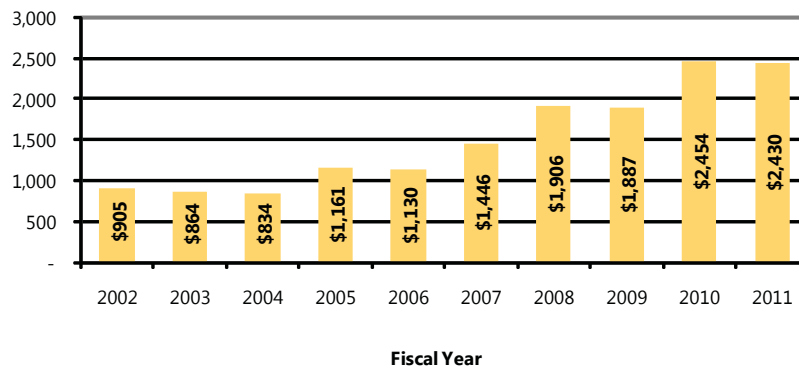


TABLE 12
Revenue Debt Service Coverage - Last 10 Fiscal Years

Fiscal Year	Revenues for Purpose of Calculation ⁽¹⁾	Operating Expenses ⁽²⁾	Net Revenue Available for Debt Service	Senior Lien Debt Service ⁽³⁾			Coverage Factor
				Principal	Interest	Total	
2011	\$ 446,399,335	\$ 305,014,447	\$ 141,384,888	\$ 24,120,000	\$ 79,942,971	\$ 104,062,971	136%
2010	439,639,107	320,808,607	118,830,500	6,365,000 ⁽⁴⁾	73,067,368 ⁽⁵⁾	79,432,368	150%
2009	412,709,321	302,091,894	110,617,427	19,820,000	53,242,022 ⁽⁶⁾	73,062,022	150%
2008	414,004,382	289,154,436	124,849,946	34,685,000 ⁽⁷⁾	48,359,992	83,044,992	150%
2007	410,112,152	292,283,252	117,828,900	33,685,000	50,184,173	83,869,173	140%
2006	374,042,753	259,261,156	114,781,597	31,580,000	51,772,285	83,352,285	138%
2005	349,123,929	245,745,447	103,378,482	30,660,000 ⁽⁸⁾	47,633,295	78,293,295	132%
2004	368,218,435	271,452,846	96,765,589	28,580,000	37,791,220	66,371,220	146%
2003	345,776,089	256,762,278	89,013,811	27,070,000 ⁽⁹⁾	38,707,465	65,777,465	135%
2002	350,604,097	259,363,621	91,240,476	21,730,000	27,769,820	49,499,820	184%

Notes:

- (1) Includes amounts transferred to and from the Rate Stabilization Fund, and excludes interest on debt proceeds, property tax receipts, contributions in aid of capital assets, and Capital Improvement Program (CIP) grant reimbursements.
- (2) Excludes depreciation and amortization expenses; net of applicable property tax receipts.
- (3) Excludes commercial paper.
- (4) Excludes \$51,005,000 principal payment on 1998A COPs which was paid from debt proceeds.
- (5) Excludes \$1,500,000 interest payment on the 2008A COPs and \$9,530,000 interest payment on the 2010A & B Bonds, which was paid with bond proceeds.
- (6) Excludes \$18,023,409 interest payment on 2008A COPs which was paid from debt proceeds.
- (7) Excludes \$64,238,181 principal payment on 1997A COPs which was paid from debt proceeds.
- (8) Excludes \$117,310,000 principal payment on 1998A COPs which was paid from debt proceeds. Also excludes \$56,700,000 principal payment on the 1991 COPs which was paid from debt proceeds.
- (9) Excludes \$12,300,000 principal payment on 1991 COPs which was paid from debt proceeds.

Senior Lien Debt Service Coverage, in Percentages (%)

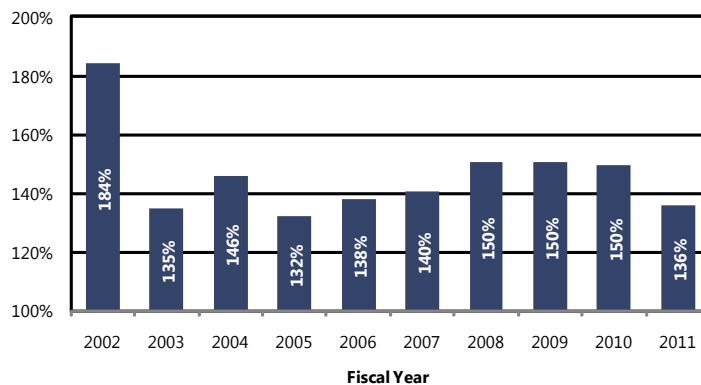


TABLE 13
Ratio of Net General Bonded Debt to Assessed Value and Net General Bonded Debt Per Capita - Last 10 Fiscal Years

Fiscal Year	Population Estimate	Assessed Valuation	Gross Bonded Debt ⁽¹⁾	Less Debt Service Funds	Net Bonded Debt	Net Bonded Debt to Assessed Valuation	Net Bonded Debt Per Capita
2011	3,255,761	\$ 341,071,283,739	-	-	-	-	-
2010	3,221,738	344,094,769,052	-	-	-	-	-
2009	3,053,793	352,364,568,720	-	-	-	-	-
2008	3,019,274	337,955,418,349	-	-	-	-	-
2007	2,975,656	310,688,594,088	-	-	-	-	-
2006	2,947,222	279,238,843,674	-	-	-	-	-
2005	2,941,770	248,925,853,209	-	-	-	-	-
2004	2,935,672	225,604,208,709	-	-	-	-	-
2003	2,926,814	205,581,620,698	-	-	-	-	-
2002	2,901,235	189,930,964,429	1,645,000	-	1,645,000	0.0000087	0.5669999

Notes:

(1) The 1966 General Obligation Bonds matured in October 2004.

Source: County of San Diego's Office of Auditor & Controller and the San Diego County Water Authority

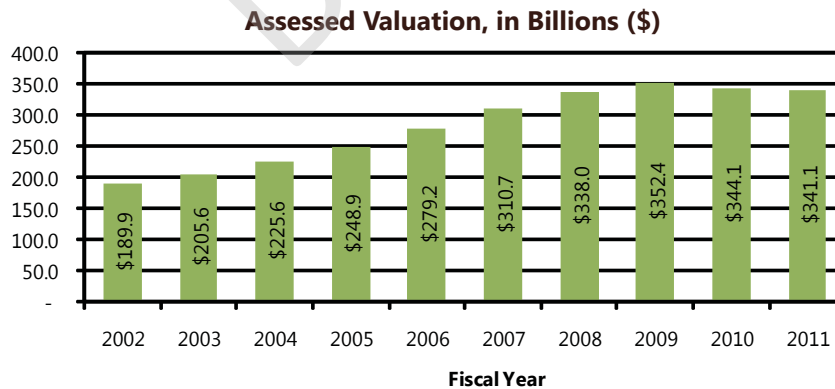


TABLE 14
Direct and Overlapping Debt - June 30, 2011

2010-11 Assessed Valuation:	\$ 369,779,840,751
Redevelopment Incremental Valuation:	38,434,769,069
Adjusted Assessed Valuation:	<u>\$ 331,345,071,682</u>

