

WATER REPLENISHMENT DISTRICT OF SOUTHERN CALIFORNIA

ACHIEVEMENTS IN WATER INDEPENDENCE

Comprehensive Annual Financial Report

Fiscal Years Ending
June 30, 2012 and 2011





Comprehensive Annual Financial Report

Fiscal Years Ended

June 30, 2012 and 2011

**WATER REPLENISHMENT DISTRICT OF
SOUTHERN CALIFORNIA
4040 Paramount Boulevard
Lakewood, California 90712**

**Prepared by:
Finance Department
Scott M. Ota, CPA, CFF, CIRA, CGMA
Chief Financial Officer**

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Our Mission Statement

“To provide, protect and preserve high quality groundwater through innovative, cost-effective and environmentally sensitive basin management practices for the benefit of residents and businesses of the Central and West Coast Basins.”

Water Replenishment District of Southern California
Board of Directors as of June 30, 2012

<u>Name</u>	<u>Division</u>	<u>Title</u>	<u>Elected/ Appointed</u>	<u>Current Term</u>
Albert Robles	5	President	Elected	01/09 - 01/13
Lillian Kawasaki	3	Vice President	Elected	01/11 – 01/15
William H. Murray, Jr.	1	Secretary	Elected	01/11 – 01/15
Sergio Calderon	4	Treasurer	Elected	01/11 - 01/15
Robert Katherman	2	Director	Elected	01/11 – 01/13

Water Replenishment District of Southern California
Robb Whitaker, General Manager
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Lakewood, California 90712
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Water Replenishment District of Southern California
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Introductory Section

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DIRECTORS
ALBERT ROBLES, PRESIDENT
LILLIAN KAWASAKI, VICE PRESIDENT
WILLARD H. MURRAY, JR., SECRETARY
SERGIO CALDERON, TREASURER
ROBERT KATHERMAN, DIRECTOR

ROBB WHITAKER, P.E., GENERAL MANAGER

December 26, 2012

The Honorable Board of Directors of the
Water Replenishment District of Southern California

State law requires that every general-purpose government agency publish within six months of the close of each fiscal year a complete set of audited financial statements. This report is published to fulfill that requirement for the fiscal year ended June 30, 2012.

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

Vasquez & Company LLP, Certified Public Accountants, have issued an unqualified (“clean”) opinion on the Water Replenishment District of Southern California’s financial statements for the year ended June 30, 2012. The independent auditors’ report is located at the front of the financial section of this report.

Management’s discussion and analysis (MD&A) immediately follows the independent auditors’ report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements and should be read in conjunction with this letter of transmittal.

The District has one blended component unit which has a June 30 year-end as well. Accordingly, the Southern California Water Replenishment Financing Corporation is presented as a blended component unit of the District.

Profile of the District

The District is a special water district that was established in 1959 by popular vote to counteract the effects of over pumping of groundwater from two major groundwater basins in Los Angeles County. It is the only replenishment district in California operating under the provisions of the California Water Code, Section 60000 et seq., which specifically governs water replenishment districts.

The District manages the Central and West Coast groundwater basin (collectively, the “Basins”) which provide groundwater for approximately four million residents in 43 cities of southern Los Angeles County (County). The District was formed in response to a history of over pumping of the Basins which caused wells to go dry and seawater to intrude into the potable water aquifers. The District serves as the groundwater manager for the Basins, in accordance with the adjudications of the Basins. The District protects the Basins by replenishing the groundwater, deterring sea water intrusion and removing contaminants from the groundwater.

The District is bound by the Baldwin, Whittier, and Merced Hills to the north, the Orange County line to the east, and the Pacific Ocean to the south and west. It lies entirely within Los Angeles County and serves 43 cities, including Los Angeles, Long Beach, Downey, and Torrance. The approximately 420 square mile service area uses about 250,000 acre-feet of groundwater per year.

The District's stated mission is "to provide, protect and preserve high quality groundwater through innovative, cost-effective and environmentally sensitive water basin management practices for the benefit of residents and businesses of the Central and West Coast Basins." Although the District does not directly serve customers, it ensures the health of the groundwater basins so groundwater supplies are available to those with water rights to those basins, such as the cities that supply water to their residents. According to District estimates, nearly 40 percent of the water consumed by the area served by the District comes from groundwater sources. The remaining amount comes from water imported from the Colorado River and Northern California.

The District originally was established to oversee the replenishment of groundwater levels in the West Coast and Central groundwater basins of Los Angeles County. The need for an entity to perform this function had become clear by the 1950s. The increasing population of the Los Angeles area during the early part of the 20th century had overwhelmed the area's limited sources of surface water, so communities, private water companies, and businesses began pumping water out of the groundwater basins. Since the natural inflow to the groundwater basins relies primarily on rainfall that averages only 14 inches per year, it was not long before the pumping outstripped the basins' ability to recharge themselves through natural means. As the groundwater levels continued to go down, some wells went dry and saltwater intruded into the basins' coastal areas, causing wells to be abandoned.

The West Basin Water Association was formed in 1947, and the Central Basin Water Association was formed in 1952. These associations developed a plan to provide supplemental water to their members, limit groundwater extraction from the basins, and create a means to provide groundwater pumping rights to users who lacked access to other supplemental water supplies. At about the same time, the entities went to court seeking specific assignments for groundwater rights. In 1956 and 1961, the court awarded varying amounts of groundwater rights to a number of entities. During fiscal year 1997 – 98, 150 parties to these judgments held a total of 217,367 acre-feet of water rights in the Central Basin, and 68 parties held a total of 64,468 acre-feet of water rights in the West Coast Basin. Since water rights are property rights, they can be bought and sold.

By law, the District has broad authority to carry out its responsibilities, which include the purchase of water to replenish the basins, administering clean water programs and investing in projects intended to improve the reliable supply of clean water at a reasonable cost. The District annually purchases an average of 80,000 acre-feet of water to be added to spreading grounds, where it gradually percolates into the underlying aquifers. The District also purchases an average of 30,000 acre-feet per year of water to be injected into seawater barrier wells along the coastline. Water injected into these barrier wells forms a dam of freshwater that keeps seawater from flowing into the groundwater aquifers in areas where groundwater levels have dropped

below sea level. Los Angeles County operates the spreading grounds and barrier wells, using the water the District provides.

In addition, the District operates a number of clean water programs under the authority of 1991 legislation that broadened its mission to include the detection, prevention, and removal of contaminants in the groundwater. In response to this legislation, the District has established programs to monitor water quality, remove containments, and mitigate saltwater intrusion.

Local Economy

The District office is located in Los Angeles County. The County covers 4,752 square miles and has a 2010 population of about 9,818,000. Forecasts show positive population growth in the Los Angeles area averaging about 0.5% to 1.0% per year over the next several years.

Recent years have been very difficult for economy of Los Angeles County but a gradual economic improvement is expected over the next several years. The major forces leading the way will be the entertainment industry, international trade and tourism; all areas which have seen sharp declines in the past several years. However, there are still areas of concern. The non-residential real estate sector continues to struggle with high vacancies, declining lease rates and falling property values. Local governments will continue to have challenges as the decline in home values, slump in retail sales and the State's budget problems continue to harm municipal budgets.

The "new economy" of Los Angeles County is largely technology driven. This cluster includes bio-medical, digital information technology, and environmental technology, all of which build on the vibrant technological research capabilities of the County. Another key driver is creativity. There is a growing fusion between technology and creativity such as in video games and film production.

Los Angeles is the largest manufacturing center in the U.S., employing 376,500 workers in 2007. The most important sectors are: apparel with 56,700 workers; fabricated metals with 49,100 workers; food products with 43,000 workers; aerospace products & parts with 38,100 workers; and search, detection & navigation products with 26,987 workers.

International trade is a major driver of the area's economy. The Los Angeles Customs District—which includes the ports of Long Beach and Los Angeles, Port Hueneme, and Los Angeles International Airport—is the nation's largest. The value of two-way trade passing through Los Angeles totaled \$357.3 billion in 2008, compared with \$353.4 billion for second-place New York. Major investments are under way to expand the ports, LAX airport and related transportation facilities in Los Angeles County.

Higher and specialized education is a significant force of Los Angeles County, with 112 public and private colleges and universities. These range from UCLA, USC, California Institute of Technology, and the Claremont Colleges to top-rated specialized institutions, like the California Institute for the Arts, the Art Center College of Design, the Fashion Institute of Design and Merchandising, and the Otis College of Art. Medical education is also a strong point; Los

Angeles has two each of medical schools, dental schools, and eye institutes, plus specialized research and treatment facilities like the City of Hope. The County's community colleges offer many innovative programs, including culinary arts, fashion design, multimedia, and computer assisted design and manufacturing.

California's water supply continues to pose many new and complex challenges for water suppliers in the state. In recent years, the District has been an active participant and leader in addressing these concerns. Through coordination and planning with other local and regional water suppliers, the District continues to engage in developing long-term solutions to the various water supply challenges. These efforts are evidenced in the District's participation in regional conjunctive use programs as well as local groundwater storage and recovery projects. It is through participation in these and other programs that will enable the District to continue to meet its long-term water supply needs.

Relevant Financial Policies

Internal Control Structure

District management is responsible for the establishment and maintenance of the internal control structure that ensures that the assets of the District are protected from loss, theft, or misuse. The internal control structure also ensures that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The District's internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management.

Investment Policy

The Board of Directors annually adopts an investment policy that conforms to California State law, District ordinance and resolutions, prudent money management, and the "prudent person" standards. The Investment Policy's objectives are safety, liquidity, and yield. District funds are normally invested in the State Treasurer's Local Agency Investment Fund, Certificates of Deposit, Government Agency Obligations or other specifically authorized investments.

Replenishment Assessment Remains the Same

Following 10 budget workshops, the WRD Board voted to keep the 2012-2013 Replenishment Assessment at the 2011-2012 rate of \$244.00 per acre-foot. That is 29% of the imported water rate and represents the best water bargain anywhere in Southern California. We are as proud of the very open and collaborative process we used to arrive at the result as we are of the result itself. Despite rising costs, especially for necessary legal services, we managed to stay the course through general belt-tightening and a conscious decision to reduce purchases for increasingly expensive imported water in favor of more cost-effective local supply.

\$70 Million for the Water Independence Now (WIN) Program

The District has programs and projects underway to complete WRD's strategic objective to eliminate the use of imported water for replenishment by 2015. That objective is within reach because WRD already has much of the money needed to pay for it in the bank.

This year we issued \$69,195,000 in certificates of participation to fund completion of the Leo J. Vander Lans Advanced Water Treatment Expansion Project and significant portions of the Groundwater Reliability Improvement Program (GRIP) and Groundwater Infrastructure Improvement Program. When completed, these programs and projects will produce local water to replace the dwindling amount of imported water we still need to buy for spreading and barrier injection.

Reflecting confidence in WRD's financial stability and management, both of the major rating agencies rated the certificates AA+, which is at or near the top rating for water agencies in the state.

Groundwater Monitoring, Safe Drinking Water and Crucial Plans

- By virtue of WRD's long-standing and highly-regarded groundwater monitoring program, WRD has been selected as the regional Monitoring Entity for the Department of Water Resource's California Statewide Groundwater Elevation Monitoring Program (CASGEM).
- Perhaps reflecting the precipitous and lasting hikes in the cost of imported water, an increasing number of pumpers are applying for WRD's Safe Drinking Water grants and loan program to clean up and reactivate their wells. Two projects are underway in two different cities and eight applications from six different jurisdictions are under review.
- The Groundwater Basins Master Plan is nearing completion. This very important stakeholder-driven planning effort identifies ways to maximize the use of locally-developed water for replenishment and barrier injection and possible storage projects to take advantage of the storage framework when it is approved by the court.
- The state's Recycled Water Policy requires every groundwater basin in the state to develop a Salt/Nutrient Management Plan by May 2014 that optimizes the use of recycled water while ensuring the protection of the groundwater supply for beneficial use and human health. WRD has taken the lead for Plan Development with significant collaboration of the many interested and affected stakeholders. Once developed, the Plan must be approved by the Regional Water Quality Control Board.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the District for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2011. This was the eighth consecutive year that the District submitted its CAFR for this prestigious award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily

readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. We believe that our current CAFR continues to meet the Certificate of Achievement programs requirements and we are submitting it to the GFOA to determine its eligibility for 2012.

The District has also been presented with the following awards as part of its ongoing effort to provide, protect and preserve high-quality groundwater within the Central and West Coast Groundwater Basins.

- Outstanding Groundwater Projects Award from the National Association of Groundwater Agencies for WRD's Groundwater Monitoring program
- California WaterReuse Institution of the Year award for the second consecutive year from the WaterReuse Association
- Award from LA Film Fest in the Short Animation Category for the District's Mega Rainbow water quality film
- California Society of Municipal Finance Officers Association Award of Excellence in Budgeting

Preparation of this report was accomplished by the combined efforts of District staff. We appreciate the dedicated efforts and professionalism that our staff members bring to the District. We would also like to thank the members of the Board of Directors for their continued support in the planning and implementation of the Water Replenishment District of Southern California's fiscal policies.

