

WATER REPLENISHMENT DISTRICT OF SOUTHERN CALIFORNIA

# ACHIEVEMENTS IN WATER INDEPENDENCE

Comprehensive Annual Financial Report

Fiscal Years Ending

June 30, 2013 and 2012







## **Comprehensive Annual Financial Report**

**Fiscal Years Ended**

**June 30, 2013 and 2012**

**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**

**Jenna H. Shaunessy, Manager of Finance and Administration  
Elizabeth Betham, Senior Accountant  
Remy Hernandez, Senior Accountant  
Binhyen Bui, Senior Accountant**



# 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, 2013

<u>Name</u>	<u>Division</u>	<u>Title</u>	<u>Elected/ Appointed</u>	<u>Current Term</u>
Albert Robles	5	President	Elected	01/13 - 01/17
Lillian Kawasaki	3	Vice President	Elected	01/11 – 01/15
Willard H. Murray, Jr.	1	Secretary	Elected	01/11 – 01/15
Sergio Calderon	4	Treasurer	Elected	01/11 - 01/15
Robert Katherman	2	Director	Elected	01/13 – 01/17

Water Replenishment District of Southern California  
Robb Whitaker, General Manager  
4040 Paramount Boulevard  
Lakewood, California 90712  
(562) 921-5521  
[www.wrd.org](http://www.wrd.org)



**Water Replenishment District of Southern California**  
**Table of Contents**

---

	<u>PAGE</u>
<b>INTRODUCTORY SECTION (Unaudited)</b>	
Letter of Transmittal	i
Organizational Chart	viii
Map of the District	ix
Government Finance Officers Association - Certificate of Achievement for Excellence in Financial Reporting	x
<b>FINANCIAL SECTION</b>	
Report of Independent Auditors	1
Management's Discussion and Analysis (Unaudited)	3
<b>BASIC FINANCIAL STATEMENTS</b>	
Statements of Net Position	9
Statements of Revenues, Expenses and Changes in Net Position	10
Statements of Cash Flows	11
Notes to Financial Statements	13
<b>REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)</b>	
Schedule of Funding Progress – CalPERS and PARS	40
<b>STATISTICAL INFORMATION SECTION (Unaudited)</b>	
Statistical Section – Table of Contents	41
Changes in Net Position by Component – Last Ten Fiscal Years	42
Operating Revenues by Source - Last Ten Fiscal Years	44
Operating Expenses by Activity - Last Ten Fiscal Years	45
Revenue Base - Last Ten Fiscal Years	46
Revenue Rates - Last Ten Fiscal Years	47
Customers by Type - Last Ten Fiscal Years	48
Principal Customers - Current Fiscal Year and Ten Years Ago	49
Ratio of Outstanding Debt – Last Ten Fiscal Years	50
Debt Coverage - Last Ten Fiscal Years	51
Demographics and Economic Statistics - County of Los Angeles - Last Ten Fiscal Years	52
Largest Employers - County of Los Angeles	53
Operating and Capacity Indicators - Last Ten Fiscal Years	54
<b>REPORT ON INTERNAL CONTROLS AND COMPLIANCE</b>	
Report of Independent Auditors on Internal Controls over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	55

(This page intentionally left blank.)

## **Introductory Section**

(This page intentionally left blank.)



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 18, 2013

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, 2013.

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 unmodified (“clean”) opinion on the Water Replenishment District of Southern California’s financial statements for the year ended June 30, 2013. 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 with a June 30 year-end. 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 was originally 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 this 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 71,000 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 27,000 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, with nearly 10 million residents; Los Angeles County is the most populous county in the nation. Its population is larger than that of 42 states and if it were a country, it would have the 21st largest economy in the world.

Recent years have been very difficult for economy of Los Angeles County, however, as expected; there has been a gradual economic improvement. The unemployment rate for the County has fallen, dropping into single digits for the first time since 2008. Average employment through the first five months of 2013 rose in all private sector industries, except for manufacturing. The largest gains were in leisure and hospitality (the second largest private sector industry by employment in the county), professional, scientific, and technical services (the county's fifth largest by employment), and administrative and support services. Health care and social assistance (the county's largest industry by employment) continued its long-term trend of job gains. These four industries accounted for four out of five jobs created during the first part of 2013. Construction also added a significant number of jobs and experienced the largest year-to-year percentage gain at 11.6%. Following the trend of recent years, both manufacturing and government sector jobs lost ground.

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.

The Los Angeles County economy will continue to advance on many fronts through the rest of this year and into 2014. Population should cross the 10 million threshold in 2014, the largest gains for 2013 are expected in leisure and hospitality, health care, professional, scientific and technical services, and construction. Job losses will continue in manufacturing, but government jobs may end the year roughly flat, with a slight gain expected next year. With these employment gains, total personal income will also grow. A 2.1% gain is expected this year and a 4.9% increase is projected for 2014. Similarly, taxable retail sales will increase by 3.1% this year and by 3.8% next year, following a 10.3% surge in 2012. While the general outlook is positive, there are concerns about the impact of federal budget cuts on specific segments of the local economy. In particular, defense-related cuts may lead to civilian job losses locally. It remains to be seen whether these cuts will be implemented and how deeply they will affect the local aerospace industry.

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, such as the District's Water Independence Now (WIN) Program, that will enable the District to continue to meet its long-term water supply needs.

The WIN program is specifically designed to make use of local water supplies to become completely independent of imported water from the Colorado River and the California State Water Project. Prior to 1961-62, the West and Central Groundwater Basins received about 36% of the replenishment water from storm water and 64% from imported water. Today, the demand for imported water has dropped dramatically due to the many projects and cooperative interagency programs WRD has helped developed. Imported water has dropped to 20% of the current replenishment water demand; supplemented with 40% recycled water and 40% storm water. The increase in replenishment due to natural recharge is a direct result of storm water capture projects which increases the ability to benefit from local storm events. The WIN Program will completely eliminate the need for imported water by replacing the 20% of current imported water needs with recycled water. This will be accomplished through completion of the Groundwater Reliability Improvement Program (GRIP), expansion of the Leo J. Vander Lans Advanced Water Treatment Facility and the use of 100% recycled water at the West Coast and Dominguez Gap Seawater Intrusion Barrier Projects.

## **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*

Following nine public budget workshops, the WRD Board voted to increase the 2013-2014 Replenishment Assessment to \$268.00 per acre-foot. When compared to the cost of imported water of about \$1,040 per acre-foot, groundwater represents a substantial savings. We are 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.

## *Fitch Ratings affirms WRD's AA+ Debt Rating*

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.

## **District Achievements**

### *WIN Is in Sight*

WRD's Water Independence Now (WIN) objective is to eliminate the need to use imported water for either groundwater recharge or injection into the seawater barriers. We have implemented many programs and projects over the last five years to do that through increased capture of storm water or the development and increased use of recycled water.

### *100% Recycled Water at the Spreading Grounds*

Historically, the District buys about 71,000 acre-feet per year for spreading in the Montebello Forebay area. 50,000 acre-feet is recycled water and the remaining 21,000 acre-feet has been imported water (when available).

The Groundwater Reliability Improvement Program (GRIP) will replace that 21,000 acre-feet. Indispensable to the implementation of GRIP, however, is the assurance that the 21,000 acre-feet of source water will be available well into the future. And WIN requires assurance that the 50,000 acre-feet of reclaimed water we currently buy will be available as well.

This year, WRD executed an historic agreement with our longtime partner, the Los Angeles County Sanitation Districts (LACSD). The agreement provides a LACSD allotment to WRD of 73,000 acre-feet of reclaimed water annually for a period of 30 years, with an option to extend an additional 25 years.

The significance of this agreement cannot be understated. In the first place, we have obtained certainty in our future reclaimed water supply, a certainty that is simply not possible with imported water. And secondly, the agreement makes possible the implementation of GRIP. The implementation of GRIP, as opposed to the status quo, will save the District and the groundwater pumping community \$422 million over a 30-year period.

Total supply reliability at less cost for water in the spreading grounds is a stunningly successful outcome of the District's WIN initiatives.

#### *Recycled Water at the Seawater Barriers*

Just as we are moving to 100% recycled water at the spreading grounds, we are well on our way to 100% recycled water at the three seawater barrier systems that operate to protect the District's service area from salt water intrusion.