Direct and Overlapping Tax and Assessment Debt	Total Debt Outstanding as of June 30, 2011	% Applicable ⁽¹⁾	Estimated Share of Overlapping Debt as of June 30, 2011
San Diego County Water Authority	\$ -	100.000%	\$ -
Metropolitan Water District	227,670,000	18.537%	42,203,188
Community College Districts	1,380,378,617	80.716-99.942%	1,308,909,581
San Diego Unified School District	1,700,910,669	99.944%	1,699,924,141
Other Unified School Districts	843,646,199	various	840,499,583
High School Districts	858,164,192	various	833,164,882
School Districts	622,697,656	various	608,655,062
City of Escondido	78,860,000	99.288%	78,298,517
City of La Mesa	2,240,000	99.929%	24,102,767
Other Cities	29,870,000	99.713-100.000%	7,983,716
Grossmont Healthcare District	222,282,076	94.912%	210,972,364
Palomar Pomerado Hospital District	481,514,998	97.518%	469,563,796
Municipal Water Districts	7,260,000	100.000%	7,260,000
Community Facilities Districts	1,642,797,083	100.000%	1,642,797,083
1915 Act Bonds (Estimated)	151,225,708	100.000%	151,225,708
Total Gross Direct and Overlapping Tax and Assessment Debt			<u><u>\$ 7,925,560,388</u></u>

Ratios to 2010-11 Assessed Valuation:

Direct Debt	0.00%
Total Gross Direct and Overlapping Tax and Assessment Debt	2.14%

Notes:

(1) Percentage of overlapping agency's assessed valuation located within boundaries of the Water Authority.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds, and non-bonded capital lease obligations.

Source: California Municipal Statistics, Inc. and the San Diego County Water Authority

(continued)

TABLE 14
Direct and Overlapping Debt - June 30, 2011, (continued)

Overlapping General Fund Debt	Total Debt Outstanding as of June 30, 2011	% Applicable ⁽¹⁾	Estimated Share of Overlapping Debt as of June 30, 2011
San Diego County General Fund Obligations	\$ 385,650,000	96.419%	\$ 371,839,874
San Diego County Pension Obligations	820,288,160	96.419%	790,913,641
San Diego Superintendent of Schools Certificates of Participation	19,992,500	96.419%	19,276,569
Community College District Certificates of Participation	12,415,000	80.716-99.942%	11,817,261
Unified School District General Fund Obligations	261,812,177	90.145-99.951%	258,959,501
High School and School District General Fund Obligations	346,207,349	89.307-100.000%	343,337,191
City of San Diego General Fund Obligations	506,155,000	99.929%	505,795,630
Other City General Fund Obligations	569,997,090	99.588-100.000%	567,465,079
Fallbrook Sanitary District General Fund Obligations	3,610,000	99.410%	3,588,701
Otay Municipal Water District Certificates of Participation	60,095,000	99.737%	59,936,950
San Miguel Consolidated Fire Protection District General Fund Obligations	6,450,000	99.565%	6,421,943
Lakeside Fire General Fund Obligations	7,095,000	94.601%	6,711,941
Total Gross Overlapping General Fund Debt			\$ 2,946,064,281
Less: City of El Cajon self-supporting obligations			25,117,147
Otay Municipal Water District Certificates of Participation			59,936,950
Total Net Overlapping General Fund Debt			\$ 2,861,010,184
GROSS COMBINED TOTAL DEBT			\$ 10,871,624,669 ⁽²⁾
NET COMBINED TOTAL DEBT			\$ 10,786,570,572
Ratios to Adjusted Assessed Valuation:			
Gross Combined Total Debt		3.28%	
Net Combined Total Debt		3.26%	
State School Building Aid Repayable as of June 30, 2011			\$0

Notes:

(1) Percentage of overlapping agency's assessed valuation located within boundaries of the Water Authority.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds, and non-bonded capital lease obligations.

Source: California Municipal Statistics, Inc. and the San Diego County Water Authority

TABLE 15
General Information as of June 30, 2011

Number of Member Agencies	24
* The County of San Diego is a non-voting representative	
Cities	6
Water Districts	5
Irrigation Districts	3
Municipal Water Districts	8
Public Utility Districts	1
Federal Agency (military base)	1

Operating Indicators - Last 10 Fiscal Years

Fiscal Year	Water System Service Area ⁽¹⁾	Number of Primary Pipelines	Miles of Pipeline	Miles of Patrol Road Maintained	Number of Service Connections	Treated Water Pipeline Capacity ⁽²⁾	Untreated Water Pipeline Capacity ⁽²⁾	Average Daily Deliveries ⁽²⁾	Total Regular Employees
2011	951,000	5	300	150	106	420	504	375	267.50
2010	951,000	5	300	150	131	420	504	440	267.50
2009	951,000	5	300	168	121	420	504	496	267.50
2008	943,425	5	279	135	119	420	504	590	268.50
2007	939,672	5	279	135	119	420	504	588	265.25
2006	939,672	5	279	135	119	420	504	503	262.25
2005	922,381	5	279	135	120	420	504	494	245.50
2004	920,472	5	279	134	120	420	504	569	238.50
2003	908,974	5	279	134	119	420	504	550	229.00
2002	908,974	5	277	174	117	420	504	589	216.00

Notes:

(1) Acres.

(2) Millions of gallons per day.

TABLE 16
Demographic and Economic Statistics - Last 10 Calendar Years

Year	County Population	Personal Income (in thousands)	Per Capital Personal Income (in dollars)	Unemployment Rate ⁽²⁾
2011 ⁽¹⁾	3,255,761	\$ 140,300,000	\$ 41,307	10.6%
2010 ⁽¹⁾	3,221,738	133,400,000	40,696	10.5%
2009	3,053,793	139,577,195	45,706	9.6%
2008	3,019,274	141,970,761	47,021	6.0%
2007	2,975,656	136,194,276	45,769	4.5%
2006	2,947,222	129,584,185	43,968	4.0%
2005	2,941,770	122,030,393	41,482	4.3%
2004	2,935,672	116,644,854	39,734	4.7%
2003	2,926,814	108,297,063	37,002	5.2%
2002	2,901,235	103,815,430	35,783	5.2%

Notes:

(1) Information for 2010 and 2011 are based on estimates provided by the California Department of Transportation, (excludes Unemployment Rate information).