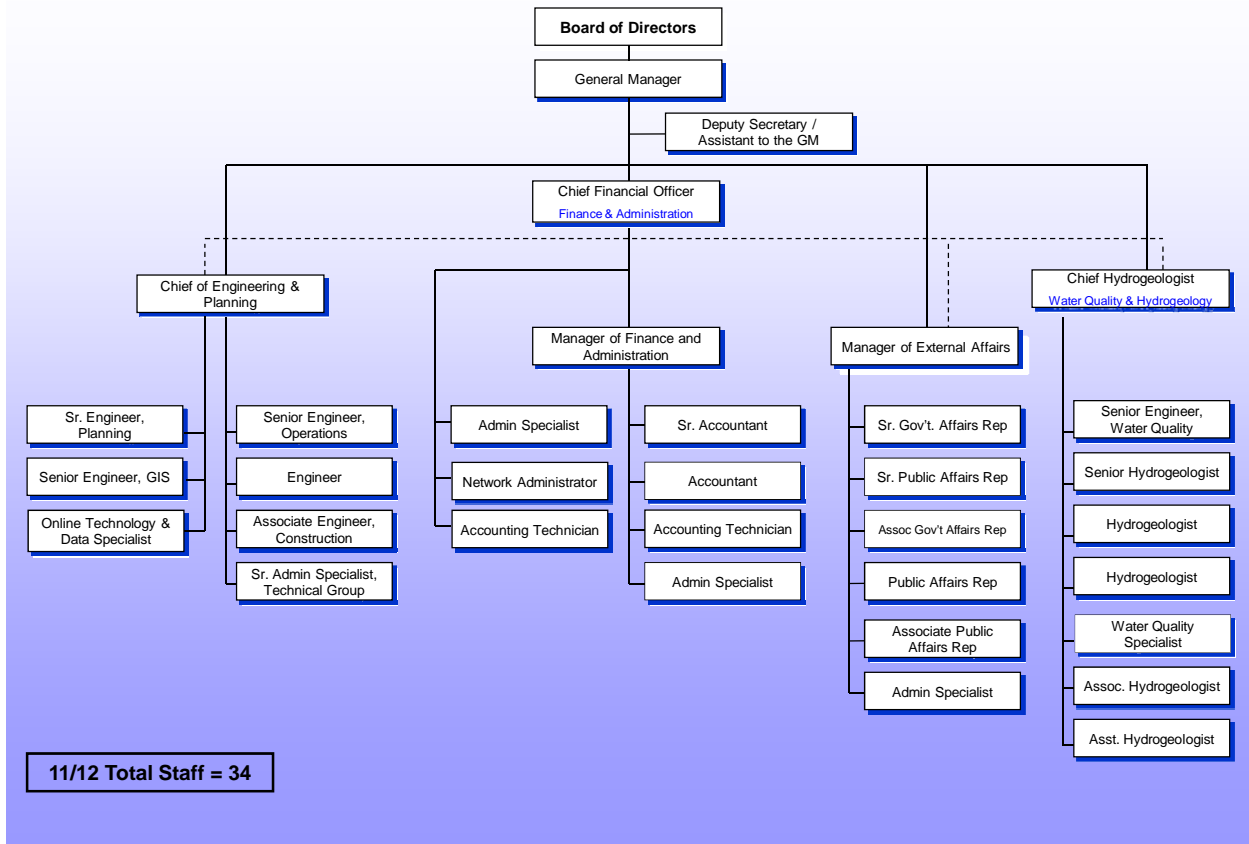
Respectfully submitted,



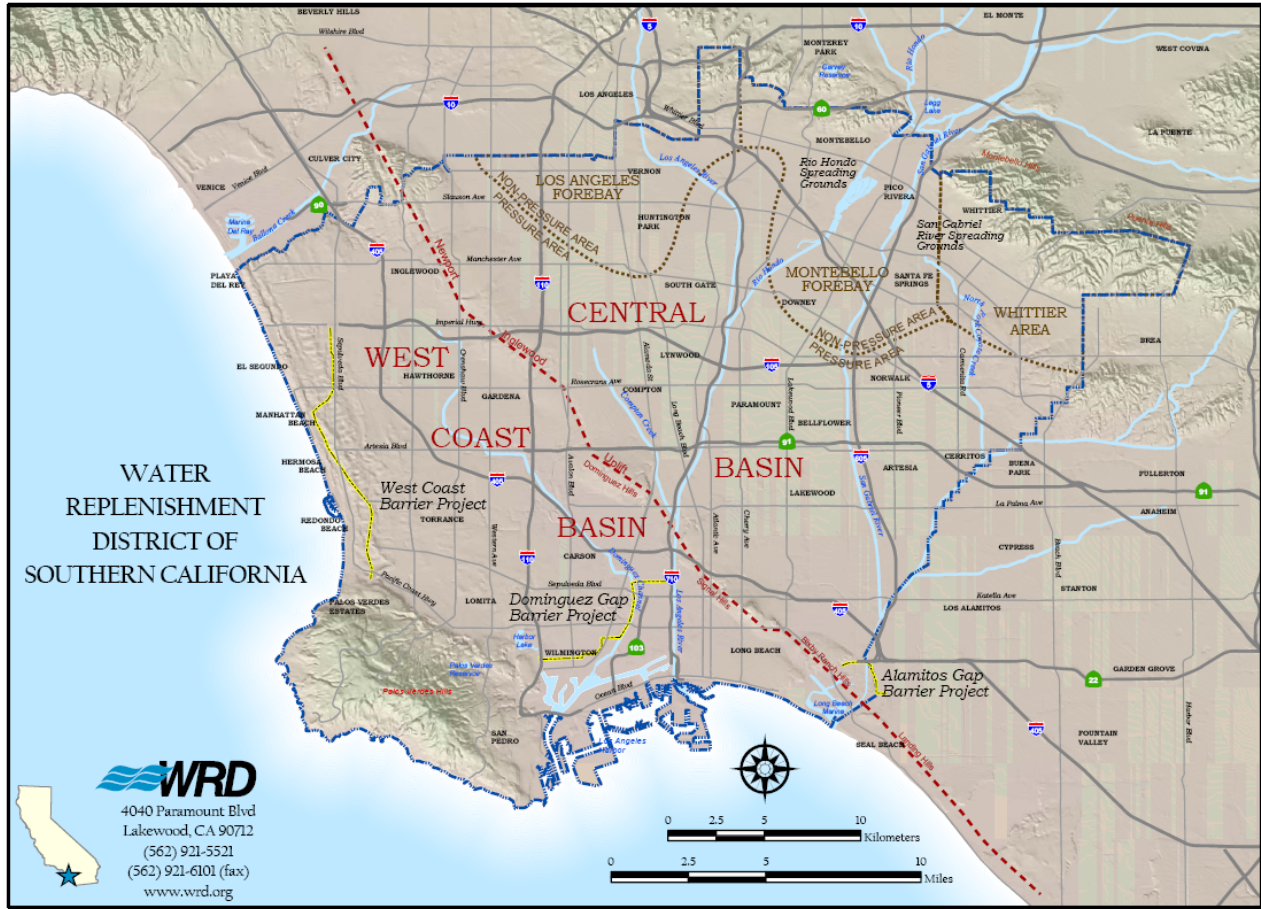
Scott M. Ota, CPA, CFF, CIRA, CGMA
Chief Financial Officer
Water Replenishment District of Southern California

Water Replenishment District of Southern California Organizational Chart

Water Replenishment District –Organizational Chart



Water Replenishment District of Southern California Map of the District



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Certificate of Achievement for Excellence in Financial Reporting

Presented to

Water Replenishment District of Southern California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Linda C. Danison

President

Jeffrey R. Emer

Executive Director

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Financial Section

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Report of Independent Auditors

The Honorable Members of the Board Water Replenishment District of Southern California

We have audited the accompanying financial statements of the Water Replenishment District of Southern California (the District) as of and for the years ended June 30, 2012 and 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Water Replenishment District of Southern California as of June 30, 2012 and 2011 and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 1 and 17, the financial statements for the year ended June 30, 2011 have been restated to reflect the adoption of *GASB No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The District adopted the accounting for rate-regulated activities which allows deferred recognition of revenues until the related costs or charges associated with the rates assessed are incurred.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8, and the required supplementary information on page 38, 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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 26, 2012, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Vargay + Company LLP

Los Angeles, California

December 26, 2012, except for Note 16, as to which the date is January 22, 2013.

**Water Replenishment District of Southern California
Management's Discussion and Analysis
June 30, 2012 and 2011**

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Water Replenishment District of Southern California (District) provides an introduction to the financial statements of the District for the fiscal years ended June 30, 2012 and 2011. We encourage readers to consider the information presented here in conjunction with the transmittal letter in the Introductory Section and with the basic financial statements and related notes, which follow this section.

Financial Highlights

- The District's net assets decreased by 1.1% or (\$803,023) from \$54,062,252 to \$53,259,229 in fiscal year 2012 and decreased by .03% or \$(16,770) from \$54,079,022 to \$54,062,252 in fiscal year 2011.
- The District's operating revenues decreased by (14.5%) or (\$8.2 million) in fiscal year 2012 due to early implementation of GASB 62 which allows deferral of the recognition of revenues until the related costs or charges associated with the rates assessed are incurred. See Notes 1, 10 and 20 in the Notes to the Financial Statements. Operating revenues increased by 11.2% or \$5.7 million in fiscal year 2011.
- The District's operating expenses decreased by 12.1% or \$8.6 million and increased by 13% or \$6.7 million in fiscal years 2012 and 2011, respectively primarily due to the following:

In fiscal year 2012, water supply management expenses decreased because the District reduced its purchase of imported injection and spreading water.

In fiscal year 2011, the Metropolitan Water District made available, a limited supply of imported spreading water at a discounted seasonal rate. This classification of water had not been available since May 2007. With seasonal spreading water available, the District had \$1.9 million of in-lieu replenishment costs. The District also had increased imported injection costs at the West Coast Seawater Intrusion Barrier due to a lack of recycled water supply. This increased costs by \$2.0 million over the prior year.

There was a one-time cost of \$716,000 for the District's Defined Benefit Pension Plan to pay the CalPERS Side Fund Liability. Originally, this cost was to be fully amortized by June 30, 2016 and by fully funding this liability, the District avoided six additional years of interest payments. Additionally, the District obtained an updated actuarial study for its Other Postemployment Benefit Plan, originally performed in 2007. This updated study identified an increase in the District's Other Postemployment Benefits Annual Required Contribution (see Note 13) which was recognized in fiscal 2010-2011.

Required Financial Statements

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

The Statement of Net Assets includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the

**Water Replenishment District of Southern California
Management's Discussion and Analysis
June 30, 2012 and 2011**

District. All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets. This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate fiscal stability and credit worthiness. The final required financial statement is the Statement of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operations, investing, noncapital financing, and capital and related financing activities.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 13 through 37.

Financial Analysis of the District

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the District in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's net assets and changes in them. One can think of the District's net assets - the difference between assets and liabilities - as a way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth and new or changed government legislation, such as changes in Federal and State water quality standards.

Statement of Net Assets

	June 30,		Change		June 30,		Change	
	2012	2011 (Restated)	Amount	%	(Restated)	Amount	%	
Current assets	\$ 50,331,450	\$ 28,916,886	\$ 21,414,564	74.1	\$ 39,097,029	\$ (10,180,143)	(26.0)	
Restricted assets	72,432,327	10,760,842	61,671,485	573.1	10,760,842	-	-	
Noncurrent assets	4,227,033	13,101,377	(8,874,344)	(67.7)	8,603,574	4,497,803	52.3	
Capital assets	58,981,530	55,901,408	3,080,122	5.5	56,360,117	(458,709)	(0.8)	
	<u>185,972,340</u>	<u>108,680,513</u>	<u>77,291,827</u>	<u>71.1</u>	<u>114,821,562</u>	<u>(6,141,049)</u>	<u>(5.3)</u>	
Current liabilities	28,305,992	20,901,246	7,404,746	35.4	27,221,971	(6,320,725)	(23.2)	
Noncurrent liabilities	104,407,119	33,717,015	70,690,104	209.7	33,520,569	196,446	0.6	
	<u>132,713,111</u>	<u>54,618,261</u>	<u>78,094,850</u>	<u>143.0</u>	<u>60,742,540</u>	<u>(6,124,279)</u>	<u>(10.1)</u>	
Net assets								
Net investment in capital assets	29,781,357	35,110,097	(5,328,740)	(15.2)	34,945,659	164,438	0.5	
Unrestricted	23,477,872	18,952,155	4,525,717	23.9	19,133,363	(181,208)	(0.9)	
	<u>\$ 53,259,229</u>	<u>\$ 54,062,252</u>	<u>\$ (803,023)</u>	<u>(1.5)</u>	<u>\$ 54,079,022</u>	<u>\$ (16,770)</u>	<u>(0.0)</u>	

**Water Replenishment District of Southern California
Management's Discussion and Analysis
June 30, 2012 and 2011**

As noted earlier, over time, changes in net assets may serve as a useful indicator of a government's financial condition. In the case of the District, assets of the District exceeded liabilities by \$53,259,229 and \$54,062,252 as of June 30, 2012 and 2011, respectively.

In 2012, the decrease in net assets of (\$803,023) is due to operating expenses exceeding operating revenues. Although the District's water management cost decreased during the year, the District's non-operating expense increased during the year including interest expense.

In 2011, the lack of recycled water used for injection at the West Coast Seawater Intrusion Barrier caused an increased use of more expensive imported water. Also, the availability of spreading water at the seasonal rate allowed the District to offset water purchases through the in-lieu program; which was not done in the prior year. There was also an increase in groundwater program and personnel related costs and expenses related to the 2010 general election.

In 2012, the District issued \$69,195,000 in Certificates of Participation; proceeds of which were unspent as of June 30, 2012. This resulted in a significant increase in restricted assets and noncurrent liabilities.

At the end of fiscal years 2012 and 2011, the District shows a positive balance in its unrestricted net assets of \$23,477,872 and \$18,952,155, respectively, that may be utilized in future years. The Board of Directors has taken action to reserve aspects of the unrestricted net assets for specified purposes.

Statement of Revenues, Expenses and Changes in Net Assets

	Condensed Statements of Revenues, Expenses and Changes in Net Assets							
	Year Ended June 30,		Change		Year ended		Change	
	2012	2011	Amount	%	June 30, 2010	Amount	%	
	(Restated)				(Restated)			
Revenues:								
Operating revenues	\$ 48,121,854	\$ 56,284,385	\$ (8,162,531)	(14.5)	\$ 50,606,242	\$ 5,678,143	11.2	
Nonoperating revenues								
Property taxes	476,937	481,874	(4,937)	(1.0)	446,160	35,714	8.0	
Interest and investment earnings	121,351	128,575	(7,224)	(5.6)	234,908	(106,333)	(45.3)	
Other, net	144,530	100,761	43,769	43.4	131,199	(30,438)	(23.2)	
Total revenues	<u>48,864,672</u>	<u>56,995,595</u>	<u>(8,130,923)</u>	<u>(14.3)</u>	<u>51,418,509</u>	<u>5,577,086</u>	<u>10.8</u>	
Expenses								
Operating expenses	44,170,360	52,788,111	(8,617,751)	(16.3)	46,705,411	6,082,700	13.0	
Depreciation and amortization	2,446,962	2,394,968	51,994	2.2	2,324,791	70,177	3.0	
Nonoperating expenses	3,802,841	2,178,229	1,624,612	74.6	1,633,999	544,230	100.0	
Total expenses	<u>50,420,163</u>	<u>57,361,308</u>	<u>(6,941,145)</u>	<u>(12.1)</u>	<u>50,664,201</u>	<u>6,697,107</u>	<u>13.2</u>	
Income before capital contributions	(1,555,491)	(365,713)	(1,189,778)	325.3	754,308	(1,120,021)	(148.5)	
Capital contributions	752,468	348,943	403,525	115.6	60,577	288,366	476.0	
Change in net assets	<u>(803,023)</u>	<u>(16,770)</u>	<u>(786,253)</u>	<u>4,688.4</u>	<u>814,885</u>	<u>(831,655)</u>	<u>(102.1)</u>	
Net assets at beginning of year, as restated	54,062,252	54,079,022	(16,770)	(0.0)	53,264,137	814,885	1.5	
Net assets at end of year	<u>\$ 53,259,229</u>	<u>\$ 54,062,252</u>	<u>\$ (803,023)</u>	<u>(1.5)</u>	<u>\$ 54,079,022</u>	<u>\$ (16,770)</u>	<u>(0.0)</u>	

The Statement of Revenues, Expenses and Changes in Net Assets shows how the District's net assets changed during the fiscal year. Net assets decreased by (\$803,023) and (\$16,770) during the fiscal year ended June, 30, 2012 and 2011, respectively. In 2012, loss before capital contributions of (\$1,555,491) and capital contributions of \$752,468 were the two sources of the changes in the District's net assets of (\$803,023). In 2011, loss before capital contributions of (\$365,713) and capital contributions of \$348,943 were the two sources of the changes in the District's net assets of (\$16,770). As discussed in Note 1, the District adopted GASB 62 during the

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fiscal year 2011-2012 which allows deferral of revenues until the related costs or charges associated with the water replenishment assessment are incurred. As a result, the Statement of Activities of the District for the fiscal year ended June 30, 2011 was restated.

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

In 2012, the District's total revenue decreased by \$8,162,531 mainly due to the early adoption of GASB 62 and the restatement of water replenishment assessment revenues (see Notes 1 and 17 in the Notes to the Financial Statements).

In 2011, the District's total revenues increased by \$5,678,143 primarily due to an increase in the replenishment assessment charged to pumpers for using groundwater and increase in operating expenses during the year. The District's total expenses increased by \$6,697,107 in 2011 primarily due to the increased water costs at the West Coast Seawater Intrusion Barrier, in-lieu replenishment costs and increased groundwater program and personnel costs.