- Construction is underway to expand the capacity of WRD's Leo J. Vander Lans Advanced Treatment Plant by 3,000 acre-feet per year, doubling the capacity of the plant and enabling the District to eliminate the need to purchase imported water for the Alamitos Barrier. The expanded plant will be fully operational next year.
- Expansion of West Basin Municipal Water District's Edward C. Little Advanced Treatment Plant is nearing completion. Water produced at that plant is injected into the West Coast Barrier. Beginning in the next few months, 100% of the roughly 15,000 acre-feet of water injected into that barrier system each year will be recycled.
- About one-half of the roughly 7,500 acre-feet injected into the Dominguez Gap Barrier system is recycled water provided by the City of Los Angeles Terminal Island Advanced Treatment Plant. We expect the expansion of that plant will enable the use of 100% recycled water by 2017.

#### **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, 2012. This was the ninth 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 2013.

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.

- Received the Municipal Information Systems Association of California's Quality in Information Technology Practices Award which recognizes outstanding governance and operational practices relating to quality information technology practices for the third consecutive year
- 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.

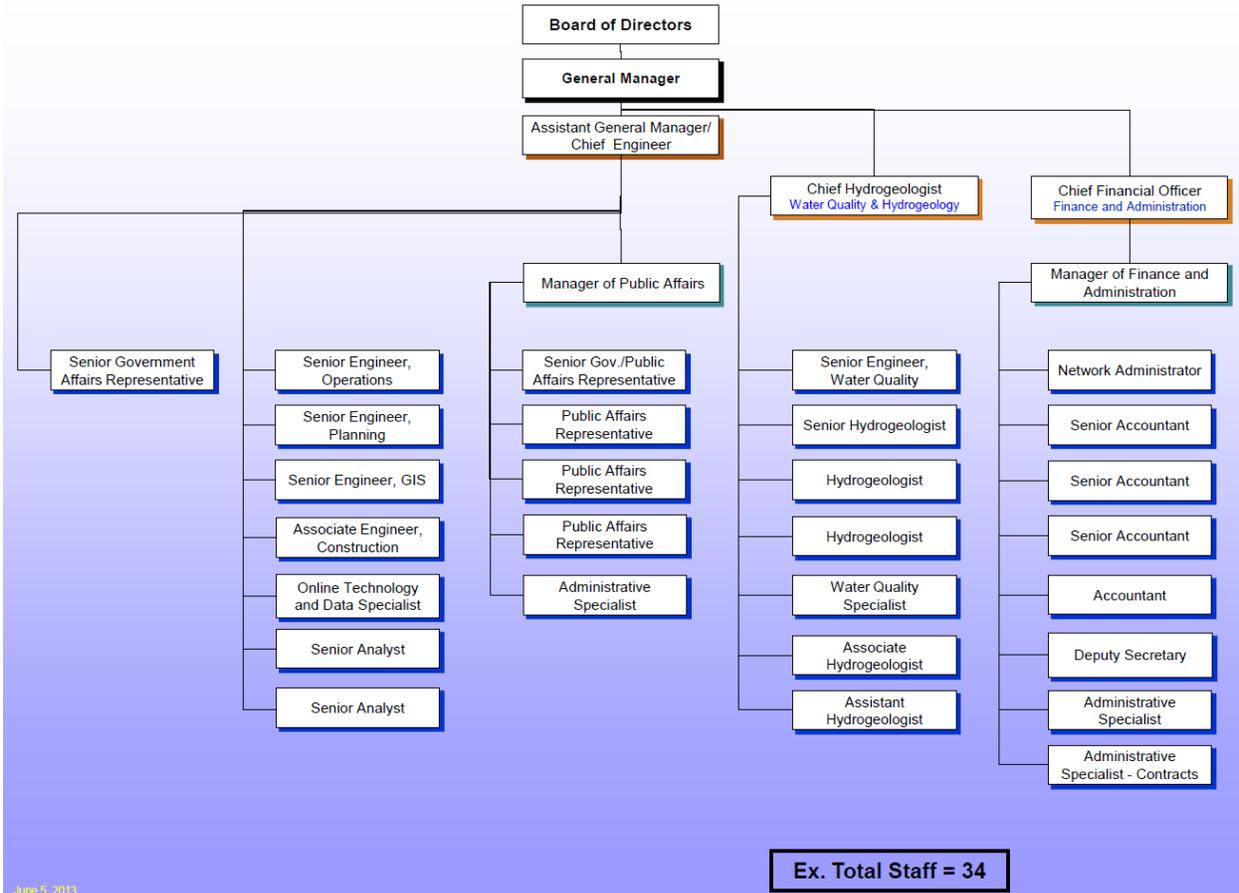
Respectfully submitted,



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

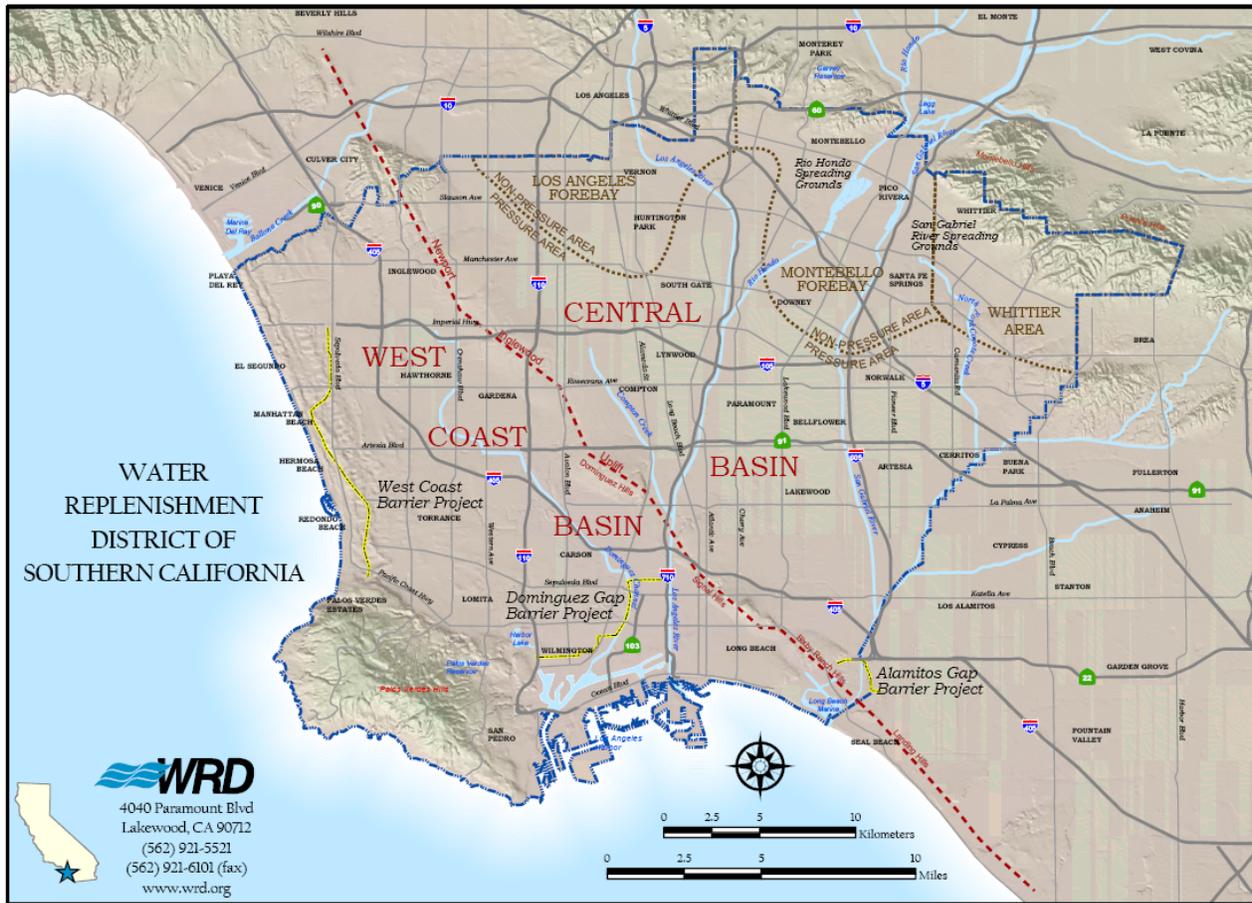
# Water Replenishment District of Southern California Organizational Chart

**Water Replenishment District – Organizational Chart**



June 9, 2013

# Water Replenishment District of Southern California Map of the District



**WRD**  
 4040 Paramount Blvd  
 Lakewood, CA 90712  
 (562) 921-5521  
 (562) 921-6101 (fax)  
 www.wrd.org



Government Finance Officers Association

**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, 2012**

Executive Director/CEO

## **Financial Section**

(This page intentionally left blank.)