(2) CALMIS, CA.gov, Employment Development Department; April 2011

Source: U.S. Department of Commerce; Bureau of Economic Analysis; <http://www.bea.gov/iTable/iTable.cfm?reqid=70&step=1&isuri=1&acrdn=5>
 California Department of Transportation; http://www.dot.ca.gov/hq/tpp/offices/ote/socio_economic_files/2010/San_Diego.pdf

TABLE 17
Largest Employers in San Diego County - Fiscal Year 2011 and 2002

Employer	2011			2002		
	Rank	# of Employees	% of Total Employment ⁽²⁾	Rank	# of Employees	% of Total Employment
U.S. Department of Defense	1	136,664	8.68%	n/a	-	-
Federal Government	2	46,300	2.94%	1	40,600	2.80%
State of California	3	45,500	2.89%	2	38,500	2.65%
U.C. San Diego	4	27,393	1.74%	4	21,266	1.47%
County of San Diego	5	15,109	0.96%	5	17,222	1.19%
Sharp Healthcare	6	14,969	0.95%	8	12,167	0.84%
Scripps Health	7	13,830	0.88%	9	10,435	0.72%
San Diego Unified School District	8	13,730	0.87%	3	24,240	1.67%
Qualcomm Inc.	9	10,509	0.67%	n/a	-	-
City of San Diego	10	10,211	0.65%	6	12,656	0.87%
U.S. Postal Service				7	12,336	0.85%
SBC ³				10	6,988	0.48%

Source: San Diego Business Journal, Book of Lists, 2011, 2002

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San Diego County Water Authority

4677 Overland Avenue • San Diego, California 92123-1233
(858) 522-6600 FAX (858) 522-6568 www.sdcwa.org

December 9, 2011

Dear friends and interested parties:

We are pleased to present the Continuing Disclosure Report for fiscal year ending June 30, 2011 for the San Diego County Water Authority (Water Authority).

The information provided in this Continuing Disclosure Report (Report) speaks only as of its date, **December 9, 2011** and the financial and operating data included therein is accurate only as of the dates specified therein. The delivery of this Report may not, under any circumstances, create an implication that there has been no other change to the information provided in any final official statement of the Water Authority. Other than as set forth in its Continuing Disclosure Agreements, the Water Authority has not undertaken to disclose financial or operating data or to provide notice of changes to the information in this Report.

This Report is provided solely pursuant to the Water Authority's Continuing Disclosure Agreements. The filing of this Report does not constitute or imply any representation (i) that all of the information provided is material to investors, (ii) regarding any other financial, operating or other information about the Water Authority or the referenced securities, or (iii) that no changes, circumstances, or events have occurred since the end of the fiscal year to which this Report relates (other than as contained in this Report), or any other date specified with respect to any of the information contained in this Report, or that no other information exists, which may have a bearing on the security for the referenced securities, or an investor's decision to buy, sell, or hold the referenced securities. The information contained in this Report has been obtained from sources which are believed to be reliable, but such information is not guaranteed as to accuracy or completeness. No statement in this Report should be construed as a prediction or representation about future financial performance of the Water Authority. Any statements regarding the referenced securities, other than a statement made by the Water Authority in an official release or subsequent notice published in a financial newspaper of general circulation and/or filed with the Municipal Securities Rulemaking Board are not authorized by the Water Authority. The Water Authority shall not be responsible for the accuracy, completeness, or fairness of any such unauthorized statement.

If you have any questions regarding this Report, please contact David Shank, Financial Planning Manager at (858) 522-6676, or by email at dshank@sdcwa.org.

Sincerely,

Eric Sandler, Director of Finance/Treasurer

MEMBER AGENCIES

- Carlsbad Municipal Water District
- City of Del Mar
- City of Escondido
- City of National City
- City of Oceanside
- City of Poway
- City of San Diego
- Fallbrook Public Utility District
- Helix Water District
- Lakeside Water District
- Olivenhain Municipal Water District
- Otay Water District
- Padre Dam Municipal Water District
- Camp Pendleton Marine Corps Base
- Rainbow Municipal Water District
- Ramona Municipal Water District
- Rincon del Diablo Municipal Water District
- San Dieguito Water District
- Santa Fe Irrigation District
- South Bay Irrigation District
- Vallecitos Water District
- Valley Center Municipal Water District
- Vista Irrigation District
- Yuima Municipal Water District

OTHER REPRESENTATIVE

- County of San Diego

A public agency providing a safe and reliable water supply to the San Diego region

General Information

San Diego County Water Authority Management

Maureen A. Stapleton
General Manager

Sandra L. Kerl
Deputy General Manager

Frank Belock, Jr.
Deputy General Manager

Dennis A. Cushman
Assistant General Manager

Eric L. Sandler
Director of Finance/Treasurer

Daniel S. Hentschke
General Counsel

The Water Authority was organized by nine member agencies in 1944 for the primary purpose of supplying water to San Diego County for distribution to the Water Authority's member agencies. The Water Authority currently has 24 member agencies. A member of the San Diego County Board of Supervisors serves as a non-voting representative to the Water Authority Board of Directors. As a wholesale entity, the Water Authority serves only its member agencies and has no retail customers. The Water Authority has broad powers related to acquiring, developing, storing, transporting, selling, and delivering water both inside and outside its boundaries. The Water Authority is authorized to fix and collect rates or other charges for the purchase and delivery of water or the use of facilities for service. The Water Authority may borrow money, incur indebtedness, and issue bonds and other evidences of indebtedness.

The Water Authority currently receives a minor amount of revenue from hydroelectric power sales. Legislation enacted in September 2000 expands the Water Authority's power generation authority to include the purchase, sale, and transmission of energy.

A Guide to the Continuing Disclosure

Selected Financial Highlights

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Selected Financial Highlights

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets are located in the Financial Section, under the Financial Statement tab, pages 23 and 24, respectively.

The Water Authority's restricted and unrestricted cash balances at June 30, 2011 were \$625 million and \$174 million respectively. Approximately 21.7 percent of total cash is unrestricted.

TABLE 1
Cash and Investments, June 30, 2011 and 2010

	2011	2010
As of June 30, 2011 and 2010, restricted reserve fund cash balances were as follows:		
Construction	\$ 435,517,268	\$ 587,410,453
Debt Service Reserve	69,485,618	69,070,080
Pay-As-You-Go	119,558,427	125,475,485
Total	\$ 624,561,313	\$ 781,956,018
As of June 30, 2011 and 2010, unrestricted cash balances were as follows:		
Operating	\$ 76,484,907	\$ 52,845,016
Designated for Rate Stabilization	43,456,187	43,339,718
Designated for Equipment Replacement	8,915,398	10,026,500
Designated for Stored Water	44,697,342	28,133,917
Total	\$ 173,553,834	\$ 134,345,151

Summary of Outstanding Debt

Long-Term Debt

The table below summarizes the Water Authority's outstanding fixed-rate debt as of June 30, 2011, which includes final maturities, original par amounts, amounts outstanding, and applicable debt service reserve fund requirements. All reserve requirements are fully funded by either reserves or surety bonds.

TABLE 2
Fixed-Rate Debt Outstanding, Fiscal Year Ended June 30, 2011

Issue Name	Final Maturity	Original Par Amount	Amount Outstanding	Debt Service Reserve Funds ⁽¹⁾
Water Revenue Certificates of Participation:				
Series 1997A	2012	\$ 162,315,000	\$ 6,110,000	\$ 15,197,000 ⁽²⁾
Series 1998A	2028	180,000,000	11,685,000	12,240,775
Series 2002A	2032	300,000,000	236,750,000	18,385,750
Series 2004A	2034	425,000,000	425,000,000	38,568,617
Series 2005A	2022	107,455,000	107,455,000	10,745,500 ⁽²⁾
Series 2008A	2038	558,015,000	558,015,000	23,670,625 ⁽²⁾
Water Revenue Bonds:				
Series 2010A (non-AMT tax-exempt)	2027	98,495,000	98,495,000	n/a
Series 2010B (taxable Build America Bonds)	2049	526,135,000	526,135,000	n/a
Total		\$2,357,415,000	\$1,969,645,000	\$ 118,808,267

Notes:

(1) Amounts stated reflect the minimum balance required.