Operating Revenue

	<u>2012</u>	<u>2011 (Restated)</u>	<u>Change</u>	<u>2010 (Restated)</u>	<u>Change</u>
Operating Revenue:					
Water replenishment assessment	\$ 45,571,109	\$ 54,470,197	\$ (8,899,088)	\$ 48,456,867	\$ 6,013,330
Desalter assessment	913,204	621,099	292,105	554,734	66,365
Water treatment subsidy	894,411	695,293	199,118	726,375	(31,082)
Other operating income	<u>743,130</u>	<u>497,796</u>	<u>245,334</u>	<u>868,266</u>	<u>(370,470)</u>
Total operating revenue	<u>\$ 48,121,854</u>	<u>\$ 56,284,385</u>	<u>\$ (8,162,531)</u>	<u>\$ 50,606,242</u>	<u>\$ 5,678,143</u>

In 2012, operating revenue decreased by \$8,162,531 mainly due to the decrease in the cost of water purchased during the year. As discussed in Note 1, the District adopted GASB 62 in the fiscal year 2011-2012 which allows deferral of revenues until the related costs or charges associated with the water replenishment assessment is incurred.

In 2011, operating revenue increased by \$5,678,143 mainly due to an increase in the replenishment assessment over the prior year and the related expenses incurred.

Operating Expenses - Water Supply Management Expenses

	<u>2012</u>	<u>2011</u>	<u>Change</u>	<u>2010</u>	<u>Change</u>
Water supply management:					
Water purchases - injecting	\$ 13,466,495	\$ 18,552,696	\$ (5,086,201)	\$ 17,406,851	\$ 1,145,845
Water purchases - spreading	8,285,830	15,405,518	(7,119,688)	15,808,953	(403,435)
Connection fees	<u>1,146,511</u>	<u>911,745</u>	<u>234,766</u>	<u>796,787</u>	<u>114,958</u>
Total water supply management expenses	<u>\$ 22,898,836</u>	<u>\$ 34,869,959</u>	<u>\$ (11,971,123)</u>	<u>\$ 34,012,591</u>	<u>\$ 857,368</u>

Since May 2007, the Metropolitan Water District has not had imported spreading water available for purchase. In 2010, water supply management expenses increased \$19,251,050 principally due to the District purchasing approximately 24,700 acre-feet of Tier 1 untreated water for spreading. Also, there was an increased amount of imported water for injection at the West Coast Seawater Barrier Project to make up for a lack of recycled injection water. In 2011, water supply management

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expenses further increased by \$857,368 principally due to an additional increase in the imported water used at the West Coast Seawater Intrusion Barrier. Fiscal year 2012 saw additional savings due to decreased imported spreading water purchases and water purchased to fight seawater intrusion.

Capital Asset Administration

At the end of fiscal years 2012 and 2011, the District's investment in capital assets amounted to \$58,981,530 and \$55,901,408 (net of accumulated depreciation), respectively. This investment in capital assets includes land, utility plant, monitoring and injection equipment, service connections, office furniture and equipment, and construction-in-progress. Major capital asset additions during 2012 and 2011 include work on various stages of construction projects.

The capital assets of the District are summarized below and more fully analyzed in Note 4 to the basic financial statements.

	<u>Balance 2011</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2012</u>
Non-depreciable assets	\$ 9,063,942	\$ 5,403,455	\$ (2,313,696)	\$ 12,153,701
Depreciable assets	64,876,088	2,360,914	-	67,237,002
Accumulated depreciation	<u>(18,038,622)</u>	<u>(2,370,551)</u>	<u>-</u>	<u>(20,409,173)</u>
Capital assets, net	<u>\$ 55,901,408</u>	<u>\$ 5,393,818</u>	<u>\$ (2,313,696)</u>	<u>\$ 58,981,530</u>
	<u>Balance 2010</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2011</u>
Non-depreciable assets	\$ 8,640,133	\$ 1,842,997	\$ (1,419,188)	\$ 9,063,942
Depreciable assets	63,393,953	1,482,135	-	64,876,088
Accumulated depreciation	<u>(15,673,969)</u>	<u>(2,364,653)</u>	<u>-</u>	<u>(18,038,622)</u>
Capital assets, net	<u>\$ 56,427,805</u>	<u>\$ 1,418,292</u>	<u>\$ (1,485,980)</u>	<u>\$ 55,901,408</u>

Long-term Debt

At the end of fiscal years 2012 and 2011, the District had long-term debt of \$101,632,500 and \$31,552,153 outstanding, respectively (See Note 7 for further details).

Changes in long-term debt in 2012 were as follows:

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	Balance 2011	Additions	Deletions	Balance 2012
Certificates of participation (2004)	\$ 14,120,000	\$ -	\$ (360,000)	\$ 13,760,000
Certificates of participation (2008)	17,890,000	-	(335,000)	17,555,000
Certificates of participation (2011)	-	69,195,000	-	69,195,000
	<u>32,010,000</u>	<u>69,195,000</u>	<u>(695,000)</u>	<u>100,510,000</u>
Bond discount	(457,847)	-	16,853	(440,994)
Bond premium	-	1,608,551	(45,057)	1,563,494
	<u>\$ 31,552,153</u>	<u>\$ 70,803,551</u>	<u>\$ (723,204)</u>	<u>\$ 101,632,500</u>

Changes in long-term debt in 2011 were as follows:

	Balance 2010	Additions	Deletions	Balance 2011
Certificates of participation (2004)	\$ 14,460,000	-	\$ (340,000)	\$ 14,120,000
Certificates of participation (2008)	18,190,000	-	(300,000)	17,890,000
	<u>32,650,000</u>	<u>-</u>	<u>(640,000)</u>	<u>32,010,000</u>
Bond discount	(474,700)	-	16,853	(457,847)
	<u>\$ 32,175,300</u>	<u>\$ -</u>	<u>\$ (623,147)</u>	<u>\$ 31,552,153</u>

Conditions Affecting Current Financial Position

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

Requests for Information

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and overall financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's Chief Financial Officer at 4040 Paramount Boulevard, Lakewood, California 90712.

Basic Financial Statements

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Water Replenishment District of Southern California
Statements of Net Assets
June 30, 2012 and 2011

	2012	2011 (Restated)
ASSETS		
Current assets		
Cash and cash equivalents	\$ 30,557,853	\$ 18,249,245
Interest receivable	1,641	10,303
Water replenishment assessments receivable, net	19,147,936	9,998,589
Grants receivable	29,263	19,409
Notes receivable - current portion	567,441	573,144
Prepaid expenses and other deposits	27,316	66,196
Total current assets - unrestricted	50,331,450	28,916,886
Restricted current assets - cash and cash equivalents		
Cash and cash equivalents	72,432,327	10,760,842
Total current assets	122,763,777	39,677,728
Noncurrent assets		
Investments	-	9,059,359
Deferred charges, net	1,498,570	752,017
Notes receivable	2,728,463	3,290,001
Capital assets, net	58,981,530	55,901,408
Total noncurrent assets	63,208,563	69,002,785
Total assets	185,972,340	108,680,513
LIABILITIES		
Current liabilities		
Accounts payable and accrued expenses	4,982,470	8,866,860
Accrued wages and related payables	100,934	79,739
Compensated absences - current portion	141,000	90,732
Deferred revenue - replenishment assessment	14,652,863	4,609,148
Deferred revenue	5,741,618	5,892,181
Interest payable	2,012,107	667,586
Certificates of participation - current portion	675,000	695,000
Total current liabilities	28,305,992	20,901,246
Noncurrent liabilities		
Compensated absences, net of current portion	273,975	253,442
Postemployment benefits	2,639,666	2,070,442
Deferred water in-lieu replenishment assessment	535,978	535,978
Certificates of participation - net of current portion	100,957,500	30,857,153
Total noncurrent liabilities	104,407,119	33,717,015
Total liabilities	132,713,111	54,618,261
NET ASSETS		
Net assets		
Investment in capital assets, net of related debt	29,781,357	35,110,097
Unrestricted	23,477,872	18,952,155
Total net assets \$	53,259,229	\$ 54,062,252

See notes to the financial statements.

Water Replenishment District of Southern California
Statements of Revenues, Expenses and Changes in Net Assets
Years ended June 30, 2012 and 2011

	2012	2011
		(Restated)
Operating revenues		
Water replenishment assessment	\$ 45,571,109	\$ 54,470,197
Desalter assessments	913,204	621,099
Water treatment subsidies	894,411	695,293
Other operating income	743,130	497,796
Total operating revenues	48,121,854	56,284,385
Operating expenses		
Water supply management:		
Water purchases - injecting	13,466,495	18,552,696
Water purchases - spreading	8,285,830	15,405,518
Connection fees	1,146,511	911,745
Groundwater basin management:		
In-lieu replenishment	1,314,384	1,937,484
General and administrative	19,957,140	15,980,668
Total operating expenses	44,170,360	52,788,111
Operating income before depreciation and amortization	3,951,494	3,496,274
Depreciation and amortization	(2,446,962)	(2,394,968)
Operating income	1,504,532	1,101,306
Nonoperating revenue(expense)		
Property taxes	476,937	481,874
Interest and investment earnings	121,351	128,575
Interest expense	(3,802,841)	(1,170,199)
Election costs	-	(1,008,030)
Other, net	144,530	100,761
Net nonoperating revenue (expense)	(3,060,023)	(1,467,019)
Income (loss) before capital contributions	(1,555,491)	(365,713)
Capital contributions - state capital grants	752,468	348,943
Total capital contributions	752,468	348,943
Change in net assets	(803,023)	(16,770)
Total net assets - beginning of year, as restated	54,062,252	54,079,022
Total net assets - end of year \$	53,259,229	\$ 54,062,252

See notes to the financial statements.

Water Replenishment District of Southern California
Statements of Cash Flows
Years ended June 30, 2012 and 2011

	2012	2011
		(Restated)
Cash flows from operating activities		
Cash receipts from water assessments and subsidies	\$ 49,010,189	\$ 47,101,911
Cash paid to vendors and suppliers for materials and services	(44,036,794)	(46,631,444)
Cash paid to employees for salaries and wages	(3,317,856)	(3,147,123)
Net cash provided by (used in) operating activities	1,655,539	(2,676,656)
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(4,983,679)	(1,905,944)
Payment of long-term debt	(695,000)	(640,000)
Proceeds from issuance of debt	70,803,551	-
Cost of issuance of debt	(799,064)	-
Proceeds from state and federal capital grants	742,614	348,943
Deferred capital project	(150,563)	(125,054)
Interest paid on long-term debt	(2,817,001)	(1,586,017)
Net cash provided by (used in) capital and related financing activities	62,091,004	(3,908,072)
Cash flows from non-capital financing activities		
Proceeds from property taxes	476,937	480,518
Net cash provided by non-capital financing activities	476,937	480,518
Cash flows from investing activities		
Proceeds from sale and maturities of investments	9,059,359	2,579,279
Purchases of investments	-	(5,059,860)
Principal received from (issuance of) notes receivable	567,241	214,891
Interest and investment earnings	130,013	175,748
Net cash provided by (used in) investing activities	9,756,613	(2,089,942)
Change in cash and cash equivalents	73,980,093	(8,194,152)
Beginning cash and cash equivalents	29,010,087	37,204,239
Ending cash and cash equivalents	\$ 102,990,180	\$ 29,010,087
Reconciliation of cash and cash equivalents to statement of financial position		
Cash and cash equivalents	\$ 30,557,853	\$ 18,249,245
Restricted cash and cash equivalents	72,432,327	10,760,842
Total cash and cash equivalents	\$ 102,990,180	\$ 29,010,087
Noncash, investing, capital and financing activities		
Change in fair value of investments	\$ -	\$ (33,324)
Capitalized interest	\$ 466,994	\$ 451,215

See notes to the financial statements.

Water Replenishment District of Southern California
Statements of Cash Flows (continued)
Years ended June 30, 2012 and 2011

	2012	2011 (Restated)
Reconciliation of operating income to net cash used in operating activities		
Operating income	\$ <u>1,504,532</u>	\$ <u>1,101,306</u>
Adjustments to reconcile operating income (loss) to net cash used in operating activities:		
Depreciation	2,370,551	2,364,653
Amortization	76,411	30,315
Provision for uncollectible accounts	-	616,511
Election costs	-	(1,008,030)
Other nonoperating revenues (expenses), net	144,530	100,761
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Water replenishment assessments receivable, net	(9,149,347)	(674,020)
Prepaid expenses and other deposits	38,880	281,209
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses - water purchases	(3,884,390)	3,321,956
Accounts payable and accrued expenses - other	-	(450,000)
Deferred revenue - replenishment assessments	10,043,715	(9,100,672)
Deferred revenue	(150,563)	(125,054)
Accrued wages and related payables	21,195	137
Accrued OPEB cost	569,224	864,620
Compensated absences	70,801	(348)
Total adjustments	151,007	(3,777,962)
Net cash provided by (used in) operating activities	\$ 1,655,539	\$ (2,676,656)

See notes to the financial statements.

NOTE 1 REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Operations of the Reporting Entity

The Water Replenishment District of Southern California (District) was formed by a vote of the people in 1959 for the purpose of protecting the groundwater resources of the Central and West Coast groundwater basins in Southern Los Angeles County. The District provides groundwater management for four million residents in 43 cities of Southern Los Angeles County (County). The District was formed in response to a history of overpumping of the basins which caused wells to go dry and seawater to intrude into the potable water aquifers. The District's principal funding mechanisms include a water replenishment assessment on all the pumping from the groundwater basins and a general tax assessment in the form of a tax levy upon the real property and improvements within the County. The District is governed by a five member Board of Directors who serve overlapping four-year terms.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Standards Board Statements No. 14 and 61 (an amendment of No. 14). The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization's governing body and: 1) It is able to impose its will on that organization, or 2) There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

The Southern California Water Replenishment Financing Corporation (Corporation) was incorporated on March 11, 1999. The Corporation is a California nonprofit public benefit corporation formed to assist the Water Replenishment District of Southern California (District) by acquiring, constructing, operating and maintaining facilities, equipment, or other property needed by the District and leasing or selling such property to the District and as such has no employees or other operations. Although the Corporation is legally separate, it is included as a blended component unit of the District, as it is in substance part of the District's operations. No separate financial statements are prepared for the Corporation.

Basis of Accounting and Measurement Focus

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs of managing the groundwater basins on a continuing basis be financed or recovered primarily through user charges (water replenishment assessments), capital grants and similar funding. Revenues and expenses are recognized on the full accrual basis of accounting. Revenues from water replenishment assessments are recognized in the accounting period in which related costs or charges associated with the rates assessed are incurred. Expenses are recognized in the period incurred.

NOTE 1 REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating revenues, such as water replenishment assessments, result from exchange transactions associated with the District's principal activity. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as grant funding and investment income, resulting from non-exchange transactions, in which, the District gives (receives) value without directly receiving (giving) value in exchange. Operating expenses, such as water purchases, are the result of the District's exchange transactions along with associated expenses for running the District's day-to-day operations. Nonoperating expenses, such as interest paid on debt service or election costs every other year, are the result of expenses that do not relate to the District's day-to-day operations.

Financial Reporting

The District's basic financial statements are presented in conformance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments" (GASB No. 34). This statement established revised financial reporting requirements for state and local governments throughout the United States for the purpose of enhancing the understandability and usefulness of financial reports.