## **Report of Independent Auditors**

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

#### **Report on the Financial Statements**

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, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

#### **Management's Responsibility for the Financial Statements**

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

#### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our 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 financial statements are free from material misstatement.

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

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

#### **Opinions**

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2013 and 2012, and the changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section and statistical section are presented for purposes of additional analysis and are not a required part 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.

### *Implementation of New Accounting Standards*

As disclosed in the Note 1 to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Statement Nos. 61 and 63 and implemented GASB Statement No. 65 in advance during the fiscal year 2013. Among these new GASB Statements, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, has significant impact over the District's financial statements. Our opinion is not modified with respect to that matter.

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

In accordance with Government Auditing Standards, we have also issued our report dated December 18, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance.



**Los Angeles, California**  
**December 18, 2013**

**Water Replenishment District of Southern California  
Management's Discussion and Analysis  
June 30, 2013 and 2012**

---

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, 2013 and 2012. We encourage readers to consider the information presented here in conjunction with the transmittal letter in the Introductory Section and with the basic financial statements and related notes, which follow this section.

**Financial Highlights**

- The District's net position increased by 7.4% or \$3,848,054 from \$51,760,659 in fiscal year 2012 to \$55,608,713 in fiscal year 2013 and decreased by (1.5%) or (\$803,023) from \$52,563,682 in fiscal year 2011 to \$51,760,659 in fiscal year 2012.
- The District's operating revenues decreased by (4.4%) or (\$2,118,786) in fiscal year 2013 primarily caused by a decrease in pumping. In 2012, operating revenues decreased (14.5%) or (\$8.2 million) 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 is incurred. See Notes 1 and 9 in the Notes to the Financial Statements.
- The District's operating expenses decreased by 12.0% or \$5.3 million and decreased by 16.3% or \$8.6 million in fiscal years 2013 and 2012, respectively primarily due to the following:

In fiscal year 2013, spreading water purchases decreased by \$6.3 million while the cost of injection water increased by \$5.1 million; a net decrease of \$1.2 million. In an effort to cut expenses, the District's general and operating expenses decreased \$3.8 million.

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

**Required Financial Statements**

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

The Statement of Net Position 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 District. All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. 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.

**Water Replenishment District of Southern California  
Management's Discussion and Analysis  
June 30, 2013 and 2012**

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 14 through 40.

**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 Position and the Statement of Revenues, Expenses and Changes in Net Position 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 position and changes in them. One can think of the District's net position - 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 position 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 Position**

	Condensed Statement of Net Position							
	June 30,		Change		June 30,		Change	
	2013	2012 (Restated)	Amount	%	2011 (Restated)	Amount	%	
Current assets	\$ 69,410,426	\$ 50,331,450	\$ 19,078,976	37.9	\$ 28,916,886	\$ 21,414,564	74.1	
Restricted assets	61,578,774	72,432,327	(10,853,553)	(15.0)	10,760,842	61,671,485	573.1	
Noncurrent assets	2,228,499	2,728,463	(499,964)	(18.3)	11,602,807	(8,874,344)	(76.5)	
Capital assets	69,166,383	58,981,530	10,184,853	17.3	55,901,408	3,080,122	5.5	
	<u>202,384,082</u>	<u>184,473,770</u>	<u>17,910,312</u>	<u>9.7</u>	<u>107,181,943</u>	<u>77,291,827</u>	<u>72.1</u>	
Current liabilities	16,869,737	13,653,129	3,216,608	23.6	20,901,246	(7,248,117)	(34.7)	
Noncurrent liabilities	101,004,304	104,407,119	(3,402,815)	(3.3)	33,717,015	70,690,104	209.7	
Deferred inflows of resources	28,901,328	14,652,863	14,248,465	97.2	-	14,652,863	100.0	
	<u>146,775,369</u>	<u>132,713,111</u>	<u>14,062,258</u>	<u>10.6</u>	<u>54,618,261</u>	<u>78,094,850</u>	<u>143.0</u>	
Net position								
Net investment in capital assets	29,824,873	29,781,357	43,516	0.1	35,110,097	(5,328,740)	(15.2)	
Unrestricted	25,783,840	21,979,302	3,804,538	17.3	17,453,585	4,525,717	25.9	
	<u>\$ 55,608,713</u>	<u>\$ 51,760,659</u>	<u>\$ 3,848,054</u>	<u>7.4</u>	<u>\$ 52,563,682</u>	<u>\$ (803,023)</u>	<u>(1.5)</u>	

As noted earlier, over time, changes in net position 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 \$55,608,713 and \$51,760,659 as of June 30, 2013 and 2012, respectively.

**Water Replenishment District of Southern California  
Management's Discussion and Analysis  
June 30, 2013 and 2012**

In 2013, the increase in net position of \$3,848,054 is largely due to a net decrease in water supply management costs and a decrease in general and administrative expenses. The District started construction of capital assets in fiscal 2013 causing an increase in the capital asset account with a corresponding decrease in restricted assets; use of Certificates of Participation proceeds in order to fund construction. One of the primary reasons for the increase in current assets is related to an increase in accounts receivable of \$10,862,222 (see Note 17 for an update of Proposition 218 Litigation). Finally, an increase in the deferred replenishment assessment revenue accounts is largely responsible for the majority of the increase in liabilities and deferred inflows of resources of \$14,062,258.

In 2012, the decrease in net position 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. Also 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 2013 and 2012, the District shows a positive balance in its unrestricted net position of \$25,783,840 and \$21,979,302, respectively that may be utilized in future years. The Board of Directors has taken action to reserve aspects of the unrestricted net position for specified purposes.

**Statement of Revenues, Expenses and Changes in Net Position**

	Condensed Statements of Revenues, Expenses and Changes in Net Position						
	Year Ended June 30,		Change		Year ended		
	2013	2012	Amount	%	June 30, 2011	Change	
	(Restated)				(Restated)		
Revenues:							
Operating revenues	\$ 46,003,068	\$ 48,121,854	\$ (2,118,786)	(4.4)	\$ 56,284,385	\$ (8,162,531)	(14.5)
Nonoperating revenues							
Property taxes	606,562	476,937	129,625	27.2	481,874	(4,937)	(1.0)
Interest and investment earnings	259,644	121,351	138,293	114.0	128,575	(7,224)	(5.6)
Other, net	170,406	144,530	25,876	17.9	100,761	43,769	43.4
Total revenues	<u>47,039,680</u>	<u>48,864,672</u>	<u>(1,824,992)</u>	<u>(3.7)</u>	<u>56,995,595</u>	<u>(8,130,923)</u>	<u>(14.3)</u>
Expenses							
Operating expenses	38,868,302	44,170,360	(5,302,058)	(12.0)	52,788,111	(8,617,751)	(16.3)
Depreciation and amortization	2,495,964	2,446,962	49,002	2.0	2,394,968	51,994	2.2
Nonoperating expenses	3,935,225	3,802,841	132,384	3.5	2,178,229	1,624,612	100.0
Total expenses	<u>45,299,491</u>	<u>50,420,163</u>	<u>(5,120,672)</u>	<u>(10.2)</u>	<u>57,361,308</u>	<u>(6,941,145)</u>	<u>(12.1)</u>
Income (loss) before capital contributions	1,740,189	(1,555,491)	3,295,680	(211.9)	(365,713)	(1,189,778)	325.3
Capital contributions	2,107,865	752,468	1,355,397	180.1	348,943	403,525	115.6
Change in net position	<u>3,848,054</u>	<u>(803,023)</u>	<u>4,651,077</u>	<u>(579.2)</u>	<u>(16,770)</u>	<u>(786,253)</u>	<u>4,688.4</u>
Net position at beginning of year, as restated	<u>51,760,659</u>	<u>52,563,682</u>	<u>(803,023)</u>	<u>(1.5)</u>	<u>52,580,452</u>	<u>(16,770)</u>	<u>(0.0)</u>
Net position at end of year	<u>\$ 55,608,713</u>	<u>\$ 51,760,659</u>	<u>\$ 3,848,054</u>	<u>7.4</u>	<u>\$ 52,563,682</u>	<u>\$ (803,023)</u>	<u>(1.5)</u>

The Statement of Revenues, Expenses and Changes in Net Position shows how the District's net position changed during the fiscal year. The net position increased by \$3,848,054 and decreased by (\$803,023) during the fiscal year ended June, 30, 2013 and 2012, respectively. In 2013, the increase in net assets is due to total revenues of \$47,039,680 exceeding total expenses of \$45,299,491 for an increase of \$1,740,189; when added to capital contributions of \$2,107,865, the total increase in net assets is \$3,848,054. In 2012, loss before capital contributions of (\$1,555,491) and capital contributions of \$752,468 were the two sources of the changes to the District's net position of (\$803,023).