(2) Balance satisfied with surety bond.

Short-term Debt

The Water Authority currently has two forms of short-term debt, Tax-Exempt Commercial Paper (TECP) and a five-year fixed-rate note.

The Water Authority established its TECP Program in 1995. Commercial paper is a form of variable-rate debt, and is issued with maturities of 1 to 270 days. The Water Authority has authorized the issuance of up to \$460,000,000 of TECP, with \$460,000,000 issued and outstanding as of June 30, 2011. The TECP has been issued in five series – Series 1 (\$110,000,000), Series 2 (\$100,000,000), Series 4 (\$100,000,000), Series 5 (\$100,000,000), and Series 6 (\$50,000,000). Series 1 has been issued in various tranches, beginning in 1995; Series 2, was issued in November of 2006; Series 4, 5, and 6 were issued in 2011. Each series is supported with a bank “revolving credit and term loan agreement”. As of June 30, 2011, no advances have been made under any of the revolving credit and term loan agreements.

The Water Authority has remarketing agreements with five separate broker-dealers: Merrill Lynch, Barclays Capital Inc., Goldman, Sachs & Co., J.P. Morgan Securities Inc., and Citicorp Global Markets Inc.

Short-Term Active Debt Instruments	Size	Liquidity Provider	Issuing & Paying Agent	Dealers/Remarketing Agents
Series 1	\$ 110,000,000	Bayern LB	Deutsche Bank	Merrill Lynch Barclays Capital Inc. Goldman, Sachs & Co. J.P. Morgan Securities Inc. Citicorp Global Markets Inc.
Series 2	\$ 100,000,000	BNP Paribas	Deutsche Bank	Merrill Lynch Barclays Capital Inc. Goldman, Sachs & Co. J.P. Morgan Securities Inc. Citicorp Global Markets Inc.
Series 4	\$ 100,000,000	Barclays Bank PLC	Deutsche Bank	Merrill Lynch Barclays Capital Inc. Goldman, Sachs & Co. J.P. Morgan Securities Inc. Citicorp Global Markets Inc.
Series 5	\$ 100,000,000	Wells Fargo Bank	Deutsche Bank	Merrill Lynch Barclays Capital Inc. Goldman, Sachs & Co. J.P. Morgan Securities Inc. Citicorp Global Markets Inc.
Series 6	\$ 50,000,000	Citibank, N.A.	Deutsche Bank	Merrill Lynch Barclays Capital Inc. Goldman, Sachs & Co. J.P. Morgan Securities Inc. Citicorp Global Markets Inc.
TOTAL	\$ 460,000,000			

Member Agency Voting Entitlements

The 24 voting member agencies currently served by the Water Authority consist of six cities, 17 special districts, and one federal agency. Under the County Water Authority Act (Act), California Statutes 1943, Chapter 545, a member agency's vote is based on its "total financial contribution" to the Water Authority since the Water Authority was organized in 1944. Total financial contribution includes all amounts paid in taxes, assessments, fees, and charges to or on behalf of the Water Authority or the Metropolitan Water District of Southern California (MWD) excluding charges for water treatment. The Act authorizes each member agency to cast one vote for each \$5 million, or major fractional part thereof, of the total financial contribution paid by the member agency.

TABLE 3
Member Agency Voting Entitlements, Effective as of January 1, 2011

Member Agency	Total Financial Contribution ⁽¹⁾	Vote Entitlement ⁽²⁾	Percentage ⁽²⁾
Carlsbad M.W.D.	\$308,132,799	61.6	3.5%
City of Del Mar	26,712,096	5.3	0.3%
City of Escondido	309,042,191	61.8	3.5%
Fallbrook P.U.D.	218,428,872	43.7	2.5%
Helix W.D.	637,439,156	127.5	7.2%
Lakeside W.D.	67,621,562	13.5	0.8%
City of National City ⁽³⁾	68,314,426	13.7	0.8%
City of Oceanside	444,682,548	88.9	5.0%
Olivenhain M.W.D.	259,531,297	51.9	2.9%
Otay W.D.	456,013,523	91.2	5.1%
Padre Dam M.W.D.	239,041,700	47.8	2.7%
Camp Pendleton Marine Corps Base	11,722,897	2.3	0.1%
City of Poway	190,858,236	38.2	2.1%
Rainbow M.W.D.	367,268,291	73.4	4.1%
Ramona M.W.D.	142,320,163	28.5	1.6%
Rincon Del Diablo M.W.D.	134,289,252	26.9	1.5%
City of San Diego	3,550,632,833	710.1	40.0%
San Dieguito W.D.	97,765,465	19.6	1.1%
Santa Fe I.D.	136,943,029	27.4	1.5%
South Bay I.D. ⁽³⁾	209,070,801	41.8	2.4%
Vallecitos W.D.	215,866,676	43.2	2.4%
Valley Center M.W.D.	494,138,536	98.8	5.6%
Vista I.D.	262,085,477	52.4	3.0%
Yuima M.W.D.	31,304,072	6.3	0.3%
Total	\$8,879,225,898	1,775.8	100.0%

Notes:

(1) Total financial contribution equals base revenues plus fiscal 2010 revenues.

(2) Rounded values.

(3) City of National City and South Bay I.D. comprise the Sweetwater Authority.

I.D. = Irrigation District
 W.D. = Water District
 M.W.D. = Municipal Water District
 P.U.D. = Public Utility District

Water Source and Use

In Fiscal Year 2011, the Water Authority member agencies' combined imported and local water use totaled 526,945 acre-feet. Imported supplies accounted for 79.1 percent of the total water used, excluding estimated water savings from conservation programs. Of this amount, approximately 382,823 acre-feet of imported water was used for municipal and industrial (M&I) needs, with the balance going to meet agricultural demands.