GASB No. 34 and its related GASB pronouncements provide for a revised view of financial information and restructure the format of financial information provided prior to its adoption. A statement of net assets replaces the balance sheet and reports assets, liabilities, and the difference between them as net assets, not equity. A statement of revenues, expenses and changes in net assets replaces both the income statement and the statement of changes in retained earnings and contributed capital. GASB No. 34 also requires that the statement of cash flows be prepared using the direct method. Under the direct method, cash flows from operating activities are presented by major categories.

Under GASB No. 34, enterprise funds, such as the District, have the option of consistently following or not following pronouncements issued by the Financial Accounting Standards Board (FASB) subsequent to November 30, 1989. The District has elected not to follow FASB standards issued after that date, unless such standards are specifically adopted by GASB. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

New Accounting Pronouncement

During the fiscal year ended June 30, 2012, the District early implemented certain provisions of GASB No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB 62). GASB 62 incorporates into the GASB's authoritative literature, certain accounting and financial reporting guidance that is included in pronouncements issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements. The District adopted the accounting for rate-regulated activities which allows deferral of the recognition of revenues until the related costs or charges associated with the rates assessed are incurred. Refer also to Note 17.

NOTE 1 REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities and Net Assets

Use of Estimates - The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents - Whenever possible, the District's cash is invested in interest bearing accounts. However, the safety and liquidity of the District's cash always takes priority over yield. The District considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

Investments - The District has adopted an investment policy directing the District's Chief Financial Officer to deposit funds in financial institutions.

Changes in fair value that occur during a 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.

Water Replenishment Assessments Receivable - The District extends credit to customers in the normal course of operations. Management deems all accounts receivable as collectible at year-end. Accordingly, an allowance for doubtful accounts has not been recorded.

Accounts Receivable – Federal Capital Grant - When a grant agreement is approved and eligible expenditures are incurred, the amount is recorded as a federal capital grant receivable on the statement of net assets and as capital grant contribution on the statement of revenues, expenses and changes in net assets.

Property Taxes and Assessments - The County of Los Angeles Assessor's Office assesses all real and personal property within the County each year. The County of Los Angeles Tax Collector's Office bills and collects the District's share of property taxes and assessments. The County of Los Angeles Treasurer's Office remits current and delinquent property tax collections to the District throughout the year. Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations.

Property taxes receivable at year-end are related to property taxes collected by the County of Los Angeles, which have not been credited to the District's cash balance as of June 30. The property tax calendar is as follows:

Lien date	March 1
Levy date	July 1
Due dates	November 1 and March 1
Collection dates	December 10 and April 10

NOTE 1 REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Prepaid Expenses - Certain payments to vendors reflect costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

Capital Assets - Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at \$5,000. Donated assets are recorded at estimated fair value at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Provision for depreciation is computed using the straight-line method over the following estimated useful lives of the assets:

- Utility plant and equipment and capacity rights - 30 years
- Monitoring and injection equipment - 3 to 20 years
- Service connections - 50 years
- Office furniture and equipment - 5 to 10 years

Under GASB No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, governments are required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Management asserted that there were no impairments of capital assets as of June 30, 2012.

Deferred Charges - The deferred charges are from bond issuance costs that will be amortized using the straight-line method over the remaining life of the respective debt service.

Bond discount – The Bond discount is being amortized using the effective interest method.

Compensated Absences - The District's policy is to permit employees to accumulate a limited amount of earned vacation and sick leave. Accumulated vacation time is accrued at year-end to account for the District's obligation to the employees for the amount owed. It is management's belief that the majority of the obligation will be utilized during the course of the next fiscal year. Vacation pay is payable to employees at the time a vacation is taken or upon termination of employment. Normally, an employee cannot accrue more than thirty days of vacation. Sick leave is payable when an employee is unable to work because of illness. Upon termination an employee will be paid for any unused sick leave.

Net Assets - The financial statements utilize a net assets presentation. Net assets are categorized as follows:

- Net Investment in Capital Assets - This component of net assets consists of capital assets, net of accumulated depreciation and reduced by any debt outstanding against the acquisition, construction or improvement of those capital assets.

Water Replenishment District of Southern California
Notes to Financial Statements
Years ended June 30, 2012 and 2011

NOTE 1 REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- **Restricted Net Assets** - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net Assets** - This component of net assets consists of net assets that do not meet the definition of restricted or net investment in capital assets.

Water Replenishment Assessments - Water replenishment assessments are billed on a monthly basis and are recognized in the accounting period in which related costs or charges associated with the rates assessed are incurred.

Overhead Absorption - Certain operating expenses are allocated to capital assets using management's allocation of manpower and service estimates that are directly related to the construction of capital assets.

Capital Contributions - Capital contributions represent cash and capital asset additions contributed to the District by Federal and State granting agencies.

Budgetary Policies - The District adopts an annual non-appropriated budget for planning, control, and evaluation purposes. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period. Encumbrance accounting is not used to account for commitments related to unperformed contracts for construction and services.

NOTE 2 CASH AND INVESTMENTS

Cash and investments as of June 30 are classified in the accompanying financial statements as follows:

	2012	2011
Cash and cash equivalents	\$ 30,557,852	\$ 18,249,245
Restricted cash and cash equivalents	72,432,328	10,760,842
Investments	-	9,059,359
Total cash and investments	\$ 102,990,180	\$ 38,069,446

Cash and investments as of June 30, consists of the following:

	2012	2011
Deposit with financial institutions	\$ 28,710,547	\$ 9,920,866
LAIF	1,847,305	8,328,379
Cash with fiscal agent - mutual funds	72,432,328	19,820,201
Total cash and investments	\$ 102,990,180	\$ 38,069,446

Water Replenishment District of Southern California
Notes to Financial Statements
Years ended June 30, 2012 and 2011

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

The District's cash balance and reserves as of June 30 are presented as follows:

	<u>2012</u>	<u>2011</u>
Operating Reserve Fund	\$ 3,834,115	\$ 6,224,769
Reserved for:		
Water Purchase Fund	15,703,928	11,322,514
Capital Projects	61,248,695	10,261,734
Debt Service Reserve Fund	13,676,824	2,297,806
Cal Trans Trust Fund	5,741,618	5,892,181
Other Postemployment Benefit Obligation	2,785,000	2,070,442
Total Cash and Investments	<u>\$ 102,990,180</u>	<u>\$ 38,069,446</u>

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

The table below identifies the investment types that are authorized for the District by the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that addresses interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

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

Water Replenishment District of Southern California
Notes to Financial Statements
Years ended June 30, 2012 and 2011

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

Investments Authorized by Debt Agreements

Investments of debt proceeds held by the bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy. The table below identifies the investment types that are authorized for investments held by the bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	180 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Investment Contracts	30 years	None	None

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter-term and longer-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity over time as necessary to provide the cash flow and liquidity needed for operations. As of June 30, 2012, the District's funds are placed in investments with maturities of 12 months or less.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity:

Maturities of investments at June 30, 2012, were as follows:

Investment Type	Total Investment	Remaining Maturity (in Months)		
		12 Months or Less	13 to 24 Months	25+ Months
Local Agency Investment Fund	\$ 1,847,305	\$ 1,847,305	\$ -	\$ -
Cash and investments with fiscal agent:				
Money Market Mutual Funds	72,432,328	72,432,328	-	-
Total	\$ 74,279,633	\$ 74,279,633	\$ -	\$ -

Water Replenishment District of Southern California
Notes to Financial Statements
Years ended June 30, 2012 and 2011

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

Maturities of investments at June 30, 2011, were as follows:

Investment Type	Total Investment	Remaining Maturity (in Months)		
		12 Months or Less	13 to 24 Months	25+ Months
Certificates of Deposits	\$ 9,059,359	\$ 9,059,359	\$ -	\$ -
Local Agency Investment Fund	8,328,379	8,328,379	-	-
Cash and investments with fiscal agent:				
Money Market Mutual Funds	10,760,842	10,760,842	-	-
Total	\$ 28,148,580	\$ 28,148,580	\$ -	\$ -

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

Credit ratings of investments as of June 30, 2012, were as follows:

Investment Type	Total Investment	Minimum Legal Rating	Rating as of Year End	
			Unrated	AAA
Local Agency Investment Fund	\$ 1,847,305	N/A	\$ 1,847,305	\$ -
Cash and investments with fiscal agent:				
Money Market Mutual Funds	72,432,328	A	-	72,432,328
Total	\$ 74,279,633		\$ 1,847,305	\$ 72,432,328

Credit ratings of investments as of June 30, 2011, were as follows:

Investment Type	Total Investment	Minimum Legal Rating	Rating as of Year End	
			Unrated	AAA
Certificates of Deposits	\$ 9,059,359	N/A	\$ 9,059,359	\$ -
Local Agency Investment Fund	8,328,378	N/A	8,328,378	-
Cash and investments with fiscal agent:				
Money Market Mutual Funds	10,760,842	A	-	10,760,842
Total	\$ 28,148,579		\$ 17,387,737	\$ 10,760,842

Concentration of Credit Risk

The District's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. As of June 30, 2012 and 2011, there were no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments.

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

Custodial Credit Risk

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

As of June 30, 2012 and 2011, \$26,719,881 and \$8,769,675, respectively, of the District's deposits with financial institutions in excess of federal depository insurance limits were held in collateralized accounts.

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is \$1.8 million at June 30, 2012 and is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio) of \$60.6 billion. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

NOTE 3 NOTES RECEIVABLE

Notes receivable consist of the following:

	2012	2011
Notes receivable - current portion	\$ 567,441	\$ 573,144
Notes receivable - noncurrent portion	2,728,463	3,290,001
	\$ 3,295,904	\$ 3,863,145

NOTE 3 NOTES RECEIVABLE (CONTINUED)

City of Signal Hill

The District has entered into a loan agreement with the City of Signal Hill for the purpose of funding the remediation of secondary level contamination of two groundwater wells owned and operated by the City. The loan is unsecured and non-interest bearing. Repayment is due in equal annual payments of \$75,595 through June 30, 2013. The balances at June 30, 2012 and 2011 were \$75,595 and \$151,490, respectively.

City of Paramount

The District entered into a loan agreement with the City of Paramount in fiscal year 2006 for the amount of \$1,700,000. The loan is payable annually over a 10 year period. The loan is unsecured and non-interest bearing. The balances at June 30, 2012 and 2011 were \$755,555 and \$944,444, respectively.

City of Lakewood

On November 24, 2008, the District entered into a loan agreement with the City of Lakewood for a maximum loan amount of \$2,200,000 to finance the design, installation and construction of a wellhead treatment system at the City's groundwater well. The loan is payable annually over a 10 year period. The loan is unsecured and non-interest bearing. The project was completed during the fiscal year 2010-2011. Annual payment of the loan in the amount of \$220,000 will start upon completion of the project and full disbursement of the loan to the City. The balances at June 30, 2012 and 2011 were \$1,579,841 and \$1,777,321, respectively.

City of Maywood

On June 19, 2009, the District entered into a loan agreement with the Maywood Mutual Water Company Number 2 (Water Company) for a maximum loan amount of \$900,000, to finance the design, installation and construction of a wellhead treatment system at the water company's groundwater well. The loan is payable annually over a 10 year period. The loan is unsecured and non-interest bearing. The water company has drawn down a total of \$1,109,801. Annual payment of the loan in the amount of \$110,000 started in the fiscal year 2010-2011 when the project was completed. Outstanding balances at June 30, 2012 and 2011 were \$887,821 and \$998,801, respectively.

Water Replenishment District of Southern California
Notes to Financial Statements
Years ended June 30, 2012 and 2011

NOTE 4 CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2012 were as follows:

	Balance 2011	Additions/ Transfers	Deletions/ Transfers	Balance 2012
Non-depreciable assets				
Land	\$ 2,644,753	\$ -	\$ -	\$ 2,644,753
Construction-in-process	6,419,189	5,403,455	(2,313,696)	9,508,948
Total non-depreciable assets	<u>9,063,942</u>	<u>5,403,455</u>	<u>(2,313,696)</u>	<u>12,153,701</u>
Depreciable assets				
Building and improvements	10,283,111	-	-	10,283,111
Utility plant and equipment	38,074,348	-	-	38,074,348
Capacity rights	2,439,604	-	-	2,439,604
Monitoring and injection equipment	13,977,605	2,360,914	-	16,338,519
Service connections	101,420	-	-	101,420
Total depreciable assets	<u>64,876,088</u>	<u>2,360,914</u>	<u>-</u>	<u>67,237,002</u>
Accumulated depreciation and amortization				
Building and improvements	(1,061,793)	(275,373)	-	(1,337,166)
Utility plant and equipment	(10,046,816)	(1,269,145)	-	(11,315,961)
Capacity rights	(413,348)	(81,309)	-	(494,657)
Monitoring and injection equipment	(6,437,982)	(742,696)	-	(7,180,678)
Service connections	(78,683)	(2,028)	-	(80,711)
Total accumulated depreciation and amortization	<u>(18,038,622)</u>	<u>(2,370,551)</u>	<u>-</u>	<u>(20,409,173)</u>
Depreciable assets, net	46,837,466	(9,637)	-	46,827,829
Capital assets, net	<u>\$ 55,901,408</u>	<u>\$ 5,393,818</u>	<u>\$ (2,313,696)</u>	<u>\$ 58,981,530</u>

Changes in capital assets for the year ended June 30, 2011 were as follows:

	Balance 2010	Additions/ Transfers	Deletions/ Transfers	Balance 2011
Non-depreciable assets				
Land	\$ 2,644,753	\$ -	\$ -	\$ 2,644,753
Construction-in-process	5,995,380	1,842,997	(1,419,188)	6,419,189
Total non-depreciable assets	<u>8,640,133</u>	<u>1,842,997</u>	<u>(1,419,188)</u>	<u>9,063,942</u>
Depreciable assets				
Building and improvements	10,220,164	62,947	-	10,283,111
Utility plant and equipment	38,074,348	-	-	38,074,348
Capacity rights	2,439,604	-	-	2,439,604
Monitoring and injection equipment	12,558,417	1,419,188	-	13,977,605
Service connections	101,420	-	-	101,420
Office furniture and equipment	-	-	-	-
Total depreciable assets	<u>63,393,953</u>	<u>1,482,135</u>	<u>-</u>	<u>64,876,088</u>
Accumulated depreciation and amortization				
Building and improvements	(787,993)	(273,800)	-	(1,061,793)
Utility plant and equipment	(8,777,670)	(1,269,146)	-	(10,046,816)
Capacity rights	(332,039)	(81,309)	-	(413,348)
Monitoring and injection equipment	(5,699,612)	(738,370)	-	(6,437,982)
Service connections	(76,655)	(2,028)	-	(78,683)
Total accumulated depreciation and amortization	<u>(15,673,969)</u>	<u>(2,364,653)</u>	<u>-</u>	<u>(18,038,622)</u>
Depreciable assets, net	47,719,984	(882,518)	-	46,837,466
Capital assets, net	<u>\$ 56,360,117</u>	<u>\$ 960,479</u>	<u>\$ (1,419,188)</u>	<u>\$ 55,901,408</u>

Water Replenishment District of Southern California
Notes to Financial Statements
Years ended June 30, 2012 and 2011

NOTE 4 CAPITAL ASSETS (CONTINUED)

Major capital asset additions during the year include work on various stages of construction projects. A significant portion of these additions were constructed by the District and/or sub-contractors and transferred out of construction-in-process upon completion of these various projects.