**Water Replenishment District of Southern California  
Management's Discussion and Analysis  
June 30, 2013 and 2012**

As discussed in Note 1, the District adopted GASB 62 during the fiscal year 2011-2012 which allows deferral of revenues until the related costs or charges associated with the water replenishment assessment is incurred. As a result, the Statement of Revenues, Expenses, and Changes in Net Position of the District for the fiscal year ended June 30, 2012 was restated.

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

In 2013, the District's total revenue decreased by (\$1,824,992). Total expenses decreased a total of (\$5,120,672); a net decrease of (\$1,090,450) in water supply management expenses and a steep decrease in general and administrative expenses of (\$3,785,916) are the primary reasons for the decrease in total expenses for 2013.

In 2012, the District's total revenue decreased by \$8,130,923 mainly due to the early adoption of GASB 62 and the restatement of water replenishment assessment revenues (see Notes 1 and 9 in the Notes to the Financial Statements).

**Operating Revenue**

	2013	2012 (Restated)	Change	2011 (Restated)	Change
Operating Revenue:					
Water replenishment assessment	\$ 43,710,697	\$ 45,571,109	\$ (1,860,412)	\$ 54,470,197	\$ (8,899,088)
Desalter assessment	868,531	913,204	(44,673)	621,099	292,105
Water treatment subsidy	591,292	894,411	(303,119)	695,293	199,118
Other operating income	832,548	743,130	89,418	497,796	245,334
Total operating revenue	<u>\$ 46,003,068</u>	<u>\$ 48,121,854</u>	<u>\$ (2,118,786)</u>	<u>\$ 56,284,385</u>	<u>\$ (8,162,531)</u>

The most significant change in operating revenue in 2013 was a decrease of (\$1,860,412) in water replenishment assessment revenue due to decreased pumping. Additionally, there was a small decrease of (\$44,673) in water sales to the City of Torrance from the Robert W. Goldsworthy Desalter and decreased water treatment subsidy revenue of (\$303,119); when combined, the total makes up the majority of the decrease in total operating revenue in 2013 of (\$2,118,786).

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.

**Operating Expenses - Water Supply Management Expenses**

	2013	2012	Change	2011	Change
Water supply management:					
Water purchases - injecting	\$ 18,599,786	\$ 13,466,495	\$ 5,133,291	\$ 18,552,696	\$ (5,086,201)
Water purchases - spreading	2,021,060	8,285,830	(6,264,770)	15,405,518	(7,119,688)
Connection fees	<u>1,187,540</u>	<u>1,146,511</u>	<u>41,029</u>	<u>911,745</u>	<u>234,766</u>
Total water supply management expenses	<u>\$ 21,808,386</u>	<u>\$ 22,898,836</u>	<u>\$ (1,090,450)</u>	<u>\$ 34,869,959</u>	<u>\$ (11,971,123)</u>

**Water Replenishment District of Southern California  
Management's Discussion and Analysis  
June 30, 2013 and 2012**

---

The total net decrease in water supply management expenses of (\$1,090,450) is not particularly noteworthy at first glance; however the individual fluctuations in injection and spreading water purchases are significant. Injection water purchases increased \$5,133,291 in 2013 due to larger than anticipated demand of imported injection water at the West Coast Seawater Intrusion Barrier. In 2013, the District did not purchase imported spreading water for percolation in the Montebello Forebay spreading grounds. In comparison, the District purchased \$6.5 million of imported spreading water in 2012.

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 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 2013 and 2012, the District's investment in capital assets amounted to \$69,166,383 and \$58,981,530 (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 2013 and 2012 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 2012</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2013</u>
Non-depreciable assets	\$ 12,153,701	\$ 12,662,349	\$ -	\$ 24,816,050
Depreciable assets	67,237,002	25,219	(44,999)	67,217,222
Accumulated depreciation	<u>(20,409,173)</u>	<u>(2,494,376)</u>	<u>36,660</u>	<u>(22,866,889)</u>
Capital assets, net	<u>\$ 58,981,530</u>	<u>\$ 10,193,192</u>	<u>\$ (8,339)</u>	<u>\$ 69,166,383</u>
	<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>

**Water Replenishment District of Southern California  
Management's Discussion and Analysis  
June 30, 2013 and 2012**

---

**Long-term Debt**

At the end of fiscal years 2013 and 2012, the District had long-term debt of \$100,920,284 and \$101,632,500 outstanding, respectively (See Note 6 for further details).

Changes in long-term debt in 2013 were as follows:

	Balance 2012	Additions	Deletions	Balance 2013
Certificate of participation (2004)	\$ 13,760,000	\$ -	\$ (375,000)	\$ 13,385,000
Certificate of participation (2008)	17,555,000	-	(300,000)	17,255,000
Certificate of participation (2011)	69,195,000	-	-	69,195,000
	<u>100,510,000</u>	-	(675,000)	99,835,000
Bond discount	(440,994)	-	16,853	(424,141)
Bond premium	1,563,494	-	(54,069)	1,509,425
	<u>\$ 101,632,500</u>	<u>\$ -</u>	<u>\$ (712,216)</u>	<u>\$ 100,920,284</u>

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

	Balance 2011	Additions	Deletions	Balance 2012
Certificate of participation (2004)	\$ 14,120,000	\$ -	\$ (360,000)	\$ 13,760,000
Certificate of participation (2008)	17,890,000	-	(335,000)	17,555,000
Certificate of participation (2011)	-	69,195,000	-	69,195,000
	<u>32,010,000</u>	69,195,000	(695,000)	100,510,000
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>

**Conditions Affecting Current Financial Position**

Management is unaware of any conditions that would have a significant impact on the District's financial position, net position, 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**

(This page intentionally left blank.)

**Water Replenishment District of Southern California  
Statements of Net Position**

	June 30,	
	2013	2012
<b>ASSETS</b>	(Restated)	
<b>Current assets</b>		
Cash and cash equivalents	\$ 38,497,307	\$ 30,557,853
Interest receivable	1,125	1,641
Water replenishment assessments receivable, net	30,010,158	19,147,936
Grants receivable	52,530	29,263
Notes receivable - current portion	497,349	567,441
Prepaid expenses and other deposits	351,957	27,316
Total current assets - unrestricted	69,410,426	50,331,450
<b>Restricted current assets - cash and cash equivalents</b>		
Cash and cash equivalents	61,578,774	72,432,327
Total current assets	130,989,200	122,763,777
<b>Noncurrent assets</b>		
Notes receivable	2,228,499	2,728,463
Capital assets, net	69,166,383	58,981,530
Total noncurrent assets	71,394,882	61,709,993
<b>Total assets</b>	<b>202,384,082</b>	<b>184,473,770</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued expenses	8,324,054	4,982,470
Accrued wages and related payables	102,710	100,934
Compensated absences - current portion	128,833	141,000
Advances from Caltrans	5,577,972	5,741,618
Interest payable	2,001,168	2,012,107
Certificates of participation - current portion	735,000	675,000
Total current liabilities	16,869,737	13,653,129
<b>Noncurrent liabilities</b>		
Compensated absences, net of current portion	283,042	273,975
Postemployment benefits	-	2,639,666
Unearned replenishment assessment	535,978	535,978
Certificates of participation - net of current portion	100,185,284	100,957,500
Total noncurrent liabilities	101,004,304	104,407,119
<b>Total liabilities</b>	<b>117,874,041</b>	<b>118,060,248</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred revenue - replenishment assessments	28,901,328	14,652,863
<b>Total deferred inflows of resources</b>	<b>28,901,328</b>	<b>14,652,863</b>
<b>NET POSITION</b>		
<b>Net position</b>		
Net investment in capital assets	29,824,873	29,781,357
Unrestricted	25,783,840	21,979,302
<b>Total net position \$</b>	<b>55,608,713</b>	<b>\$ 51,760,659</b>