TABLE 4
Water Source and Use (in Acre-Feet), Fiscal Years 2007-2011

	2007	2008	2009	2010	2011	% of change from previous year
WATER USE by MEMBER AGENCY						
Carlsbad M.W.D.	24,653	24,791	23,564	21,169	19,231	-9.2%
City of Del Mar	1,522	1,320	1,277	1,202	1,151	-4.3%
City of Escondido	36,301	30,393	27,788	24,848	23,355	-6.0%
Fallbrook P.U.D.	22,597	17,916	15,812	13,866	12,158	-12.3%
Helix W.D.	42,088	40,443	37,657	33,211	31,811	-4.2%
Lakeside W.D.	2,538	5,298	4,809	4,050	3,910	-3.5%
City of National City	7,078	6,395	6,593	6,328	6,685	5.7%
City of Oceanside	36,856	34,538	32,097	28,730	26,193	-8.8%
Olivenhain M.W.D.	25,909	26,211	24,989	22,664	20,958	-7.5%
Otay W.D.	43,730	42,638	39,430	35,245	33,710	-4.4%
Padre Dam M.W.D.	20,082	16,993	15,479	13,148	12,168	-7.5%
Camp Pendleton Marine Corps Base ⁽¹⁾	12,092	11,419	11,183	9,563	9,244	-3.3%
City of Poway	16,286	15,289	13,676	11,437	11,181	-2.2%
Rainbow M.W.D.	33,305	27,045	26,420	22,357	18,608	-16.8%
Ramona M.W.D.	21,253	10,989	8,557	6,853	6,522	-4.8%
Rincon Del Diablo M.W.D.	11,704	11,190	10,762	9,559	8,142	-14.8%
City of San Diego ⁽²⁾	240,265	239,946	225,639	199,790	189,393	-5.2%
San Dieguito W.D.	9,262	8,436	7,929	7,145	6,863	-3.9%
Santa Fe I.D.	16,485	15,219	14,577	11,889	9,475	-20.3%
South Bay I.D.	16,253	17,113	16,098	14,466	14,136	-2.3%
Vallecitos W.D.	21,825	20,468	19,051	16,468	15,412	-6.4%
Valley Center M.W.D.	50,892	39,919	35,173	29,922	26,100	-12.8%
Vista I.D. ⁽³⁾	24,030	23,525	21,964	19,235	17,916	-6.9%
Yuima M.W.D. ⁽⁴⁾	4,887	4,437	3,376	3,298	2,623	-20.5%
Total	741,893	691,931	643,900	566,443	526,945	-7.0%
ALLOCATION of WATER USE						
Residential	406,011	405,524	387,401	344,478	344,762	0.1%
Commercial & Industrial	172,924	116,573	91,648	81,685	71,754	-12.2%
Agricultural	110,309	80,417	65,424	53,286	44,348	-16.8%
Public & Other	52,649	89,517	99,427	86,994	66,081	-24.0%
Total	741,893	692,031	643,900	566,443	526,945	-7.0%

Notes:

- (1) Includes Water Authority deliveries via South Coast Water District System.
- (2) Excludes city of San Diego local surface water use outside of Water Authority service area.
- (3) Excludes land outside of Water Authority service area.
- (4) Excludes local supplies developed beyond Yuima's master meters.

TABLE 5
Water Source and Use - Current Year Breakout, Fiscal Year Ended June 30, 2011

	Source of Water			Type of Water Authority Supply Water Use		Gross Area (Acres)
	Local Supply Acre-feet ⁽¹⁾	Water Authority Supply (Imported Use) Acre-feet ⁽²⁾	Total Acre-feet	Agricultural Use Acre-feet ⁽³⁾	M & I Use Acre-feet	
Carlsbad M.W.D.	3,401.0	15,829.5	19,230.5	0.5	15,829.0	20,640.0
City of Del Mar	62.9	1,088.3	1,151.2	0.0	1,088.3	1,442.0
City of Escondido	10,048.5	13,306.7	23,355.2	1,827.5	11,479.2	21,569.0
Fallbrook P.U.D.	508.3	11,649.2	12,157.5	3,717.7	7,931.5	27,988.0
Helix W.D.	11,145.4	20,665.8	31,811.2	0.0	20,665.8	31,350.0
Lakeside W.D.	658.9	3,250.8	3,909.7	0.0	3,250.8	11,488.0
City of National City	5,000.0	1,685.4	6,685.4	0.0	1,685.4	4,812.4
City of Oceanside	4,634.9	21,558.5	26,193.4	414.6	21,143.9	26,982.5
Olivenhain M.W.D.	2,518.2	18,440.1	20,958.3	120.0	18,320.1	30,942.1
Otay W.D.	3,849.4	29,860.8	33,710.2	8.9	29,851.9	80,320.0
Padre Dam M.W.D.	709.1	11,459.0	12,168.1	494.6	10,964.4	54,402.2
Camp Pendleton Marine Corps Base ⁽⁴⁾	8,405.5	838.6	9,244.1	0.0	838.6	134,625.0
City of Poway	578.3	10,602.5	11,180.8	47.9	10,554.6	25,047.0
Rainbow M.W.D.	0.0	18,608.1	18,608.1	6,717.8	11,890.3	47,260.4
Ramona M.W.D.	713.6	5,808.1	6,521.7	1,440.3	4,367.8	46,523.7
Rincon Del Diablo M.W.D.	2,371.2	5,770.4	8,141.6	237.9	5,532.5	10,596.1
City of San Diego ⁽⁵⁾	27,841.6	161,551.8	189,393.4	105.6	161,446.2	213,121.0
San Dieguito W.D.	4,962.1	1,900.8	6,862.9	0.0	1,900.8	5,652.7
Santa Fe I.D.	5,372.8	4,102.2	9,475.0	22.5	4,079.7	10,359.0
South Bay I.D.	8,792.2	5,343.8	14,136.0	0.0	5,343.8	13,836.9
Vallecitos W.D.	0.0	15,412.3	15,412.3	837.0	14,575.3	29,450.0
Valley Center M.W.D.	425.7	25,674.2	26,099.9	16,428.1	9,246.1	64,253.0
Vista I.D. ⁽⁶⁾	7,097.2	10,818.3	17,915.5	35.7	10,782.6	21,167.1
Yuima M.W.D. ⁽⁷⁾	1004.3	1,618.9	2,623.2	1,564.8	54.1	13,460.0
TOTALS ⁽⁸⁾	110,101.1	416,844.1	526,945.2	34,021.4	382,822.7	947,288.1

Notes:

- (1) Includes surface, recycled, and groundwater supplies; does not reflect conserved water.
- (2) Water use in a given year may differ from Water Authority sales due to storage.
- (3) Includes only amounts certified through the Interim Agricultural Water Program (IAWP) and the Special Agricultural Water Program (SAWR).
- (4) Includes Water Authority deliveries via South Coast Water District system.
- (5) Excludes city of San Diego local surface water use outside of Water Authority service area.
- (6) Excludes land outside of the Water Authority's service area.
- (7) Excludes local supplies developed beyond Yuima's master meters.
- (8) Numbers may not total due to rounding.

TABLE 6
Member Agency Gross Water Sales by Fiscal Year, Thousands of Dollars ⁽¹⁾

	2007	2008	2009	2010	2011
Carlsbad M.W.D.	\$ 13,862	\$ 11,751	\$ 14,281	\$ 16,194	\$ 16,729
City of Del Mar	760	738	740	838	907
City of Escondido	13,764	15,250	12,810	14,811	11,058
Fallbrook P.U.D.	9,499	8,153	9,738	10,972	11,125
Helix W.D.	20,062	21,163	27,076	21,472	17,918
Lakeside W.D. ⁽²⁾	1,331	2,511	2,953	3,135	3,397
City of Oceanside	18,001	18,253	18,984	19,668	19,669
Olivenhain M.W.D.	12,083	15,923	14,157	14,279	14,677
Otay W.D.	25,709	21,129	26,211	29,330	31,332
Padre Dam M.W.D. ⁽²⁾	11,694	9,243	10,670	11,555	11,951
Camp Pendelton Marine Corps Base	59	38	63	63	57
City of Poway	7,962	8,090	8,431	7,733	9,177
Rainbow M.W.D.	15,986	14,149	16,989	18,823	17,430
Ramona M.W.D.	5,933	6,124	5,367	6,155	5,668
Rincon Del Diablo M.W.D.	5,191	3,973	5,478	5,809	6,003
City of San Diego	117,018	124,187	121,901	140,194	144,473
San Dieguito W.D.	2,990	2,644	2,356	1,958	1,992
Santa Fe I.D.	5,822	5,135	5,060	4,746	4,258
Sweetwater Authority ⁽³⁾	4,490	6,605	6,430	9,900	7,309
Vallecitos W.D.	13,212	13,155	14,081	15,114	16,001
Valley Center M.W.D.	24,276	20,670	22,441	25,505	24,542
Vista I.D.	11,402	12,314	11,250	13,145	10,764
Yuima M.W.D.	1,552	1,849	1,311	2,041	1,443
Total ⁽⁴⁾	\$ 342,658	\$ 343,047	\$ 358,778	\$ 393,440	\$ 387,880

Notes:

(1) Gross sales represent total water sales invoiced less adjustments for certain items such as agricultural and reclaimed water, treatment credits, and infrastructure access charges.