Construction-In-Progress

The District engaged in various construction projects throughout the year. The balances of the various construction projects that comprise the construction-in-progress balances at year-end are as follows:

	2012	2011
LJVWTF expansion	\$ 3,341,644	\$ 977,322
Dominguez Gap recycled water project	913,182	912,160
Caltans Pipeline	125,778	-
Regional Groundwater Monitoring Program	70,506	395,207
Safe Drinking Water Program	714,736	686,173
Dominguez Gap Recycled Water Project	804,698	804,698
Replenishment operations (Interconnection Pipeline)	300,000	300,000
Alamitos Physical Barrier Project	549,441	549,412
Groundwater Replenishment Improvement Project (GRIP)	1,305,508	877,756
Bond interest for capital projects	1,383,455	916,462
Total construction-in-process	\$ 9,508,948	\$ 6,419,189

Capitalized Interest

Interest is capitalized in connection with the construction of major facilities. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. Interest costs of \$466,994 and \$451,215 were capitalized during 2012 and 2011, respectively.

NOTE 5 DEFERRED CHARGES

Deferred charges relate to the issuance costs of the 2011, 2008 and 2004 Certificates of Participation and are being amortized over the payment terms of the bonds. The net balances at June 30 are as follows:

	2012	2011
Bond issuance cost	\$ 1,700,932	\$ 901,868
Accumulated amortization	(202,362)	(149,851)
Net amount	\$ 1,498,570	\$ 752,017

Water Replenishment District of Southern California
Notes to Financial Statements
Years ended June 30, 2012 and 2011

NOTE 6 COMPENSATED ABSENCES

Changes in compensated absences were as follows:

	<u>2011</u>	<u>2010</u>
Balance at beginning of year	\$ 344,174	\$ 344,522
Earned by employees	98,601	84,203
Payments to employees	<u>(27,800)</u>	<u>(84,551)</u>
Balance at end of year	414,975	344,174
Less current portion	<u>(141,000)</u>	<u>(90,732)</u>
Long-term portion	<u>\$ 273,975</u>	<u>\$ 253,442</u>

NOTE 7 LONG-TERM DEBT

Changes in long-term debt for the year ended June 30, 2012 were as follows:

	<u>Balance 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2012</u>
Certificates of participation (2004)	\$ 14,120,000	\$ -	\$ (360,000)	\$ 13,760,000
Certificates of participation (2008)	17,890,000	-	(335,000)	17,555,000
Certificates of participation (2011)	-	69,195,000	-	69,195,000
	<u>32,010,000</u>	<u>69,195,000</u>	<u>(695,000)</u>	<u>100,510,000</u>
Bond discount	(457,847)	-	16,853	(440,994)
Bond premium	-	1,608,551	(45,057)	1,563,494
	<u>\$ 31,552,153</u>	<u>\$ 70,803,551</u>	<u>\$ (723,204)</u>	<u>\$ 101,632,500</u>

Changes in long-term debt for the year ended June 30, 2011 were as follows:

	<u>Balance 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2011</u>
Certificates of participation (2004)	\$ 14,460,000	\$ -	\$ (340,000)	\$ 14,120,000
Certificates of participation (2008)	18,190,000	-	(300,000)	17,890,000
	<u>32,650,000</u>	<u>-</u>	<u>(640,000)</u>	<u>32,010,000</u>
Bond discount	(474,700)	-	16,853	(457,847)
	<u>\$ 32,175,300</u>	<u>\$ -</u>	<u>\$ (623,147)</u>	<u>\$ 31,552,153</u>

Certificates of Participation

On November 9, 2004, the District executed and issued certificates of participation in the amount of \$15,410,000 to provide funds for the acquisition, construction and installation of certain clean water and replenishment projects and the purchase of a building which serves as the District's headquarters. In addition, a portion of the funds were used to pay certain costs incurred in connection with the execution and delivery of the Certificates and to fund a reserve fund for the outstanding Certificates. Interest is payable semiannually on August 1st and February 1st of each year while principal payments are made on August 1st each year, commencing August 1, 2007, with interest rates ranging from 2.5% to 5%. The revenue certificates of participation are collateralized by a pledge of District revenues. At June 30, 2012, the principal outstanding was \$13,760,000.

Water Replenishment District of Southern California
Notes to Financial Statements
Years ended June 30, 2012 and 2011

NOTE 7 LONG-TERM DEBT (CONTINUED)

On December 1, 2008, the District issued Certificates of Participation amounting to \$18,365,000, payable in annual installments from August 1, 2009 through August 1, 2038. Interest rates range from 3.75% to 5.25%, payable beginning February 1, 2009. The agreement is between the District and the Southern California Water Replenishment Financing Corporation, with the US Bank as trustee. Amounts on deposit shall be applied to finance the acquisition, construction and installation of certain clean water and replenishment projects and the purchase of a building which serves as the District's headquarters. The revenue certificates of participation are collateralized by a pledge of District revenues. At June 30, 2012, the principal outstanding was \$17,555,000.

Following are the five capital improvement projects financed from the certificates of participation proceeds:

- Upgrades and improvements to the Water Treatment Facility
- Construction of safe drinking water wellhead treatment units
- Construction of San Gabriel River rubber dams
- Construction of trunk line capacity for the Desalter and Water Treatment Facility
- Acquisition and construction of the District's headquarters

On August 19, 2011, the District issued 2011 Water Revenue Certificates of Participation amounting to \$69,195,000, payable in installments starting from August 1, 2014 through August 1, 2038. Interest rates range from 3% to 5.25% payable semiannually, beginning February 1, 2012. The proceeds from the sale of the certificates will be used to (1) finance the acquisition, construction and installation of certain clean water and replenishment projects for the District, (2) fund reserve fund for the certificates, (3) fund capitalized interest through August 1, 2012, and (5) pay costs of issuance of the certificates. The projects to be financed by the proceeds are: (1) Leo J. Vander Lans Advanced Water Treatment Facility Expansion Project, (2) the GRIP Facility, (3) Regional Groundwater Monitoring Program, (4) Safe Drinking Water Program, and (5) Groundwater Infrastructure Improvements.

Annual debt service payments are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 675,000	\$ 4,815,931	\$ 5,490,931
2014	735,000	4,788,544	5,523,544
2015	1,810,000	4,743,381	6,553,381
2016	1,875,000	4,676,032	6,551,032
2017	1,945,000	4,607,171	6,552,171
2018-2022	11,000,000	21,763,366	32,763,366
2023-2027	13,690,000	19,070,734	32,760,734
2028-2032	17,425,000	15,334,769	32,759,769
2033-2037	22,370,000	10,396,131	32,766,131
2038	28,985,000	3,777,669	32,762,669
Total	\$ 100,510,000	\$ 93,973,728	\$ 194,483,728
Less current portion	675,000		
Total noncurrent	\$ <u>99,835,000</u>		

Water Replenishment District of Southern California
Notes to Financial Statements
Years ended June 30, 2012 and 2011

NOTE 7 LONG-TERM DEBT (CONTINUED)

Accrued interest amounted to \$2.0 million and \$668 thousand as of June 30, 2012 and 2011, respectively.

NOTE 8 DEFERRED REVENUE

Deferred Water In-Lieu Replenishment Assessment

The City of Long Beach has prepaid its water replenishment assessment per the terms of a groundwater banking agreement between the District and the City of Long Beach; therefore, the District has deferred this amount.

Deferred Revenue

In April 2004, the District and the California Department of Transportation (Caltrans) entered into an agreement relating to groundwater in the vicinity of the I-105 freeway. The agreement calls for \$8.0 million to be paid by Caltrans to the District to be used to pay the costs of the proposed pipeline project described in the agreement, and to pay the replenishment assessment levied against the Caltrans groundwater extractions from beneath the I-105 freeway section. Caltrans has advanced the \$8.0 million to the District to fund the proposed pipeline project. As of June 30, 2012 and 2011, the District has spent \$2,258,382 and \$2,107,819 on the project, leaving an unexpended balance of \$5,741,618 and \$5,892,181, respectively.

Deferred Revenue – Replenishment Assessment

As discussed in Note 1, the District implemented certain provisions of GASB No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, specifically the accounting for rate-regulated activities which allows deferral of the recognition of revenues until the related costs or charges associated with the rates assessed is incurred. The balance of Deferred Revenue – Replenishment Assessment of \$14.6 million and \$4.6 million as of June 30, 2012 and 2011, respectively, pertain to assessments that were deferred until the related costs of water supply management are incurred.

NOTE 9 NET INVESTMENT IN CAPITAL ASSETS

The balance of net investment in capital assets at June 30 was composed of the following:

	<u>2012</u>	<u>2011</u>
Capital assets, net	\$ 58,981,530	\$ 55,901,408
Certificates of participation:		
Current portion	(675,000)	(695,000)
Noncurrent portion	(100,957,500)	(30,857,153)
Unspent debt proceeds	<u>72,432,327</u>	<u>10,760,842</u>
Net investment in capital assets	<u>\$ 29,781,357</u>	<u>\$ 35,110,097</u>

NOTE 10 DEFERRED COMPENSATION SAVINGS PLAN

For the benefit of its employees, the District participates in IRS Code Section 457 and 401 (a) Deferred Compensation Programs (Programs). The purpose of these Programs is to provide deferred compensation for District employees that elect to participate in the Program. Generally, eligible employees may defer receipt of a portion of their salary until termination, retirement, death or unforeseeable emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes.

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. The District is in compliance with this legislation. These assets are not the legal property of the District, and are not subject to claims of the District's general creditors. Unaudited market value of all plan assets held in trust at June 30, 2012 and 2011 was \$5,741,618 and \$5,094,979, respectively.

The District has implemented GASB Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans. Since the District has little administrative involvement and does not perform the investing function for this plan, the assets and related liabilities are not shown on the statement of net assets.

NOTE 11 DEFINED BENEFIT PENSION PLAN

Plan Description

The District contributes to the California Public Employees Retirement System (CalPERS), a cost-sharing multiple-employer defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public agencies within the State of California. Benefit provisions and all other requirements are established by state statute and the District. Copies of CalPERS annual financial report may be obtained from its executive Office: 400 P Street, Sacramento, CA, 95814.

Funding Policy

The contribution rate for plan members in the CalPERS 3.0% at 60 Risk Pool Retirement Plan is 8% of their annual covered salary. The District makes these contributions required of District employees on their behalf and for their account. Also, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The required employer contribution rates for fiscal years 2012 and 2011 were 15.86% and 17.399%, respectively. The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS.

Water Replenishment District of Southern California
Notes to Financial Statements
Years ended June 30, 2012 and 2011

NOTE 11 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Annual Pension Cost

For the year ended June 30, 2012, the District's annual pension cost of \$762,659 was equal to its required and actual contribution. The required contribution for the fiscal year ended June 30, 2012 was determined as part of the June 30, 2010 actuarial valuation.

The following is a summary of the actuarial assumptions and methods:

Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization	Level Percent of Payroll
Average Remaining Period	16 Years as of the Valuation Date
Asset Valuation Method	15 Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	7.75% (net of administrative expenses)
Projected Salary Increases	3.25% to 14.45% depending on age, service, and type of employment
Inflation	3.00%
Payroll Growth	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.00% and an annual production growth of 0.25%.

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS Risk Pool. 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 30-year rolling period. 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.

Three-Year Trend Information for PERS

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2010	\$ 562,472	100%	-
June 30, 2011	459,641	100%	-
June 30, 2012	763,118	100%	-

Based on the latest Actuarial Study of the plan pool as of June 30, 2009, the latest actuarial valuation date, the Unfunded Actuarial Accrued Liability (UAAL) ratio to covered payroll was 116.69%. The actuarial asset value of the pool was \$694 million; the actuarial accrued liability was \$883 million resulting in unfunded actuarial accrued liability of \$189 million. The plan was 78.6% funded as of June 30, 2009.

Refer to Required Supplementary Information on Page 38 for the plan's Schedule of Funding Progress.

Water Replenishment District of Southern California
Notes to Financial Statements
Years ended June 30, 2012 and 2011

NOTE 12 PUBLIC AGENCY RETIREMENT SYSTEM (PARS) PLAN

The District provides retirement benefits to its elected directors who do not participate in CalPERS through a single-employer defined benefit plan administered as part of the Public Agency Retirement System (PARS). Directors who retire at age 50 with 5 years of service with the District are eligible to receive pension benefits under the plan. The plan provides a benefit equal to the “3% at 60” plan factor of final average compensation for all years of service.

The District is required to contribute the actuarially determined amounts necessary to fund the benefits for the participants. Contribution amounts are determined by an actuarial study performed every two years. The July 1, 2009, (date of latest actuarial valuation) actuarial valuation used the following assumptions: interest rate of 7% per annum, inflation rate of 3%, and annual salary increase of 3%. As of July 1, 2009, the plan is overfunded by \$38,421 as shown below:

Actuarial liability	\$	115,127
Actuarial value of assets		153,548
Unfunded (overfunded) actuarial liability	\$	<u><u>(38,421)</u></u>

The actuarial method used was the entry age normal method. The actuarial accrued liability is amortized using the level percentage of projected payroll over a period not to exceed a closed 20-year period. For the years ended June 30, 2012 and 2011, the District’s actual annual contributions to the PARS plan amounted to \$27,941 and \$24,270 respectively. These were equivalent to the annual required contribution.

As of June 30, 2012, the District has not received the more updated actuarial valuation for PARS. Management asserted that there were no significant changes on the factors that impact the actuarial valuation. The number of plan participants has not changed for the last three years.

NOTE 13 OTHER POSTEMPLOYMENT BENEFITS (OPEB)

In addition to pension benefits described in Note 11, the District provides single-employer postemployment healthcare benefits to qualified employees who meet the District's Public Employees Retirement System (PERS) current plan requirements. The following requirements outline the criteria that must be met by District employees in order to be eligible for these benefits:

- a. Employees hired prior to December 20, 2001 qualify for postemployment healthcare benefits if they retire with 12 or more years of service at the District.
- b. Employees hired on or after December 20, 2001 qualify for postemployment benefits if they retire at age 55 or older with 12 or more years of service.

The District's contribution is currently based on a projected pay-as-you-go funding method, that is, benefits are payable when due. In 2012 and 2011, the District paid \$165,662 and \$126,370, respectively, in postemployment health care benefits, net of retiree contributions, and had 11 eligible employees in each year.

Water Replenishment District of Southern California
Notes to Financial Statements
Years ended June 30, 2012 and 2011

NOTE 13 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

The Governmental Accounting Standards Board (GASB) adopted Statement No. 45 in 2004, which addresses *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*. Along with other agencies with total annual revenues of \$10 million or more but not over \$100 million, the District implemented the GASB 45 OPEB reporting requirements beginning in fiscal year 2008-2009.

As of June 30, 2011, the District has not established a plan or equivalent that contains an irrevocable transfer of assets dedicated to providing benefits to retirees in accordance with the terms of the plan and that are legally protected from creditors. However, the District accrued the required annual contribution based on the valuation report.

Eligible participants in the plan at July 1, 2011, the date of the latest actuarial valuation are as follows:

Retirees receiving benefits		11
Active/full-time employees		37
	Total	48

Refer to Required supplementary Information for the three-year Schedule of Funding Progress of the Plan.

The actuarial method used in estimating the liability is the entry age normal actuarial cost method. Under the entry age normal actuarial cost method, the actuarial present value of projected benefits is allocated on a level basis over the earnings or service of individuals between entry age and the assumed exit age(s). The portion of the Actuarial Present Value (APV) of the postemployment benefits attributed to past service is called the Actuarial Accrued Liability (AAL). The significant assumptions in the computation include a discount rate of 7.06%, healthcare cost trend rate of 7.6% for January 1, 2012, 7.3% for January 1, 2013 decreasing by .3% through 2018 and 5.5% thereafter, and an annual increase in payroll of 3.25%.