*See notes to the financial statements.*

**Water Replenishment District of Southern California**  
**Statements of Revenues, Expenses, and Changes in Net Position**

	<b>Years ended June 30,</b>	
	<b>2013</b>	<b>2012</b>
		(Restated)
<b>Operating revenues</b>		
Water replenishment assessment	\$ 43,710,697	\$ 45,571,109
Desalter assessments	868,531	913,204
Water treatment subsidies	591,292	894,411
Other operating income	832,548	743,130
<b>Total operating revenues</b>	<b>46,003,068</b>	<b>48,121,854</b>
<b>Operating expenses</b>		
Water supply management:		
Water purchases - injecting	18,599,786	13,466,495
Water purchases - spreading	2,021,060	8,285,830
Connection fees	1,187,540	1,146,511
Groundwater basin management:		
In-lieu replenishment	888,692	1,314,384
General and administrative	16,171,224	19,957,140
<b>Total operating expenses</b>	<b>38,868,302</b>	<b>44,170,360</b>
Operating income before depreciation and amortization	7,134,766	3,951,494
Depreciation and amortization	(2,495,964)	(2,446,962)
<b>Operating income</b>	<b>4,638,802</b>	<b>1,504,532</b>
<b>Nonoperating revenue (expense)</b>		
Property taxes	606,562	476,937
Interest and investment earnings	259,644	121,351
Interest expense	(3,935,225)	(3,802,841)
Other, net	170,406	144,530
Net nonoperating revenue (expense)	(2,898,613)	(3,060,023)
<b>Income (loss) before capital contributions</b>	<b>1,740,189</b>	<b>(1,555,491)</b>
Capital contributions - capital grants	2,107,865	752,468
Total capital contributions	<b>2,107,865</b>	<b>752,468</b>
<b>Change in net position</b>	<b>3,848,054</b>	<b>(803,023)</b>
<b>Total net position - beginning of year, as restated</b>	<b>51,760,659</b>	<b>52,563,682</b>
<b>Total net position - end of year</b>	<b>\$ 55,608,713</b>	<b>\$ 51,760,659</b>

*See notes to the financial statements.*

**Water Replenishment District of Southern California**  
**Statements of Cash Flows**

	<b>Years ended June 30,</b>	
	<b>2013</b>	<b>2012</b>
		(Restated)
<b>Cash flows from operating activities</b>		
Cash receipts from water assessments and subsidies	\$ 49,396,071	\$ 49,010,189
Cash paid to vendors and suppliers for materials and services	(34,894,371)	(44,036,794)
Cash paid to employees for salaries and wages	(3,597,978)	(3,317,856)
<b>Net cash provided by (used in) operating activities</b>	<b>10,903,722</b>	<b>1,655,539</b>
<b>Cash flows from capital and related financing activities</b>		
Acquisition and construction of capital assets	(11,835,314)	(4,983,679)
Payment of long-term debt	(675,000)	(695,000)
Proceeds from issuance of debt	-	70,803,551
Cost of issuance of debt	-	(799,064)
Proceeds from state and federal capital grants	2,084,598	732,760
Deferred capital project	(163,646)	(150,563)
Interest paid on long-term debt	(4,665,237)	(2,817,001)
<b>Net cash provided by (used in) capital and related financing activities</b>	<b>(15,254,599)</b>	<b>62,091,004</b>
<b>Cash flows from non-capital financing activities</b>		
Proceeds from property taxes	606,562	476,937
<b>Net cash provided by (used in) non-capital financing activities</b>	<b>606,562</b>	<b>476,937</b>
<b>Cash flows from investing activities</b>		
Proceeds from sale and maturities of investments	-	9,059,359
Principal received from (issuance of) notes receivable	570,056	567,241
Interest and investment earnings	260,160	130,013
<b>Net cash provided by (used in) investing activities</b>	<b>830,216</b>	<b>9,756,613</b>
<b>Change in cash and cash equivalents</b>	<b>(2,914,099)</b>	<b>73,980,093</b>
Beginning cash and cash equivalents	102,990,180	29,010,087
Ending cash and cash equivalents	<b>\$ 100,076,081</b>	<b>\$ 102,990,180</b>
<b>Reconciliation of cash and cash equivalents to statement of net position</b>		
Cash and cash equivalents	\$ 38,497,307	\$ 30,557,853
Restricted assets - cash and cash equivalents	61,578,774	72,432,327
<b>Total cash and cash equivalents</b>	<b>\$ 100,076,081</b>	<b>\$ 102,990,180</b>
	-	-
Noncash, investing, capital and financing activities		
Change in fair value of investments	\$ -	\$ -
Capitalized interest	<b>\$ 834,460</b>	<b>\$ 466,994</b>

*See notes to the financial statements.*

**Water Replenishment District of Southern California  
Statements of Cash Flows (continued)**

	<b>Years ended June 30,</b>	
	<b>2013</b>	<b>2012</b>
<b>Reconciliation of operating income to net cash used in operating activities</b>		
Operating income	\$ 4,638,802	\$ 1,504,532
<b>Adjustments to reconcile operating income to net cash used in operating activities:</b>		
Depreciation	2,495,964	2,370,551
Amortization	-	76,411
Other non-operating revenues (expenses), net	170,406	144,530
<b>Changes in assets and liabilities:</b>		
(Increase) decrease in assets:		
Water replenishment assessments receivable, net	(10,862,222)	(9,149,347)
Prepaid expenses and other deposits	(324,641)	38,880
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses - water purchases	3,341,584	(3,884,390)
Deferred revenue - replenishment assessments	14,248,465	10,043,715
Deferred revenue	(163,646)	(150,563)
Accrued wages and related payables	1,776	21,195
Accrued OPEB cost	(2,639,666)	569,224
Compensated absences	(3,100)	70,801
<b>Total adjustments</b>	<b>6,264,920</b>	<b>151,007</b>
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 10,903,722</b>	<b>\$ 1,655,539</b>

*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 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 are 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, result 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.

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.

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

**Implementation of New Accounting Pronouncements**

During the fiscal year ended June 30, 2013, the District adopted the following Governmental Accounting Standards Board (GASB) statements which impacted the District's financial statements:

- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB statement nos. 34 and 14*. This statement modifies certain requirements for inclusion of component units in the financial reporting entity. The District determined that the component units discretely presented with the District's financial statements comply with the new requirements noted in the amendments.
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement amends the net asset reporting requirements in GASB Statement No. 34 by incorporating deferred outflows of resources and deferred inflow of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. Refer to Note 9 for the details of the District's deferred inflows of resources as of June 30, 2013 and 2012.
- GASB Statement No. 65 *Items Previously Reported as Assets and Liabilities*. The 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. Adoption of this statement resulted in restatement of the District's beginning net position balance because of the write-off of deferred bond issuance cost which was recognized as an asset in the prior years.

**Assets, Liabilities and Net Position**

Use of Estimates - The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States of America 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 position 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.

Water Replenishment Assessments Receivable - The District extends credit to customers in the normal course of operations. Management closely monitors outstanding balances and, based on collection experience, has determined an allowance for doubtful accounts of \$616,511 at June 30, 2013 and 2012, respectively.

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

Grants Receivable - When a grant agreement is approved and eligible expenditures are incurred, the amount is recorded as a grant receivable on the statements of net position and as a grant contribution on the statements of revenues, expenses and changes in net position.

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

Prepaid Expenses and Other Deposits - 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
- Buildings and improvements - 30 to 40 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, 2013 and 2012.

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

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.

Deferred Outflows and Inflows of Resources

Pursuant to GASB Statement Nos. 63 and 65, the District recognizes deferred outflows and inflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period. A deferred inflow of resources is defined as an acquisition of net position by the government that is applicable to a future reporting period.

Net Position - The financial statements utilize a net position presentation. Net position is categorized as follows:

- Net Investment in Capital Assets - This component of net position consists of capital assets, net of accumulated depreciation and reduced by any debt outstanding against the acquisition, construction or improvement of those capital assets.
- Restricted - This component of net position consists of constraints placed on net position 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. The District did not have any restrictions as of June 30, 2013 and 2012.
- Unrestricted - This component of net position consists of net assets that do not meet the definition of restricted or investment in capital assets, net of related debt.