(2) Padre Dam M.W.D. was reorganized into Padre Dam M.W.D. and Lakeside W.D. in 2007.

(3) Represents sales to the city of National City and South Bay I.D. for which Sweetwater Authority acts as a purchasing agent.

(4) In addition to the total water sales revenue shown, in some years the Water Authority has also received a minor amount of revenues from adjacent water districts that provide water to customers within the Water Authority's service area under operating agreements. These revenues are not included in this chart.

TABLE 7
Historical Operating Results by Fiscal Year, Thousands of Dollars *

	2007	2008	2009	2010	2011
Operating Revenues:					
Water Sales ⁽¹⁾	\$ 343,082	\$ 343,456	\$ 359,952	\$ 387,871	\$382,922
Water Standby Availability Charges	11,140	11,256	11,311	11,240	11,255
Capacity Charges	31,081	23,884	13,266	10,299	10,321
Infrastructure Access Charges ⁽²⁾	16,188	17,458	19,390	21,241	24,508
Total Operating Revenues	401,491	396,054	403,919	430,651	429,006
Plus Withdrawals from or Minus Deposits to the Rate Stabilization Fund	(5,680)	3,866	-	-	-
BABs Interest Rate Subsidy ⁽³⁾	-	-	-	4,615	11,303
Nonoperating Revenue ⁽⁴⁾	14,301	14,084	8,268	4,372	6,091
Total Revenues ⁽⁵⁾	410,112	414,004	412,187	439,638	446,400
Operating Expenses: ⁽⁶⁾					
MWD Water Purchases	266,349	262,538	269,836	291,385	275,099
Other Maintenance and Operations Costs ⁽⁷⁾	34,524	36,919	42,724	39,395	39,570
Total Operating Expenses	300,873	299,457	312,560	330,780	314,669
Application of Net Tax Receipts	8,590	10,303	10,467	9,972	9,654
Net Operating Expenses	292,283	289,154	302,093	320,808	305,015
Net Water Revenue Available for Debt Service	117,829	124,850	110,094	118,830	141,385
Revenue Supported Debt Service ⁽⁸⁾					
1993 Certificates	14,393	14,395	14,352	-	-
1997 Certificates	21,692	20,864	1,358	1,358	18,690
1998 Certificates	2,930	2,930	2,732	1,347	555
2002 Certificates	18,343	18,345	18,343	18,342	18,341
2004 Certificates	20,929	20,929	20,929	20,929	20,929
2005 Certificates	5,581	5,581	5,581	5,581	5,581
2008 Certificates	-	-	9,767 ⁽⁹⁾	26,291 ⁽¹⁰⁾	26,291 ⁽¹¹⁾
2010A&B Bonds	-	-	-	5,585 ⁽¹⁰⁾	13,676 ⁽¹¹⁾
Total Debt Service	83,868	83,044	73,062	79,433	104,063
Subordinate Obligation Payments ⁽¹²⁾					
Commercial Paper ⁽¹³⁾	4,402 ⁽¹⁴⁾	3,536 ⁽¹⁵⁾	7,071	3,197	3,111
Balance Available After Debt Service and Subordinate Obligation Payments	\$ 29,559	\$ 38,270	\$ 29,961	\$ 36,200	\$ 34,211
Revenue Supported Debt Service Coverage Ratio	1.40x	1.50X	1.50X	1.50X	1.36X
Debt Service and Subordinate Obligation Coverage Ratio ⁽¹⁶⁾	1.34X	1.45X	1.39X	1.46X	1.34X

Notes:

* Some amounts are prepared on a basis other than the generally accepted accounting principles.

(1) Water sales represent accrued sales to member agencies, as well as revenues from treatment of raw water and certain miscellaneous income items.

(2) Infrastructure access charge was implemented January 1999 and is levied on retail water meters within the service area.

(3) Build America Bonds (BABs) receive a 35 percent subsidy of interest payable from the United States Treasury.

(4) Nonoperating revenue consists of interest earnings on Water Authority funds (excluding interest earnings on bond proceeds and the Rate Stabilization Fund) and other revenues (hydroelectric sales, penalties, etc.).

(5) Total revenues include amounts transferred to and from the Rate Stabilization Fund, and excludes, property taxes, contributions in aid of capital assets, and CIP grant reimbursements.

(6) Operating expenses exclude depreciation and amortization expenses.

(7) Includes operations, maintenance, planning, and general and administrative costs; excludes capital equipment purchases.

(8) Includes only debt service on Water Authority indebtedness payable from net water revenues and excludes debt service paid from tax revenues. Senior lien debt service does not include trust fees.

(9) Excludes \$18,023,409 interest payment on 2008A COPs, which was paid with bond proceeds.

(10) Excludes \$1,500,000 interest payment on the 2008A COPs and \$9,530,000 interest payment on the 2010A & B Bonds, which was paid with bond proceeds.

(11) Excludes \$1,500,000 interest payment on the 2008A COPs and \$23,340,158 interest payment on the 2010A & B Bonds, which was paid with bond proceeds.

(12) The Water Authority has no outstanding subordinate obligation long-term debt at this time.

(13) Commercial paper (CP) costs include interest and related program fees.

(14) Excludes \$7,995,111 interest payment on 2006 CP which was paid with commercial paper proceeds.

(15) Excludes \$9,783,772 interest payment on 2006 CP which was paid with commercial paper proceeds.

(16) Coverage ratios do not include program fees.

Summary of Water Rates

Water rates are established by the Board of Directors and are not subject to regulation by the California Public Utilities Commission or by any other local, state, or federal agency. Under the General Resolution, the Water Authority is required to fix rates that are reasonably fair and nondiscriminatory. The Water Authority assesses four different charges for the supply and delivery of water; the fixed Customer Service and Storage Charges, the variable Transportation, Supply, and Treatment rates. The Customer Service Charge recovers operating and capital costs associated with the overall functioning of the Water Authority, the Storage Charge recovers costs associated with the Emergency Storage Project, the Transportation Rate recovers costs associated with the conveyance of water through the Water Authority's aqueducts. In January 2005, the Water Authority transitioned to a melded supply rate, which recovers the weighted average cost of supply to the Water Authority, as well as certain other supply-related costs. Calendar year 2011 supplies include water from MWD and the Imperial Irrigation District. The Melded M&I Treatment Rate is set to recover the Water Authority's costs of treating water and the cost of purchasing treated water from MWD, and the Levy and Olivenhain treatment plants.