The following table shows the components of the District's annual Other Postemployment Benefits (OPEB) cost for the year (based on 30-year amortization using the level percentage of projected payroll), the amount of benefits and/or insurance premiums actually paid and the District's Net OPEB obligation as of June 30, 2011:

	2012	2011
Annual required contribution	\$ 715,113	\$ 992,057
Interest on net OPEB obligation	146,173	48,233
Adjustment to ARC	(126,400)	(49,300)
Annual OPEB cost	734,886	990,990
Benefit payments	(165,662)	(126,370)
Increase in net OPEB obligation	569,224	864,620
Net OPEB obligation - beginning of year	2,070,442	1,205,822
Net OPEB obligation - end of year	\$ 2,639,666	\$ 2,070,442

Water Replenishment District of Southern California
Notes to Financial Statements
Years ended June 30, 2012 and 2011

NOTE 13 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

The Annual Required Contribution (ARC) is 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 costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed a closed 30-year period. The amortization method used in the valuation is the level percentage of projected payroll method.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012, 2011 and 2010 was:

Fiscal Year End	Annual OPEB Cost	Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2010	\$ 370,967	\$ 114,121	31%	1,205,822
6/30/2011	990,990	126,370	13%	2,070,442
6/30/2012	734,886	165,662	23%	2,639,666

Based on the latest Actuarial Study of the District's Postemployment Healthcare Program, as of July 1, 2011, the Unfunded Actuarial Accrued Liability (UAAL) ratio to covered payroll was 178%. Because the District has not established a trust, the plan is unfunded, and therefore, the actuarial value of plan assets remains at zero.

Refer to Required Supplementary Information on page 38 for the plan's Schedule of Funding Progress.

NOTE 14 RISK MANAGEMENT

The District 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 District is a member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California water agencies. The purpose of the ACWA/JPIA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2012, the District participated in the liability and property programs of the ACWA/JPIA as follows:

- General and auto liability, public officials and employees' errors and omissions: Total risk financing self-insurance limits of \$500,000, combined single limit at \$500,000 per occurrence. The District purchased additional excess coverage layers: \$45 million for general, auto and public officials liability, which increases the limits on the insurance coverage noted above.

NOTE 14 RISK MANAGEMENT (CONTINUED)

In addition to the above, the District also has the following insurance coverage:

- Employee dishonesty coverage up to \$100,000 per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverages.
- Property loss is paid based on the replacement cost for the property on file. If the property is replaced within two years after the loss or otherwise paid on an actual cash value basis, to a combined total of \$50 million per occurrence it is subject to a \$2,500 deductible per occurrence.
- Boiler and machinery coverage for the replacement cost up to \$50 million per occurrence, subject to various deductibles depending on the type of equipment.
- Public officials' personal liability coverage up to \$100,000 for each occurrence, with an annual aggregate of \$100,000 per each elected/appointed official to which this coverage applies is subject to the terms, with a deductible of \$1,000 per claim.
- Workers' compensation insurance provides coverage up to California statutory limits for all work related injuries/illnesses covered by California law.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the years ended June 30, 2012 and 2011. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2012 and 2011.

NOTE 15 COMMITMENTS

San Gabriel River Rubber Dams

In April 2004, the Board of Directors approved funding assistance to the Los Angeles County Department of Public Works for the construction of two rubber dams in the San Gabriel River. The dams will potentially capture additional storm water that could result in savings to the District. The District approved funding of the project for an amount not-to-exceed twenty-five percent of the project costs or \$1.14 million, whichever is less. Funding is expected to be paid from the District's bond offering.

Recycled Water Agreement

In January 2004, the District entered into a twenty-year agreement with the West Basin Municipal Water District (WBMWD) to purchase certain amounts of recycled water from WBMWD on an annual basis. Until completion of WBMWD's recycling facility expansion project, the District will purchase 7,500 AF of recycled water on an annual basis, or a lesser amount that is authorized by WBMWD's Regional Board

Water Replenishment District of Southern California
Notes to Financial Statements
Years ended June 30, 2012 and 2011

NOTE 15 COMMITMENTS (CONTINUED)

Permit, at \$430 per AF. After the expanded facility is completed and operable, the District will purchase 12,500 AF on an annual basis at \$470 per AF of recycled water. The agreement also provides for annual increases in price.

Construction Contracts

The District has a variety of agreements with private parties relating to the installation, improvement or modification of water facilities and distribution systems and other District activities. The financing of such contracts is provided primarily from the proceeds of bonds issued by the District. The District has committed to approximately \$2.4 million of open construction contracts as of June 30, 2012.

The contracts outstanding include:

<u>Project Name</u>	<u>Total Approved Contract</u>	<u>Construction Costs to-date</u>	<u>Balance to Complete</u>
LJWWTF expansion	\$ 4,625,976	\$ 2,884,808	\$ 1,741,168
Goldsworthy Desalter	219,773	100,272	119,501
Caltrans Pipeline	745,698	745,698	-
Regional Groundwater Monitoring Program	5,258,257	5,125,393	132,864
Safe Drinking Water Program	700,000	700,000	-
Interconnection Pipeline	3,800,000	3,800,000	-
Groundwater Replenishment Improvement Project	865,410	494,041	371,369
	<u>\$ 16,215,113</u>	<u>\$ 13,850,212</u>	<u>\$ 2,364,902</u>

NOTE 16 PROP 218 CASE

The Cities of Cerritos, Downey and Signal Hill filed suit against the District alleging that it failed to comply with the requirements under Prop 218 when imposing its annual replenishment assessments (RAs). The District denies that Prop 218 is applicable to its adoption of an annual RA. In their complaint, the Cities sought the issuance of a Writ of Mandamus, along with other claims and related damages. On April 25, 2011, the Los Angeles Superior Court Judge ruled in favor of the Cities, indicating that the District was required to comply with Prop 218, but withheld the issuance of the Writ and judgment thereon until the remaining claims for damages were adjudicated by the trial court. Thus, the ruling will not become final until it is embodied in a judgment that includes the disposition of the Cities' claim for the refund of previously paid RAs.

The Cities are seeking a refund of up to \$19 million relating to their payments of RAs over a period of years dating back to 2006. The District has challenged most of the claims as being time-barred due to the Cities' failure to timely file administrative claims with the District. The Court recently issued an order denying the District's Motion for Summary Adjudication on the ground that the entirety of the Cities' claim for refund with respect the RA's applicable to the District's 2010-2011 fiscal year is not time-barred, although the Court appeared to indicate that some of the Cities' earlier payments of the RAs were, in fact, time-barred, since no administrative claims had been filed for such periods.

NOTE 16 PROP 218 CASE (CONTINUED)

The trial of the case was originally set for February 2012 but was vacated when the case was transferred to another judge. The newly-assigned judge has not set the case for trial. Because the litigation is ongoing with many unresolved issues, any unfavorable outcome and an estimate of the amounts or range of potential loss is not susceptible of estimation as of December 26, 2012, the date the financial statements were available to be issued. Therefore, no accrual of potential loss was made as of June 30, 2012.

Management believes that establishing a reserve for potential loss at this time is unnecessary in that (1) it intends to appeal the Court's ruling when it becomes a final judgment; (2) it maintains that the plaintiffs' claims for refund of the amounts of RAs paid are, for the most part, time-barred; and (3) it maintains that it has the right to re-affirm the earlier RAs that were adopted without complying with Prop 218 if and when a final, non-appealable judgment is issued by a court that declares that Prop 218 is applicable to the District's adoption of an annual RA.

The plaintiff Cities, along with two (2) other cities and one (1) private pumper have refused to pay the RA's based on the Court's interlocutory ruling. As a result, the District's outstanding receivables have increased significantly during the year. No provision for uncollectible accounts was made as management asserted that these accounts are collectible and that any loss will be recovered through replenishment assessments or other collection activity and, therefore, will not have a significant impact on the District's financial statements as of June 30, 2012.

NOTE 17 CONTINGENCIES

Litigation

The District is a defendant in other various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the District, the resolution of these matters will not have a material adverse effect on the District's financial condition.

Grant Awards

Grant funds received by the District are subject to audit by the grantor agencies. Such audits could lead to requests for reimbursements by the grantor agencies for expenditures disallowed under the terms of the grant. District's management believes that such disallowances, if any, would not be significant.

NOTE 18 RESTATEMENT 2011 FINANCIAL STATEMENTS

To improve financial reporting and properly match revenues with expenses, as discussed in Note 1, the District early implemented certain provisions of GASB 62, specifically the accounting for rate-regulated activities which allows deferral of the recognition of revenues until the related costs or charges associated with the rates assessed are incurred.

Water Replenishment District of Southern California
Notes to Financial Statements
Years ended June 30, 2012 and 2011

NOTE 18 RESTATEMENT 2011 FINANCIAL STATEMENTS (CONTINUED)

The fiscal year ended June 30, 2011 financial statements were restated as follows to reflect the effect of the District's adoption of the provisions of GASB 62:

Water replenishment assessment, as previously stated	\$ 45,369,525
Adjustment to reflect the effect of GASB 62 adoption	<u>9,100,672</u>
Water replenishment assessment, as restated	<u>\$ 54,470,197</u>
Deferred revenue - replenishment assessment, as previously stated	\$ -
Adjustment to reflect the effect of GASB 62 adoption	<u>4,609,148</u>
Deferred revenue - replenishment assessment, as restated	<u>\$ 4,609,148</u>
Net assets, June 30, 2010, prior to restatement	\$ 67,788,842
Adjustment to reflect the effect of GASB 62 adoption	<u>(13,709,820)</u>
Net assets, June 30, 2010, as restated	<u>\$ 54,079,022</u>

NOTE 19 SUBSEQUENT EVENTS

The District has evaluated events subsequent to June 30, 2012 to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through December 26, 2012, the date the financial statements were available to be issued. Based upon this evaluation, it was determined that no subsequent events occurred that require recognition or additional disclosure in the financial statements.

NOTE 20 CALIFORNIA PUBLIC EMPLOYEES' PENSION REFORM ACT

After spending close to a year exploring and debating reforms to public pension systems in California, lawmakers in Sacramento passed Assembly Bill 340 (AB 340) on August 31, 2012. AB 340 known as the California Public Employees' Pension Reform Act of 2013 (PEPRA) which amends various provisions of the Public Employees' Retirement Law (PERL) and County Employee's Retirement Law of 1937 (CERL), was signed into law by the Governor on September 12, 2012. PEPRA will take effect on January 1, 2013. The District will be working with CalPERS to thoroughly analyze the complex legislation's impact on the District and its employees. Management asserts that PEPRA will not have a significant impact on the District's June 30, 2012 financial statements.

**NOTE 21 GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STATEMENTS
ISSUED, NOT YET EFFECTIVE**

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2012, that have effective dates that may impact future financial presentations. Management has not yet determined any impact the implementation of the following statements may have on the financial statements of the District.

GASB No. 63 - GASB has issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012.

GASB No. 65 - *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

The requirements of this Statement will improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012.

Required Supplementary Information

**Water Replenishment District of Southern California
Required Supplementary Information (Unaudited)
Years ended June 30, 2012 and 2011**

Schedule of Funding Progress – CalPERS

Actuarial Valuation Date	Actuarial Asset Value in '000 (A)	Entry Age Actuarial Accrued Liability (AAL) in '000 (B)	Unfunded AAL [(B) – (A)] (UAL) in '000 (C)	Funded Ratio [(A) / (B)] (D)	Covered Payroll in '000 (E)	Unfunded AAL as Percentage of Covered Payroll {(b)-(A)}/(E)} (F)
June 30, 2007	\$ 576,070	\$ 699,664	\$ 123,594	82.34%	\$ 139,335	88.70%
June 30, 2008	641,167	776,167	135,000	82.61%	155,115	87.03%
June 30, 2009	694,385	883,394	189,009	78.60%	161,973	116.69%

Information shown above is for compliance with GASB No. 27 for a cost-sharing multiple-employer defined benefit plan.

Schedule of Funding Progress - PARS

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded Liability [(B) – (A)] (UAL) (C)	Funded Ratio [(A) / (B)] (D)	Covered Payroll (E)	UAL as Percentage of Covered Payroll (F)
1/1/2003	\$ -	\$ 40,065	\$ 40,065	0%	\$ 81,600	49%
6/30/2006	84,487	104,899	20,412	81%	102,889	20%
7/1/2009	153,548	115,127	(38,421)	133%	106,121	-36%

Schedule of Funding Progress – OPEB

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded Liability [(B) – (A)] (UAL) (C)	Funded Ratio [(A) / (B)] (D)	Covered Payroll (E)	UAL as Percentage of Covered Payroll (F)
7/1/2007	\$ -	\$ 3,893,964	\$ 3,893,964	0%	\$ 3,200,000	122%
7/1/2010	-	7,710,723	7,710,723	0%	3,200,000	241%
7/1/2011	-	5,508,234	5,508,234	0%	3,100,000	178%

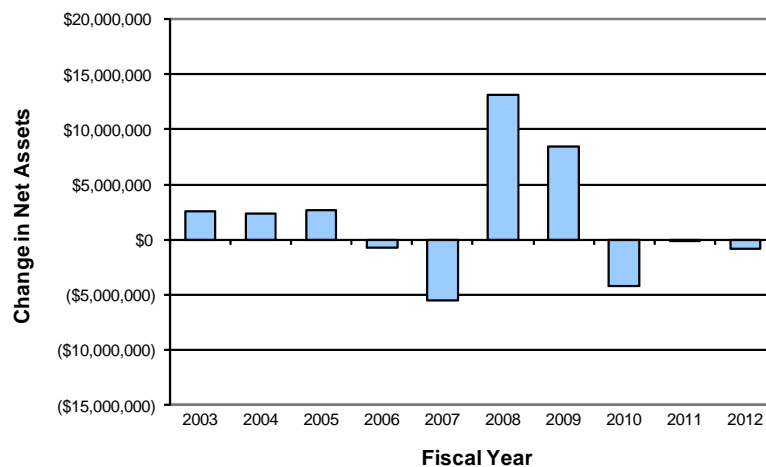
Statistical Section

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

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This schedule contains service and infrastructure data to help the reader understand how the information in the District's financial report relates to the service the District provides.	52

	Fiscal year			
	2003	2004	2005	2006
Changes in net assets:				
Operating revenues (see Schedule 2)	\$ 29,902,027	\$ 29,507,634	\$ 31,411,938	\$ 32,861,119
Operating expenses (see Schedule 3)	(29,199,234)	(27,696,168)	(28,632,898)	(33,793,189)
Overhead absorption	-	1,705,618	1,479,030	854,305
Depreciation and amortization	(974,132)	(1,772,637)	(1,641,524)	(1,800,675)
Operating income(loss)	(271,339)	1,744,447	2,616,546	(1,878,440)
Nonoperating revenues(expenses)				
Property taxes, net of collection expenses	306,927	345,034	64,099	131,978
Investment income/(loss)	389,008	89,974	285,643	479,332
Interest expense	-	-	-	-
Election costs	-	-	(729,911)	-
Gain/(Loss) on sale/disposition of assets	(2,323)	-	-	-
Other revenue/(expense), net	-	31,039	106,840	11,883
Net nonoperating revenues (expenses)	693,612	466,047	(273,329)	623,193
Net income before capital contributions	422,273	2,210,494	2,343,217	(1,255,247)
Capital contributions	2,181,340	184,242	357,726	498,414
Changes in net assets	\$ 2,603,613	\$ 2,394,736	\$ 2,700,943	\$ (756,833)
Net assets by component:				
Invested in capital assets, net of related debt	\$ 41,697,911	\$ 42,789,292	\$ 39,808,795	\$ 40,601,432
Restricted	-	-	1,058,377	986,555
Unrestricted	9,909,417	11,212,772	15,835,835	14,358,187
Total net assets	\$ 51,607,328 (1)	\$ 54,002,064	\$ 56,703,007	\$ 55,946,174



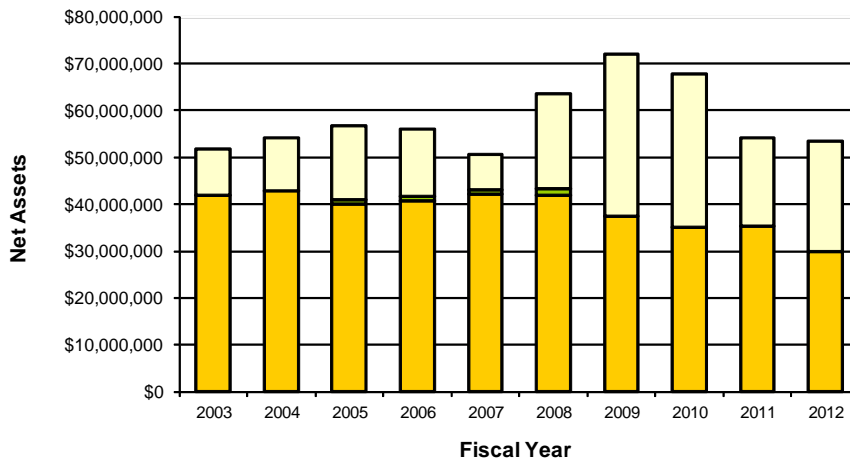
Notes:

(1) The District made a prior period adjustment of \$3,635,122.