**Water Replenishment District of Southern California**  
**Notes to Financial Statements**  
**Years ended June 30, 2013 and 2012**

---

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

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 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:

	2013	2012
Cash and cash equivalents	\$ 38,497,307	\$ 30,557,853
Restricted cash and cash equivalents	61,578,774	72,432,327
Total cash and investments	\$ 100,076,081	\$ 102,990,180

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

	2013	2012
Deposit with financial institutions	\$ 36,643,919	\$ 28,710,547
LAIF	1,853,388	1,847,305
Cash with fiscal agent - mutual funds	61,578,774	72,432,328
Total cash and investments	\$ 100,076,081	\$ 102,990,180

**Water Replenishment District of Southern California**  
**Notes to Financial Statements**  
**Years ended June 30, 2013 and 2012**

**NOTE 2 CASH AND INVESTMENTS (CONTINUED)**

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

	<b>2013</b>	<b>2012</b>
Operating Reserve Fund	\$ <b>9,314,893</b>	\$ 3,834,115
Reserved for:		
Water Purchase Fund	<b>14,425,800</b>	15,703,928
Capital Projects	<b>55,436,205</b>	61,248,695
Debt Service Reserve Fund	<b>15,321,211</b>	13,676,824
Cal Trans Trust Fund	<b>5,577,972</b>	5,741,618
Other Postemployment Benefit Obligation	-	2,785,000
Total Cash and Cash Equivalents	<b>\$ 100,076,081</b>	\$ 102,990,180

**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 the 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.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
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, 2013 and 2012**

**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, 2013 and 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, 2013, 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	\$ 1,853,388	\$ 1,853,388	\$ -	\$ -
Cash and investments with fiscal agent:				
Money Market Mutual Funds	61,578,774	61,578,774	-	-
<b>Total</b>	<b>\$ 63,432,162</b>	<b>\$ 63,432,162</b>	<b>\$ -</b>	<b>\$ -</b>

**Water Replenishment District of Southern California**  
**Notes to Financial Statements**  
**Years ended June 30, 2013 and 2012**

**NOTE 2 CASH AND INVESTMENTS (CONTINUED)**

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	-	-
<b>Total</b>	<b>\$ 74,279,633</b>	<b>\$ 74,279,633</b>	<b>\$ -</b>	<b>\$ -</b>

**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, 2013, were as follows:

Investment Type	Total Investment	Minimum Legal Rating	Ratings as of Year End			
			Unrated	AAA	AA-	BBB+
Local Agency Investment Fund	\$ 1,853,388	N/A	\$ 1,853,388	\$ -	\$ -	\$ -
Cash and investments with fiscal agent:						
Money Market Mutual Funds	61,578,774	A	-	61,578,774	-	-
<b>Total</b>	<b>\$ 63,432,162</b>		<b>\$ 1,853,388</b>	<b>\$ 61,578,774</b>	<b>\$ -</b>	<b>\$ -</b>

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

Investment Type	Total Investment	Minimum Legal Rating	Ratings as of Year End			
			Unrated	AAA	AA-	BBB+
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	-	-
<b>Total</b>	<b>\$ 74,279,633</b>		<b>\$ 1,847,305</b>	<b>\$ 72,432,328</b>	<b>\$ -</b>	<b>\$ -</b>

**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, 2013 and 2012, 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, 2013 and 2012, \$2,772,787 and \$26,719,881, 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 \$1.9 million and \$1.8 million at June 30, 2013 and 2012, respectively, 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 \$58.9 billion and \$60.6 billion, respectively. 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:

	<b>2013</b>	<b>2012</b>
Notes receivable - current portion	\$ <b>497,349</b>	\$ 567,441
Notes receivable - noncurrent portion	<b>2,228,499</b>	2,728,463
	<b>\$ 2,725,848</b>	\$ 3,295,904

**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 was due in equal annual payments of \$75,595 through June 30, 2013. The balances at June 30, 2013 and 2012 were \$0 and \$75,595, 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, 2013 and 2012 were \$566,666 and \$755,555, 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, 2013 and 2012 were \$1,382,361 and \$1,579,841, 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, 2013 and 2012 were \$776,821 and \$887,821, respectively.

**Water Replenishment District of Southern California**  
**Notes to Financial Statements**  
**Years ended June 30, 2013 and 2012**

**NOTE 4 CAPITAL ASSETS**

Changes in capital assets for the year ended June 30, 2013 were as follows:

	Balance 2012	Additions/ Transfers	Deletions/ Transfers	Balance 2013
<b>Non-depreciable assets</b>				
Land	\$ 2,644,753	\$ -	\$ -	\$ 2,644,753
Construction-in-process	9,508,948	12,662,349	-	22,171,297
Total non-depreciable assets	<u>12,153,701</u>	<u>12,662,349</u>	<u>-</u>	<u>24,816,050</u>
<b>Depreciable assets</b>				
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	16,338,519	25,219	(44,999)	16,318,739
Service connections	101,420	-	-	101,420
Total depreciable assets	<u>67,237,002</u>	<u>25,219</u>	<u>(44,999)</u>	<u>67,217,222</u>
<b>Accumulated depreciation and amortization</b>				
Building and improvements	(1,337,166)	(202,190)	-	(1,539,356)
Utility plant and equipment	(11,315,961)	(1,269,145)	-	(12,585,106)
Capacity rights	(494,657)	(154,494)	-	(649,151)
Monitoring and injection equipment	(7,180,678)	(866,519)	36,660	(8,010,537)
Service connections	(80,711)	(2,028)	-	(82,739)
Total accumulated depreciation and amortization	<u>(20,409,173)</u>	<u>(2,494,376)</u>	<u>36,660</u>	<u>(22,866,889)</u>
Depreciable assets, net	<u>46,827,829</u>	<u>(2,469,157)</u>	<u>(8,339)</u>	<u>44,350,333</u>
Capital assets, net \$	<u>\$ 58,981,530</u>	<u>\$ 10,193,192</u>	<u>\$ (8,339)</u>	<u>\$ 69,166,383</u>

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

	Balance 2011	Additions/ Transfers	Deletions/ Transfers	Balance 2012
<b>Non-depreciable assets</b>				
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>
<b>Depreciable assets</b>				
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>
<b>Accumulated depreciation and amortization</b>				
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	<u>46,837,466</u>	<u>(9,637)</u>	<u>-</u>	<u>46,827,829</u>
Capital assets, net \$	<u>\$ 55,901,408</u>	<u>\$ 5,393,818</u>	<u>\$ (2,313,696)</u>	<u>\$ 58,981,530</u>

**Water Replenishment District of Southern California**  
**Notes to Financial Statements**  
**Years ended June 30, 2013 and 2012**

**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:

	<b>2013</b>	<b>2012</b>
Leo J. Vander Lans Advanced Water Treatment Facility (LJVWTF) expansion	\$ 12,154,570	\$ 3,341,644
Dominguez Gap recycled water project	913,182	913,182
Caltans Pipeline	324,734	125,778
Regional Groundwater Monitoring Program	1,536,196	70,506
Safe Drinking Water Program	714,736	714,736
Dominguez Gap Recycled Water Project	804,698	804,698
Replenishment operations (Interconnection Pipeline)	300,000	300,000
Alamitos Physical Barrier Project	549,441	549,441
Groundwater Replenishment Improvement Project (GRIP)	2,595,825	1,305,508
Groundwater Infrastructure	60,000	-
Bond interest for capital projects	2,217,915	1,383,455
Total construction-in-process	\$ 22,171,297	\$ 9,508,948

**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 \$834,460 and \$466,994 were capitalized during the years ended June 30, 2013 and 2012, respectively.