TABLE 8
Summary of Water Rates, Effective January 1 - December 31

	San Diego County Water Authority								Metropolitan Water District ⁽²⁾							
	Water Authority Melded Supply		SAWR ⁽¹⁾		Transportation Rate	Customer Service	Storage	Full Service Tier 2		IAWP ⁽³⁾		SSOA ⁽⁴⁾		Replenishment Water Rate ⁽⁵⁾		
	UTR	TR	UTR	TR				UTR	TR	UTR	TR	UTR	TR	UTR	TR	
2005	\$349	\$461	-	-	\$ 55	\$ 13,600,000	\$ 14,600,000	\$412	\$524	\$241	\$329	\$279	\$391	n/a	n/a	
2006	360	485	-	-	60	14,200,000	17,700,000	427	549	241	339	290	415	n/a	n/a	
2007	365	512	-	-	60	14,200,000	17,700,000	427	574	241	364	295	442	n/a	n/a	
2008	390	554	-	-	60	15,200,000	22,200,000	449	606	261	394	320	484	n/a	n/a	
2009	463	631	412	580	64	16,000,000	23,000,000	528	696	322	465	-	-	n/a	n/a	
2009 ⁽⁶⁾	532	747	484	699	67	16,000,000	23,000,000	594	781	394	587	-	-	n/a	n/a	
2010	532	747	484	699	67	18,000,000	34,000,000	594	811	416	615	-	-	n/a	n/a	
2011	597	812	527	742	75	23,200,000	44,300,000	652	869	482	687	-	-	409	601	

Notes:

(1) A new transitional agricultural water rate was adopted on December 10, 2008 for customers opting out of MWD's IAWP. Customers that are participating in SAWR program are considered M&I customers by MWD.

(2) MWD rates are shown as the rates adopted by MWD.

(3) The IAWP will be discontinued in 2012.

(4) Seasonal Shift Storage rates apply October 1 through April 30. This schedule represents the contractual seasonal storage rate. Noncontractual participants pay a higher rate. SSOA was not renewed in 2009.

(5) MWD's Replenishment Rate is a discounted rate for surplus system supplies available for the purpose of replenishing local supplies.

(6) The Water Authority's 2009 rates were increased effective January 1, 2009 and September 1, 2009 to match MWD's mid-year rate increase.

UTR=Untreated Water

TR=Treated Water

IAWP = Interim Agricultural Water Program

SSOA=Surface Storage Operating Agreement

SAWR=Special Agricultural Water Rate

Summary of Investments

TABLE 9
Summary of Investments, Fiscal Year Ended June 30, 2011 ⁽¹⁾

Investment Type	Permitted By Board Policy	Maximum Maturity	Maximum Financial Institution Concentration	Actual Percentage	Actual Amount Book Value ⁽²⁾
Local Agency Investment Fund (LAIF)	\$50 Million	N/A	N/A	17.00%	\$ 49,074,085
Treasury Securities	15% -Minimum	5 years	N/A	21.22%	61,249,499
Agency Securities	85%	5 years	No limit	53.20%	153,552,029
Certificates of Deposit (CDARS)	15%	12/31/2013	No limit	0.35%	1,000,000
Commercial Paper	25%	270 days	5%	4.50%	12,973,031
JPA Pools (CAMP)	25%	N/A	N/A	3.56%	10,265,537
Money Market Funds	15%	N/A	10%	0.17%	502,954
				100.00%	\$ 288,617,135
Accrued Interest (unavailable for investing)					-
Checking/Petty Cash/Available Funds (unavailable for investing)					2,335,148
Subtotal for Pooled Funds:					\$ 290,952,283
Bond/CP Fund Excluded from Portfolio Percentages:					
Treasury Securities					-
Agency Securities					269,095,314
Certificates of Deposit (CDARS)					-
Commercial Paper					16,966,642
Local Agency Investment Fund (LAIF)					142,615,237
JPA Pools (CAMP)					14,027,969
Money Market Funds and Cash					10
					\$ 442,705,172
Accrued Interest (unavailable for investing)					352,675
Subtotal for Bond/CP Fund (available for CIP expenditures):					\$ 443,057,847
Debt Service Reserve (DSR) Funds Excluded from Portfolio Percentages:					
Treasury Securities and Money Market Fund - Series 2004A COPS					38,763,010
FSA - Reserve (GIC) - Series 2002A COPS					18,385,750
Trinity Plus - Reserve (GIC) - Series 1998A COPS					12,240,775
Subtotal for Debt Service Reserve Funds (unavailable for CIP expenditures):					\$ 69,389,535
Total Cash and Investments					\$ 803,399,665

Notes:

(1) Includes only investment types with balances at June 30, 2011.

(2) Book value of investments may differ from market values contained in financial statements.

Investment Policy

The Water Authority's investment policy is defined and approved annually. The purpose of this policy is to identify various policies and procedures that enhance opportunities for a prudent and systematic investment policy and to organize and formalize investment-related activities. The Water Authority's Board of Directors has delegated investment responsibility to the Water Authority's treasurer, who is primarily responsible for implementing the investment policy. The Board and treasurer adhere to the guidance provided by the "prudent investor rule." The treasurer presents an investment report to the Board monthly. The objectives of the investment policy are as follows:

A. SAFETY: Each investment transaction shall seek to avoid capital losses. Diversification of the portfolio will be used to reduce exposure to principal loss.

B. LIQUIDITY: An adequate percentage of the portfolio will be maintained in liquid, short-term securities that can be converted to cash to meet disbursement requirements. Investment in securities with active secondary markets will be utilized. These securities will have a low sensitivity to market risk.

C. YIELD: Yield should become a consideration only after the basic requirements of safety and liquidity have been met.

D. PUBLIC TRUST: All participants in the investment process shall act as custodians of the public trust. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust.

The investment portfolio will be diversified to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions. Portfolio diversification is employed as a way to control risk.

The Water Authority strives to maintain an efficient portfolio by providing for the lowest level of risk for a given level of return. This acceptable level of return has been quantified as a return that is consistent with the 1-year U.S. Treasury constant maturity.

The Water Authority is governed by the California Government Code, Sections 53600 et seq. Within the context of these limitations, investments are authorized for the Water Authority's operating and reserve funds as indicated in the Summary of Investments table.

It is the Water Authority's goal to maintain a minimum of 50 percent of the Water Authority's portfolio in U.S. Treasury securities; however, based on market conditions, a combination of 50 percent agency securities and Treasury bills or notes will satisfy this requirement. At no time will less than 15 percent of the portfolio be in Treasury bills or notes.

The Water Authority does not invest in derivative instruments. Securities such as yield curve notes, interest only, principal only, range notes, and inverse floaters are prohibited. Callable bonds, step-up bonds, and floating rate securities (with a positive spread) are permitted investments. No security will be purchased that could result in a zero interest accrual if held to maturity. Investments such as common stocks, futures, and the writing of options are prohibited from use in the Water Authority's portfolio. The use of short positions is also prohibited.