Source: Water Replenishment District Accounting Department

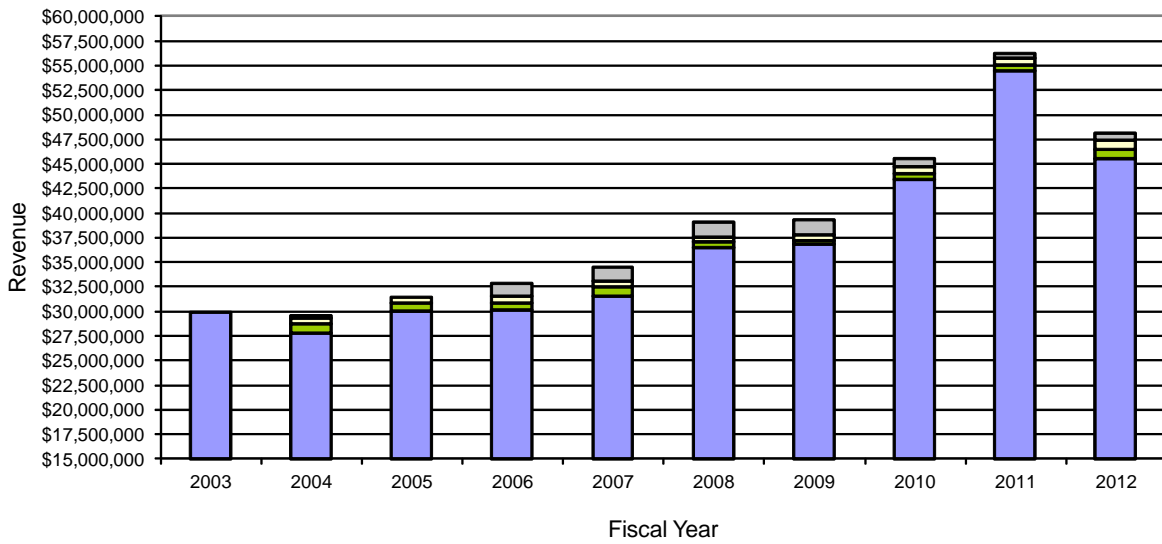
**Water Replenishment District of Southern California
Financial Trends - Changes in Net Assets by Component
Last Ten Fiscal Years**

Fiscal year					
2007	2008	2009	2010	2011	2012
\$ 34,541,889	\$ 39,132,053	\$ 39,335,102	\$ 45,601,400	\$ 56,284,385	\$ 48,121,854
(39,817,101)	(24,576,237)	(28,362,636)	(46,705,411)	(52,788,111)	(44,170,360)
958,150	-	-	-	-	-
(1,846,275)	(2,304,366)	(2,256,077)	(2,324,791)	(2,394,968)	(2,446,962)
(6,163,337)	12,251,450	8,716,389	(3,428,802)	1,101,306	1,504,532
450,001	456,702	493,625	446,160	481,874	476,937
1,126,993	692,431	521,171	234,908	128,575	121,351
-	-	(1,013,099)	(1,183,999)	(1,170,199)	(3,802,841)
(1,094,665)	(570,547)	(511,638)	(450,000)	(1,008,030)	-
-	-	-	-	-	-
58,679	182,611	180,482	131,199	100,761	144,530
541,008	761,197	(329,459)	(821,732)	(1,467,019)	(3,060,023)
(5,622,329)	13,012,647	8,386,930	(4,250,534)	(365,713)	(1,555,491)
148,577	97,516	9,284	60,577	348,943	752,468
\$ (5,473,752)	\$ 13,110,163	\$ 8,396,214	\$ (4,189,957)	\$ (16,770)	\$ (803,023)
\$ 41,938,718	\$ 41,757,258	\$ 37,305,026	\$ 34,945,659	\$ 35,110,097	\$ 29,781,357
989,332	1,447,030	-	-	-	-
7,544,372	20,378,297	34,673,773	32,843,183	18,952,155	23,477,872
\$ 50,472,422	\$ 63,582,585	\$ 71,978,799	\$ 67,788,842	\$ 54,062,252	\$ 53,259,229



**Water Replenishment District of Southern California
Financial Trends - Operating Revenues by Source
Last Ten Fiscal Years**

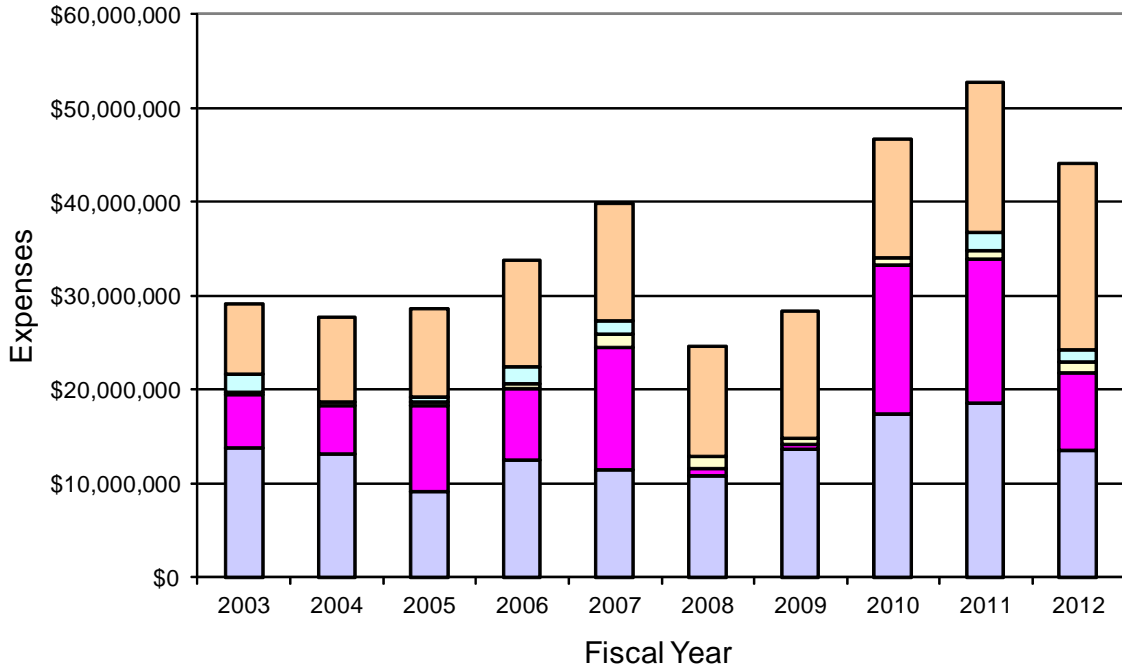
Fiscal Year	Water Replenishment Assessment	Desalter Assessments	Water Treatment Subsidy	Water Injection Subsidy	Other Operating Revenue	Total Operating Revenue
2003	\$ 29,902,027	\$ -	\$ -	\$ -	\$ -	\$ 29,902,027
2004	27,763,886	964,600	616,344	162,804	-	29,507,634
2005	30,022,445	868,968	520,525	-	-	31,411,938
2006	30,131,602	772,067	681,026	-	1,276,424	32,861,119
2007	31,613,924	904,186	562,977	-	1,460,802	34,541,889
2008	36,482,271	606,380	476,491	-	1,566,911	39,132,053
2009	36,877,706	316,986	598,110	-	1,542,300	39,335,102
2010	43,452,025	554,734	726,375	-	868,266	45,601,400
2011	54,470,197	621,099	695,293	-	497,796	56,284,385
2012	45,571,109	913,204	894,411	-	743,130	48,121,854



Source: Water Replenishment District Accounting Department

**Water Replenishment District of Southern California
Financial Trends - Operating Expenses by Activity
Last Ten Fiscal Years**

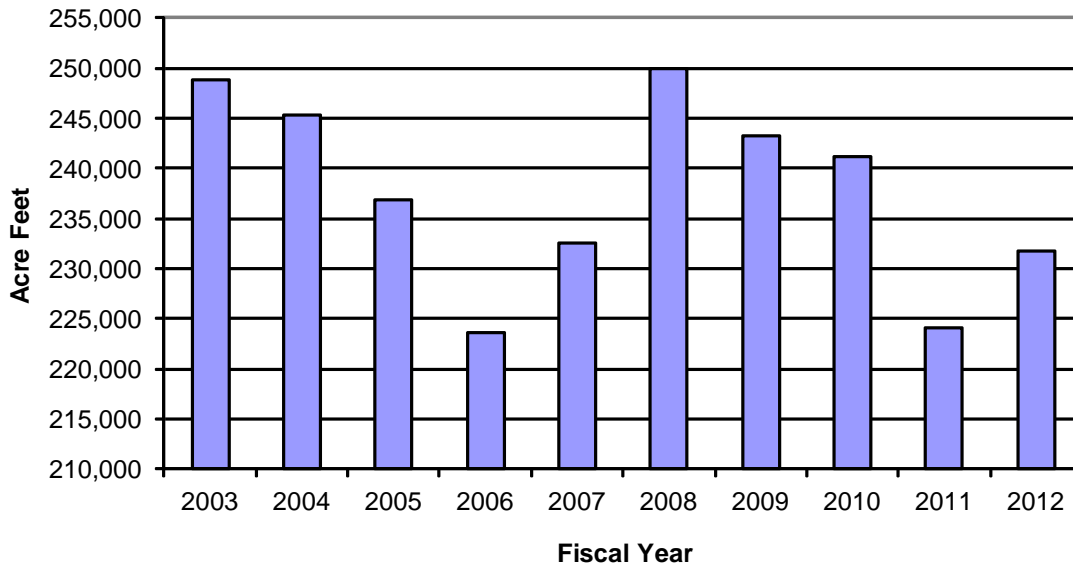
Fiscal Year	Water Purchases Injecting	Water Purchases Spreading	Connection Fees	In-lieu Replenishment	General and Administrative	Total Operating Expenses
2003	\$ 13,850,361	\$ 5,595,180	\$ 298,395	\$ 1,872,539	\$ 7,582,759	\$ 29,199,234
2004	13,106,639	5,235,003	366,132	-	8,988,394	27,696,168
2005	9,173,618	9,143,822	386,788	475,272	9,453,398	28,632,898
2006	12,521,505	7,559,361	520,595	1,830,941	11,360,787	33,793,189
2007	11,514,199	13,022,679	1,437,392	1,421,149	12,421,682	39,817,101
2008	10,819,502	720,160	1,379,127	-	11,657,448	24,576,237
2009	13,623,824	601,706	536,011	-	13,601,095	28,362,636
2010	17,406,851	15,808,953	796,787	-	12,692,820	46,705,411
2011	18,552,696	15,405,518	911,745	1,937,484	15,980,668	52,788,111
2012	13,466,495	8,285,830	1,146,511	1,314,384	19,957,140	44,170,360



Source: Water Replenishment District Accounting Department

Water Replenishment District of Southern California
Revenue Capacity - Revenue Base
Last Ten Fiscal Years

Fiscal Year	Water Pumped (Acre Feet)
2003	248,899
2004	245,386
2005	236,855
2006	223,626
2007	232,518
2008	249,873
2009	243,251
2010	241,198
2011	224,158
2012	231,815

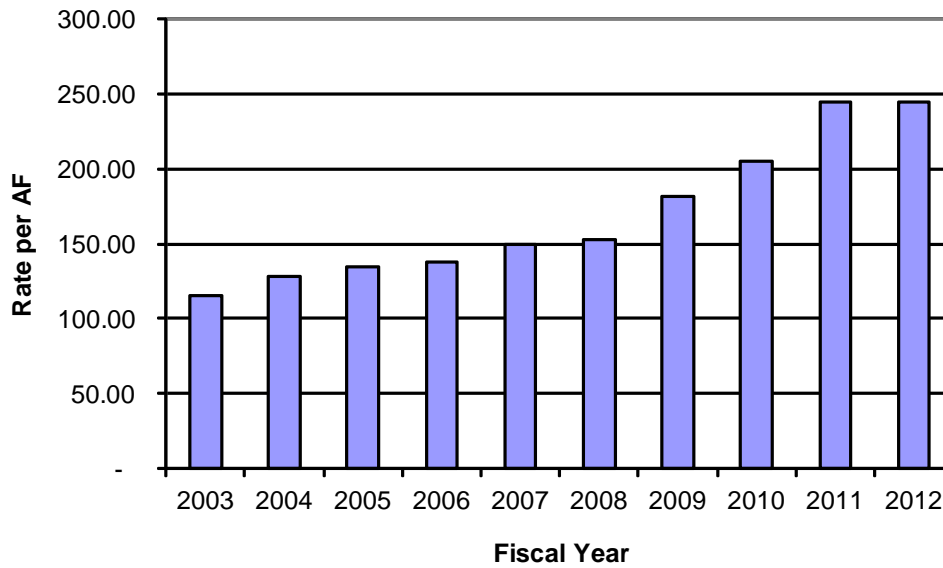


Note: See Schedule 2 "Operating Revenue by Source" for information regarding water revenues.