**NOTE 5 COMPENSATED ABSENCES**

Changes in compensated absences were as follows:

	<b>2013</b>	<b>2012</b>
Balance at beginning of year	\$ 414,975	\$ 344,174
Earned by employees	179,829	98,601
Payments to employees	(182,929)	(27,800)
Balance at end of year	411,875	414,975
Less current portion	(128,833)	(141,000)
Long-term portion	\$ 283,042	\$ 273,975

**Water Replenishment District of Southern California**  
**Notes to Financial Statements**  
**Years ended June 30, 2013 and 2012**

**NOTE 6 LONG-TERM DEBT**

Changes in long-term debt for the year ended June 30, 2013 were as follows:

	Balance 2012	Additions	Deletions	Balance 2013
Certificate of participation (2004)	\$ 13,760,000	\$ -	\$ (375,000)	\$ 13,385,000
Certificate of participation (2008)	17,555,000	-	(300,000)	17,255,000
Certificate of participation (2011)	69,195,000	-	-	69,195,000
	<u>100,510,000</u>	-	(675,000)	<u>99,835,000</u>
Bond discount	(440,994)	-	16,853	(424,141)
Bond premium	1,563,494	-	(54,069)	1,509,425
	<u>\$ 101,632,500</u>	<u>\$ -</u>	<u>\$ (712,216)</u>	<u>\$ 100,920,284</u>

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

	Balance 2011	Additions	Deletions	Balance 2012
Certificate of participation (2004)	\$ 14,120,000	\$ -	\$ (360,000)	\$ 13,760,000
Certificate of participation (2008)	17,890,000	-	(335,000)	17,555,000
Certificate 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>

**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, 2013 and 2012, the principal outstanding was \$13,385,000 and \$13,760,000, respectively.

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 US Bank serving 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, 2013 and 2012, the principal outstanding was \$17,255,000 and \$17,555,000, respectively.

**Water Replenishment District of Southern California**  
**Notes to Financial Statements**  
**Years ended June 30, 2013 and 2012**

**NOTE 6      LONG-TERM DEBT (CONTINUED)**

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 the reserve fund for the certificates, (3) fund capitalized interest through August 1, 2012, and (4) pay costs of issuance of the certificates. The projects to be financed by the proceeds are: (1) the LJVWTF Expansion Project, (2) the GRIP Facility, (3) the Regional Groundwater Monitoring Program, (4) the Safe Drinking Water Program, and (5) the Groundwater Infrastructure Improvements. At June 30, 2013 and 2012, the principal outstanding was \$69,195,000.

Annual debt service payments are as follows:

Fiscal Year	Principal	Interest	Total
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	2,020,000	4,532,863	6,552,863
2019-2023	11,475,000	21,289,562	32,764,562
2024-2028	14,345,000	18,411,653	32,756,653
2029-2033	18,295,000	14,468,863	32,763,863
2034-2038	23,575,000	9,191,162	32,766,162
2038	23,760,000	2,448,569	26,208,569
Total	\$ 99,835,000	\$ 89,157,800	\$ 188,992,800
Less current portion	735,000		
Total non-current	\$ 99,100,000		

Accrued interest amounted to \$2.0 million as of June 30, 2013 and 2012.

**Water Replenishment District of Southern California**  
**Notes to Financial Statements**  
**Years ended June 30, 2013 and 2012**

---

**NOTE 7            UNEARNED REVENUE**

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.

**NOTE 8            ADVANCES FROM CALTRANS**

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, 2013 and 2012, the District has spent \$2,422,028 and \$2,258,382 on the project, leaving an unexpended balance of \$5,577,972 and \$5,741,618, respectively.

**NOTE 9            DEFERRED INFLOWS OF RESOURCES**

During the year end June 30, 2012, 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 balances of Deferred Revenue – Replenishment Assessments of \$28.9 million and \$14.6 million as of June 30, 2013 and 2012, respectively, pertain to assessments that were deferred until the related costs of water supply management are incurred. Pursuant to GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, these amounts were reported as deferred inflows of resources in the Statements of Net Position.

**NOTE 10          NET INVESTMENT IN CAPITAL ASSETS**

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

	<b>2013</b>	<b>2012</b>
Capital assets, net	\$ <b>69,166,383</b>	\$ 58,981,530
Certificates of participation:		
Current portion	<b>(735,000)</b>	(675,000)
Noncurrent portion	<b>(100,185,284)</b>	(100,957,500)
Unspent debt proceeds	<b>61,578,774</b>	72,432,327
Net investment in capital assets	<b>\$ 29,824,873</b>	\$ 29,781,357

**NOTE 11      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, 2013 and 2012 was \$1,950,206 and \$5,741,618, 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 statements of net position.

**NOTE 12      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 the 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 2013 and 2012 were 16.34% and 15.86%, 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.

**Annual Pension Cost**

For the year ended June 30, 2013, the District's annual pension cost of \$869,381 was equal to its required and actual contribution. The required contribution for the fiscal year ended June 30, 2013 was determined as part of the June 30, 2011 actuarial valuation.

**Water Replenishment District of Southern California**  
**Notes to Financial Statements**  
**Years ended June 30, 2013 and 2012**

---

**NOTE 12      DEFINED BENEFIT PENSION PLAN (CONTINUED)**

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

Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	17 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	3.55% 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 growth 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, 2011	\$ 459,641	100%	-
June 30, 2012	763,118	100%	-
June 30, 2013	869,381	100%	-

Based on the latest Actuarial Study of the plan pool as of June 30, 2011, the latest actuarial valuation date, the Unfunded Actuarial Accrued Liability (UAAL) ratio to covered payroll was 122.52%. The actuarial asset value of the pool was \$826 million; the actuarial accrued liability was \$1,023 million resulting in unfunded actuarial accrued liability of \$197 million. The plan was 80.7% funded as of June 30, 2011.

Refer to Required Supplementary Information on Page 40 for the plan's Schedule of Funding Progress.

**Water Replenishment District of Southern California**  
**Notes to Financial Statements**  
**Years ended June 30, 2013 and 2012**

---

**NOTE 13 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, 2012, (date of latest actuarial valuation) actuarial valuation used the following assumptions: interest rate of 5.5% per annum, inflation rate of 3%, and annual salary increase of 3%. As of July 1, 2012, the plan is overfunded by \$48,176 as shown below:

Actuarial liability	\$	228,928
Actuarial value of assets		277,104
Unfunded (overfunded) actuarial liability	\$	<u><u>(48,176)</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, 2013 and 2012, the District’s actual annual contributions to the PARS plan amounted to \$24,862 and \$27,941 respectively. These were equivalent to the annual required contribution.

As of June 30, 2013, 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 since the last actuarial valuation.

**NOTE 14 OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

In addition to pension benefits described in Note 12, 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 2013 and 2012, the District paid \$3,741,160 and \$165,662, respectively, in postemployment health care benefits, net of retiree contributions, and had 13 eligible employees in each year.

**Water Replenishment District of Southern California**  
**Notes to Financial Statements**  
**Years ended June 30, 2013 and 2012**

**NOTE 14 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

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.

Eligible participants in the plan at July 1, 2013, the date of the latest actuarial valuation are as follows:

Retirees receiving benefits		13
Active/full-time employees		<u>37</u>
Total		<u><u>50</u></u>

Refer to Required Supplementary Information on page 40 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 7.3% for January 1, 2013 decreasing by .3% through 2020 and 5.0% 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 contribution and benefits and/or insurance premiums actually paid and the District's Net OPEB obligation as of June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Annual required contribution	\$ 745,309	\$ 715,113
Interest on net OPEB obligation	147,569	146,173
Adjustment to ARC	<u>(91,650)</u>	<u>(126,400)</u>
Annual OPEB cost	801,228	734,886
Contribution (including benefit payments)	<u>(3,741,160)</u>	<u>(165,662)</u>
Increase (decrease) in net OPEB obligation	<u>(2,939,932)</u>	569,224
Net OPEB obligation - beginning of year	<u>2,639,666</u>	2,070,442
Net OPEB obligation (prepayment) - end of year	<u><u>\$ (300,266)</u></u>	<u><u>\$ 2,639,666</u></u>

**Water Replenishment District of Southern California**  
**Notes to Financial Statements**  
**Years ended June 30, 2013 and 2012**

---

**NOTE 14 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 2013, 2012 and 2011 was:

Fiscal Year End	Annual OPEB Cost	Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Prepayment)
6/30/2011	\$ 990,990	\$ 126,370	13%	2,070,442
6/30/2012	734,886	165,662	23%	2,639,666
6/30/2013	771,228	3,741,160	485%	(300,266)

Based on the latest Actuarial Study of the District's Postemployment Healthcare Program, as of July 1, 2013, the Unfunded Actuarial Accrued Liability (UAAL) ratio to covered payroll was 223%. During the year, the District opened an irrevocable trust and contributed \$3,741,160 to the plan.

Refer to Required Supplementary Information on page 40 for the plan's Schedule of Funding Progress.