Litigation

The San Diego County Water Authority, along with the Imperial Irrigation District (IID), Metropolitan Water District of Southern California, Coachella Valley Water District, and State of California (collectively “QSA parties”), are defending a number of challenges that have been filed in a validation action brought relating to the Quantification Settlement Agreement and its various related agreements (collectively “QSA”), including agreements relating to the transfers of conserved water from IID to the Water Authority. On February 11, 2010, after trial on certain issues, the trial court entered a judgment invalidating the QSA. The QSA parties appealed and the matter is currently pending on appeal in the California Court of Appeal, Third Appellate District (Imperial Irrigation Dist., et al. v. All Other Parties to QSA Coordinated Civil Cases, 3rd Dist. Court of Appeal Case No. C642993 Sacramento Superior Court Case No. JCCP 4353). The court of appeal has issued a writ staying the trial court judgment pending appeal. A hearing on the appeal is set for November 21, 2011. For further information, contact Daniel S. Hentschke, General Counsel, 4677 Overland Ave., San Diego, CA 92123, (858) 522-6791, dhentschke@sdcwa.org.

Economy of San Diego County

Two of the San Diego region’s greatest assets are its geography and climate. Its physical beauty, ecological diversity, and favorable weather make it an attractive place to live and conduct business. The result has been a sustainable and diversified regional economy. The average annual rainfall is only ten inches, so the county is highly reliant on imported water. For these reasons, the health of the regional economy is inextricably linked to the long-term success of the San Diego County Water Authority.

San Diego County has an estimated population of over 3.26 million people. The per capital income is estimates at \$41,307; up 1.5 percent

from 2010 estimates but down 13.8 percent from its peak in 2008.

San Diego’s recent relative economic stability has been based on its increasing diversification of economic activity and continued growth as a hub for research and development and product manufacturing in telecommunications, biotechnology, military products, electronics and information technology. ⁽¹⁾

San Diego has shared the pain with the rest of Southern California. Construction, real estate, manufacturing and retail trade have all suffered large employment declines.⁽²⁾ Estimated unemployment in the region in 2011 is averaging 10.6 percent.

(1,2) County of San Diego. Adopted Operational Plan, FY’s 2011 and 2012. Source: http://www.sdcounty.ca.gov/auditor/pdf/adoptedplan_10-12_cover.pdf, p.21

CHART 1
Historic and Projected Population in Water Authority Service Area, 2002-2035 Calendar Year

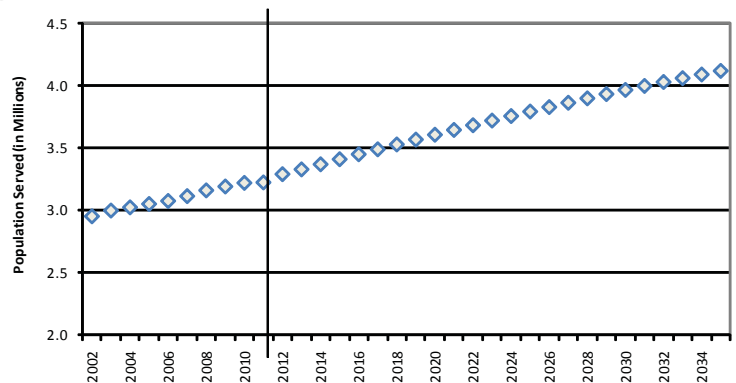
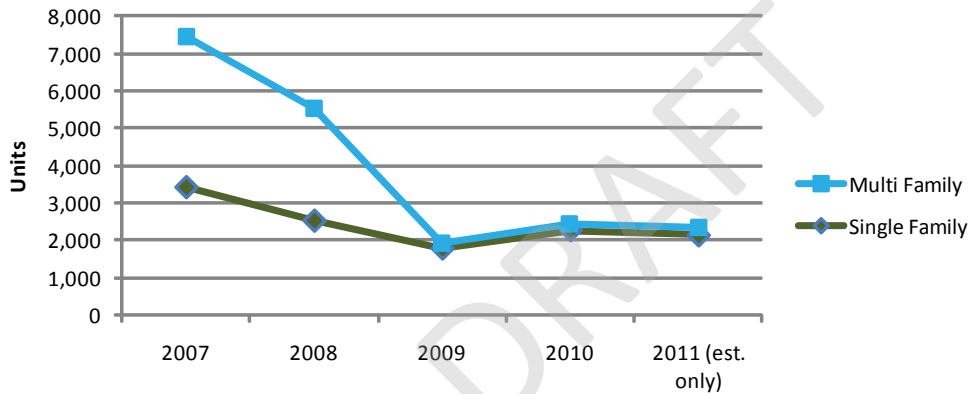


TABLE 10
San Diego County Annual Building Permit Activity, Calendar Year

	2007	2008	2009	2010
Single Family	3,422	2,524	1,778	2,270
Multi Family	4,013	2,996	122	146
TOTAL	7,435	5,520	1,900	2,416

2011 year-to-date	Jan	Feb	Mar	Apr	May	June	July	Aug
Single Family	161	132	194	211	225	234	165	165
Multi-Family	30	4	7	55	0	9	35	8

Chart 2 Building Permit Activity, 2007-2011(est), Calendar Year



Source: U.S. Census Bureau (based on building estimates)

TABLE 11
Labor Force Rate Trends, as of July of each year

Year	Area	Labor Force	Employment	Unemployment	% Unemployed
2007	San Diego County	1,531,200	1,461,500	69,700	4.6%
	California	18,078,000	17,108,700	969,300	5.4%
	United States	153,124,000	146,047,000	7,078,000	4.6%
2008	San Diego County	1,566,200	1,472,400	93,800	6.0%
	California	18,391,800	17,059,600	1,332,300	7.2%
	United States	154,287,000	145,362,000	8,924,000	5.8%
2009	San Diego County	1,557,400	1,406,100	151,300	9.7%
	California	18,187,000	15,986,000	2,201,000	12.1%
	United States	154,142,000	139,877,000	14,265,000	9.3%
2010	San Diego County	1,558,200	1,393,900	164,300	10.5%
	California	18,256,700	15,927,100	2,329,600	12.8%
	United States	153,889,000	139,064,000	14,825,000	9.6%
2011 estimated	San Diego County	1,574,300	1,407,400	166,900	10.6%
	California	18,058,780	15,869,900	2,188,890	12.1%
	United States	153,589,410	139,495,900	14,093,510	9.2%

Source: CALMIS (County and State) and U.S. Bureau of Labor Statistics, series report (U.S.)

TABLE 12
San Diego County Employment by Industry⁽¹⁾, Calendar Year

Industry	2007	2008	2009	2010	2011*
Farm Production	10,900	10,500	9,500	9,700	9,700
Natural Resources and Mining	400	400	400	400	400
Construction	87,000	76,100	61,100	55,500	54,600
Manufacturing	102,500	102,800	95,300	92,400	92,800
Trade, Transportation, and Utilities	222,300	215,900	199,600	196,700	198,500
Information	31,300	31,400	28,200	25,200	24,900
Financial Activities	80,300	75,200	69,800	67,100	68,900
Professional and Business Services	223,200	222,300	206,800	208,000	216,600
Educational and Health Services	129,500	137,300	144,300	147,100	150,900
Leisure and Hospitality	161,800	164,000	154,800	154,600	166,300
Other Services	48,300	48,400	46,800	47,200	46,700
Federal Government	40,900	41,600	43,700	46,900	46,300
State and Local Government	181,500	183,500	180,800	179,100	168,400
TOTAL	1,319,900	1,309,400	1,241,100	1,229,900	1,245,000

Notes:

(1) Table uses the North American Industry Classification System (NAICS).

* Current year is based on July statistics.

Source: CALMIS

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