Source: Water Replenishment District Accounting Department

Water Replenishment District of Southern California
Revenue Capacity - Revenue Rates
Last Ten Fiscal Years

Fiscal Year	Rate per AF
2003	\$ 115.00
2004	128.25
2005	134.66
2006	138.00
2007	149.00
2008	153.00
2009	181.85
2010	205.00
2011	244.00
2012	244.00



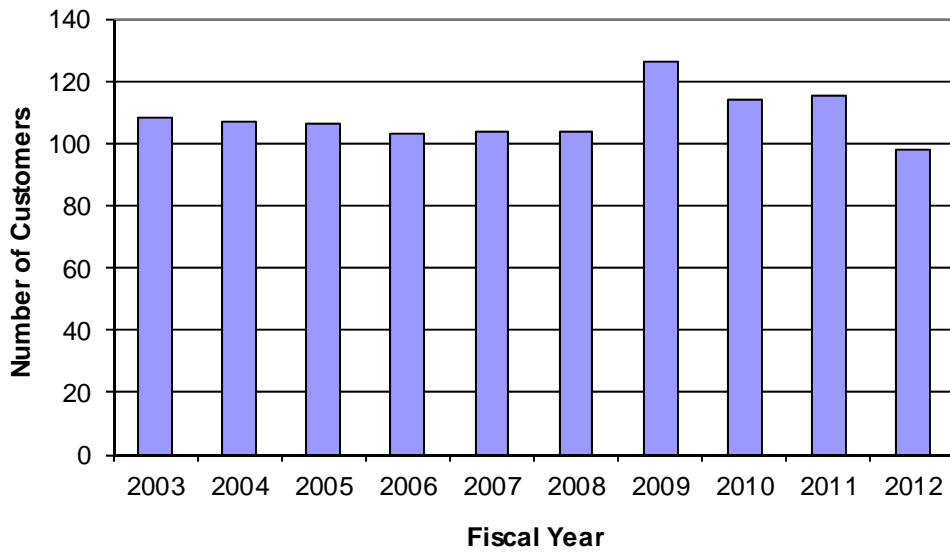
Notes:

(1) Rates as of June 30 of each fiscal year.

Source: Water Replenishment District Accounting Department

Water Replenishment District of Southern California
Revenue Capacity - Customers by Type
Last Ten Fiscal Years

Fiscal Year	Number of Pumpers
2003	108
2004	107
2005	106
2006	103
2007	104
2008	104
2009	126
2010	114
2011	115
2012	98



Note: Number of customers as of June 30 of fiscal year.

Source: Water Replenishment District Accounting Department

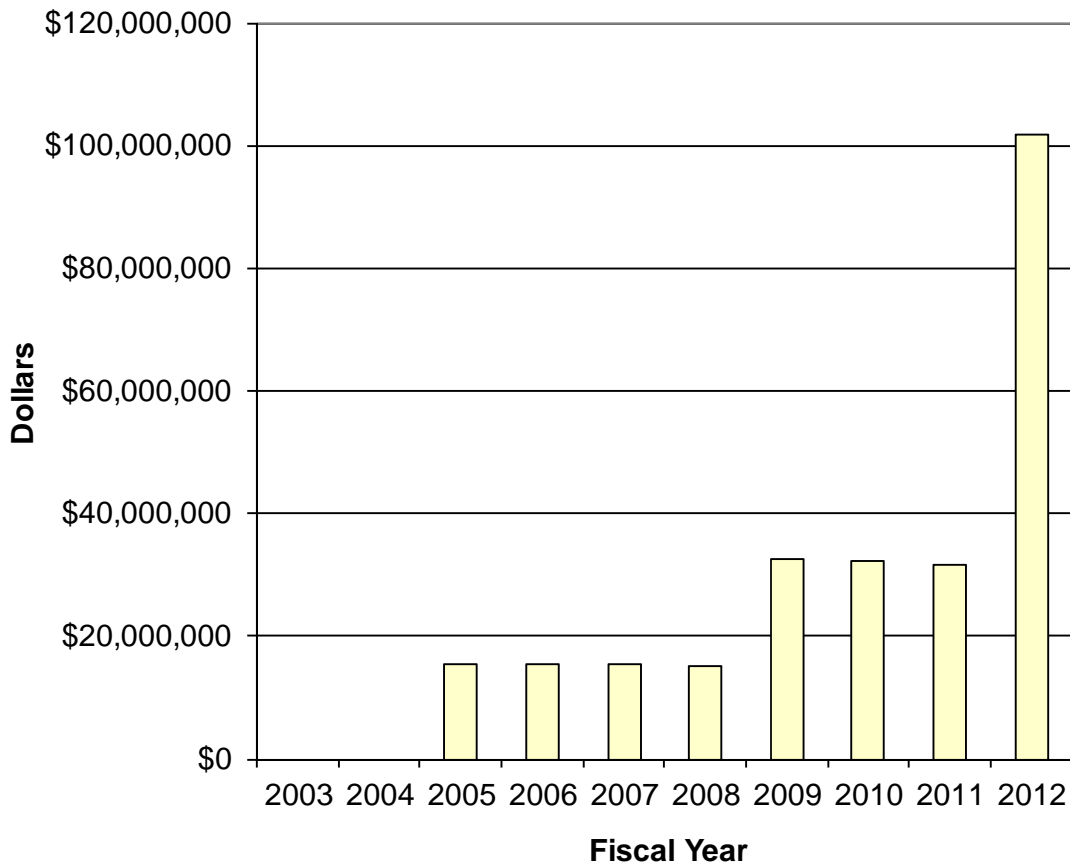
**Water Replenishment District of Southern California
Revenue Capacity - Principal Customers
Current Fiscal Year and Ten Years Ago**

Customer	2012		2003	
	Water Pumped (AF)	Percentage of Total	Water Pumped (AF)	Percentage of Total
Golden State Water Company	35,603	15%	35,308	14%
Long Beach, City of	25,378	11%	27,751	11%
California Water Service Company	16,241	7%	16,491	7%
Downey, City of	16,132	7%	16,976	7%
Los Angeles, Department of Water & Power	9,486	4%	9,496	4%
Cerritos, City of	8,873	4%	9,971	4%
South Gate, City of	8,329	4%	11,019	4%
Lakewood, City of	8,061	3%	9,102	4%
Vernon, City of	7,424	3%	9,860	4%
Compton, City of	6,256	3%	7,111	3%
Total	<u>141,782</u>	<u>61%</u>	<u>153,085</u>	<u>62%</u>
Total Water Consumed (Acre Feet)	<u>231,815</u>	<u>100%</u>	<u>248,899</u>	<u>100%</u>

Source: Water Replenishment District Accounting Department

**Water Replenishment District of Southern California
Debt Capacity - Ratio of Outstanding Debt
Last Ten Fiscal Years**

Fiscal Year	Notes Payable	Certificates of Participation	Total		
			Debt	Per Capita	As a Share of Personal Income
2003	\$ -	\$ -	\$ -	-	0.000000%
2004	-	-	-	-	0.000000%
2005	-	15,410,000	15,410,000	1.57	4.314274%
2006	-	15,410,000	15,410,000	1.58	3.995082%
2007	-	15,410,000	15,410,000	1.59	3.848975%
2008	-	15,100,000	15,100,000	1.55	3.617162%
2009	-	32,658,447	32,658,447	3.33	8.318931%
2010	-	32,175,300	32,175,300	3.27	7.981084%
2011	-	31,552,153	31,552,153	3.19	7.496114%
2012	-	101,632,500	101,632,500	N/A	N/A



N/A - Data not available

Source: Water Replenishment District Accounting Department

Water Replenishment District of Southern California
Debt Capacity - Debt Coverage
Last Ten Fiscal Years

Fiscal Year	Net Revenues	Operating Expenses ⁽¹⁾	Net Available Revenues	Debt Service			Coverage Ratio
				Principal	Interest	Total	
2003	\$ 30,595,639	\$ (29,199,234)	\$ 1,396,405	\$ -	\$ -	\$ -	N/A
2004	29,973,681	(27,696,168)	2,277,513	-	-	-	N/A
2005	31,138,609	(28,632,898)	2,505,711	-	423,684	423,684	12.09
2006	33,484,312	(33,793,189)	(308,877)	-	653,314	653,314	(3.35)
2007	35,082,897	(39,817,101)	(4,734,204)	-	654,931	654,931	(16.64)
2008	39,893,250	(24,576,237)	15,317,013	310,000	647,827	957,827	15.99
2009	39,005,643	(28,362,636)	10,643,007	315,000	764,408	1,079,408	9.86
2010	44,779,668	(46,705,411)	(1,925,743)	500,000	1,642,081	2,142,081	(0.90)
2011	55,166,309	(52,788,111)	2,378,198	640,000	1,616,331	2,256,331	1.05
2012	45,814,299	(44,170,360)	1,643,939	695,000	3,648,519	4,343,519	0.38

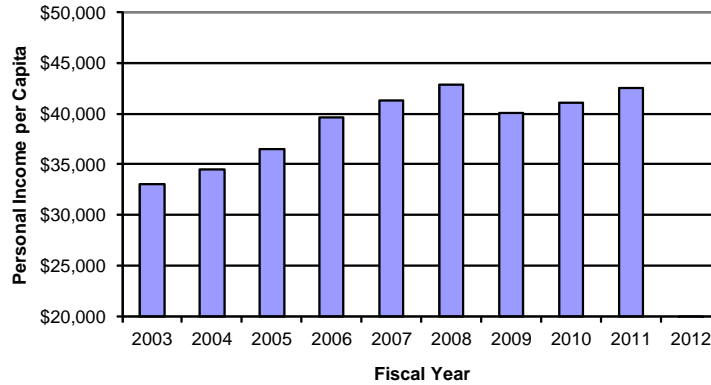
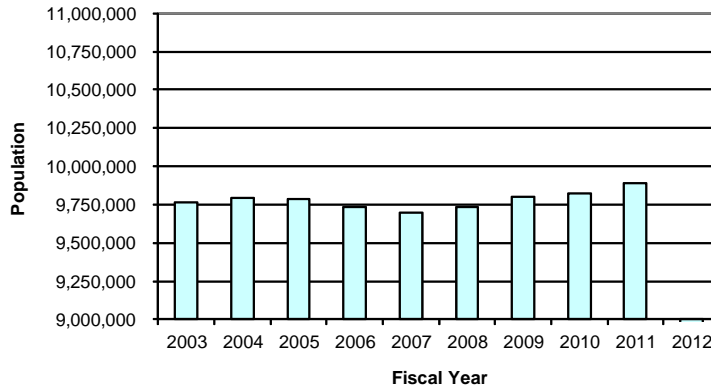
Notes:

(1) Operating expenses exclude depreciation expense

Source: Water Replenishment District Accounting Department

**Water Replenishment District of Southern California
Demographics and Economic Statistics – County of Los Angeles
Last Ten Fiscal Years**

Year	Unemployment Rate (1)	Population (2)	Personal Income (thousands of dollars) (2)	Personal Income per Capita (2)
2003	7.4%	9,767,145	322,267,247	32,995
2004	6.9%	9,793,263	338,203,048	34,534
2005	5.3%	9,786,373	357,186,377	36,498
2006	4.7%	9,737,955	385,724,212	39,610
2007	4.9%	9,700,359	400,366,343	41,273
2008	7.2%	9,735,147	417,454,378	42,881
2009	11.8%	9,797,400	392,579,855	40,111
2010	12.5%	9,826,773	403,144,483	41,025
2011	12.5%	9,889,056	420,913,463	42,564
2012	11.1%	N/A	N/A	N/A



N/A - Data not available

Notes:

(1) Only County data is updated annually. Therefore, the District has chosen to use its data since the District believes that the County data is representative of the conditions and experience of the District.

Sources: California Department of Finance and CaliforniaLaborMarketInfo

(2) Per capita personal income was computed using Census Bureau midyear population estimates. Estimates for 2000-2011 reflect county population estimates available as of April 2012. All state and local area dollar estimates are in current dollars (not adjusted for inflation)

Sources: Regional Economic Information System, Bureau of Economic Analysis, U.S. Department of Commerce, & last updated: November 26, 2012

Table CA1-3 Personal Income Summary - new estimates for 2011; revised estimates for 2009-2010

**Water Replenishment District of Southern California
Demographics and Economic Statistics – Largest Employers - County of Los Angeles
June 30, 2012**

Largest Public Companies (1)

The Walt Disney Company
Northrop Grumman Corp.
Occidental Petroleum
DirecTV Group
Health Net
Edison International
Jacobs Engineering Group
Reliance Steel & Aluminum Company
Dole Food Company
Avery Dennison

(1) Information by sales volume
Source: Ranker/Fortune Magazine

Largest Private Companies (2)

The Capital Group Companies
Platinum Equity
Murdock Holding Company
Consolidated Electrical Distributors
Parsons Corporation
Smart & Final
Guitar Center
Newegg.com
Roll International

(2) Information by sales volume
Source: Ranker/Forbes Magazine

Largest Employers (3)

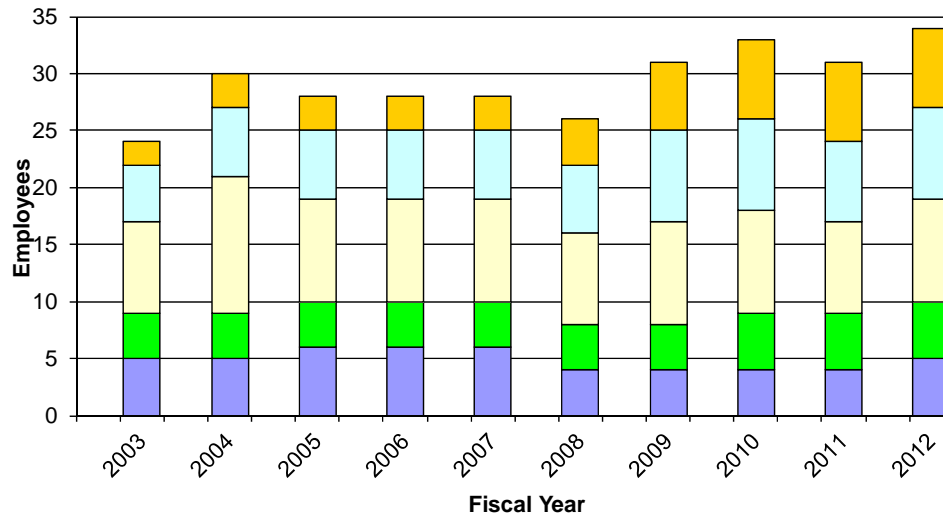
The Walt Disney Company
Los Angeles County Government
Los Angeles Unified School District
U.S Federal Government
UCLA - University of California, Los Angeles
Los Angeles City Government
State of California Government
Kaiser Permanente Medical & Health
Northrop Grumman Corp.
Boeing Co.
Kroger Company
USC - University of Southern California
Bank of America

(3) Information by number of employees
Source: Hub Pages

**Water Replenishment District of Southern California
Operating and Capacity Indicators
Last Ten Fiscal Years**

Employees

Department	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Administration	5	5	6	6	6	4	4	4	4	5
Finance	4	4	4	4	4	4	4	5	5	5
Engineering	8	12	9	9	9	8	9	9	8	9
Hydrogeology	5	6	6	6	6	6	8	8	7	8
External Affairs	2	3	3	3	3	4	6	7	7	7
Total	24	30	28	28	28	26	31	33	31	34



Other Operating and Capacity Indicators

Year	Number of Groundwater Pumps	Acre Feet Injected
2003	612	28,112
2004	597	22,938
2005	594	19,895
2006	580	20,918
2007	580	24,363
2008	581	26,287
2009	559	25,996
2010	565	28,400
2011	554	27,608
2012	548	19,023

Sources: Water Replenishment District Engineering and Accounting Departments

**Report of Independent Auditors on
Internal Controls and Compliance**

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**Report of Independent Auditors on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards**

**The Honorable Members of the Board
Water Replenishment District of Southern California**

We have audited the basic financial statements of the Water Replenishment District of Southern California (the District) as of and for the year ended June 30, 2012, and have issued our report thereon dated December 26, 2012. 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.

Internal Control Over Financial Reporting

Management of the Water Replenishment District of Southern California is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the Board of Directors, management, and federal awarding agencies, and is not intended to be and should not be used by anyone other than the specified parties.

Vargay + Company LLP

Los Angeles, California
December 26, 2012