**NOTE 15 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, 2013, 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 \$2,000,000, combined single limit at \$2,000,000 per occurrence. The District purchased additional excess coverage layers: \$58 million for general, auto and public officials liability, which increases the limits on the insurance coverage noted above.

**NOTE 15      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. The District purchased additional coverage of \$1,000,000, which increases the limit on the insurance coverage noted above.
- 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 \$100 million per occurrence it is subject to a \$2,500 deductible per occurrence.
- Boiler and machinery coverage for the replacement cost up to \$100 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, 2013 and 2012. 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, 2013 and 2012.

**NOTE 16      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.

**Water Replenishment District of Southern California**  
**Notes to Financial Statements**  
**Years ended June 30, 2013 and 2012**

**NOTE 16      COMMITMENTS (CONTINUED)**

**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 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 \$29.6 million of open construction contracts as of June 30, 2013.

The contracts outstanding include:

<u>Project Name</u>	<u>Total Approved Contract</u>	<u>Construction Costs-to-date</u>	<u>Balance to Complete</u>
LJVWTF Expansion	\$ 36,838,435	\$ 11,379,945	\$ 25,458,490
Goldsworthy Desalter	475,626	261,648	213,978
Caltrans Pipeline	745,698	745,698	-
Regional Groundwater Monitoring Program	9,715,708	6,491,948	3,223,759
Groundwater Infrastructure	250,000	60,000	190,000
Safe Drinking Water Program	700,000	700,000	-
Dominguez Gap Recycled Water Project	477,944	477,944	-
Interconnection Pipeline	3,800,000	3,800,000	-
Alamitos Physical Barrier Project	385,517	385,517	-
Groundwater Replenishment Improvement Project	1,679,040	1,167,521	511,519
Total	<u>\$ 55,067,967</u>	<u>\$ 25,470,221</u>	<u>\$ 29,597,746</u>

**Operating Leases**

The District has entered into an operating lease for land which does not contain a purchase option. Rental expense was \$137,882 and \$100,565 for the years ended June 30, 2013 and 2012, respectively. Future minimum annual fixed rentals required during the years 2014 through 2020 under this lease are:

2014	\$ 40,482
2015	40,482
2016	40,482
2017	40,482
2018	40,482
Thereafter	<u>64,096</u>
	<u>\$ 266,506</u>

**NOTE 17      PROP 218 CASE**

The Cities of Cerritos, Downey and Signal Hill (the "Cities") filed suit against the District, entitled *Cerritos et al. v. WRD*, Case No. BS128136, 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.

The trial in *Cerritos et al. v. WRD* was originally set for February 2012 but was vacated when the case was transferred to another judge. The case was recently transferred again. The newly-assigned judge has not set the case for trial. Nor have trial dates been set in the related cases. Because the litigation is ongoing with many unresolved issues, any unfavorable outcome and an estimate of the amounts or range of potential loss are not susceptible of estimation as of December 18, 2013. Therefore, no accrual of potential loss was made as of June 30, 2013.

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.

In addition to the plaintiff Cities, four other cities and one private party have filed separate complaints alleging that the District has failed to comply with Prop 218 and are seeking refunds (the "Related Cases"). The District has raised defenses to those claims similar to the defenses raised in the lawsuit brought by the plaintiff Cities. No trial has been set in the Related Cases.

**NOTE 17      PROP 218 CASE (CONTINUED)**

Based on the trial court's ruling concerning the applicability of Prop 218, some of these cities and private parties had stopped paying the RA. However, the trial court issued a preliminary injunction against two of those claimants requiring that they pay the RA until a final judgment is entered. In addition, the Court of Appeal issued a published opinion in October 2013 holding to that same effect. Consequently, all but two of the delinquent producers have made payment on the outstanding RAs. With respect to the two delinquent producers, their deadline to petition for review of the appellate decision to the California Supreme Court was set to expire on December 10, 2013. If they are successful, the appeal will further stay the obligation to pay the delinquent and current RAs. On the other hand, if the Supreme Court denies their requests, the appellate court's decision will become effective and operative. The appellate court's decision is also significant due to its deterrent effect on other pumpers who might have been contemplating non-payment.

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, 2013.

**NOTE 18      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 management believes that such disallowances, if any, would not be significant.

**NOTE 19      RESTATEMENT AND CHANGE IN ACCOUNTING PRINCIPLE**

Pursuant to GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, the District no longer amortized the cost of debt issuance. These amounts should be expensed in the year they are incurred. The District made an adjustment to the remaining unamortized bond issuance costs and reported the effect of the adjustment as the cumulative effect of change in accounting principle.

The fiscal year ended June 30, 2012 financial statements were restated as follows to reflect the effect of the District's adoption of the provisions of GASB 65:

**Water Replenishment District of Southern California**  
**Notes to Financial Statements**  
**Years ended June 30, 2013 and 2012**

---

**NOTE 19      RESTATEMENT AND CHANGE IN ACCOUNTING PRINCIPLE (CONTINUED)**

Deferred charges, net, June 30, 2011, as previously stated	\$ 1,498,570	
Cumulative effect of change in accounting principle	(1,498,570)	
Deferred charges, net, June 30, 2011, as restated	\$ <u>          -</u>	
Net position, June 30, 2011, prior to restatement	\$ 54,062,252	
Cumulative effect of change in accounting principle	(1,498,570)	
Net position, June 30, 2011, as restated	\$ <u>52,563,682</u>	

**NOTE 20      SUBSEQUENT EVENTS**

The District has evaluated events or transactions through December 18, 2013, the date on which the financial statements were available to be issued, for potential recognition or disclosure in the financial statements and determined no other subsequent matters require disclosure or adjustment to the accompanying financial statements.

**NOTE 21      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 took effect on January 1, 2013. The District is working with CalPERS to thoroughly analyze the complex legislation's impact on the District and its employees. Management asserts that PEPRA does not have a significant impact on the District's June 30, 2013 financial statements.

**NOTE 22      GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STATEMENTS ISSUED, NOT YET EFFECTIVE**

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2013, 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. 66** - GASB has issued Statement No. 66, Technical Corrections-2012-an Amendment of GASB Statements No. 10 and No. 62. The requirements of this Statement resolve conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012.

**NOTE 22      GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STATEMENTS  
ISSUED, NOT YET EFFECTIVE (CONTINUED)**

**GASB No. 67** - GASB has issued Statement No. 67, Financial Reporting for Pension Plans-an Amendment of GASB Statement No. 25. The requirements of this Statement will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by the pension plans that are within its scope. The new information will enhance the decision-usefulness of the financial reports of these pension plans, their value for assessing accountability, and their transparency by providing information about measures of net pension liabilities and explanations of how and why those liabilities changed from year to year. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013.

**GASB No. 68** - GASB has issued Statement No. 68, Accounting and Financial Reporting for Pensions-an Amendment of GASB Statement No. 27. The requirements of this Statement will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. Decision-usefulness and accountability also will be enhanced through new note disclosures and required supplementary information. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014.

**GASB No. 69** - GASB has issued Statement No. 69, Government Combinations and Disposals of Government Operations. This Statement establishes accounting and financial reporting standards related government combinations and disposals of government operations. As used in this Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2013.

**GASB No. 70** - GASB has issued Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. The provisions of this Statement are effective for reporting periods beginning after June 15, 2013.

(This page intentionally left blank.)

## **Required Supplementary Information**

**Water Replenishment District of Southern California  
Required Supplementary Information (Unaudited)  
Years ended June 30, 2013 and 2012**

**Schedule of Funding Progress – CalPERS**

Actuarial Valuation Date	Actuarial Asset Value in '000	Entry Age Actuarial Accrued Liability (AAL) in '000	Unfunded AAL [(B) – (A)] (UAAL) in '000	Funded Ratio [(A) / (B)]	Covered Payroll in '000	Unfunded AAL as Percentage of Covered Payroll {(B)-(A)}/(E)}
	(A)	(B)	(C)	(D)	(E)	(F)
June 30, 2009	694,385	883,394	189,009	78.60%	161,973	116.69%
June 30, 2010	754,859	945,221	190,362	79.86%	159,157	119.61%
June 30, 2011	825,991	1,023,127	197,136	80.73%	160,900	122.52%

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	Actuarial Accrued Liability (AAL)	Unfunded Liability [(B) – (A)] (UAL)	Funded Ratio [(A) / (B)]	Covered Payroll	UAL as Percentage of Covered Payroll
	(A)	(B)	(C)			
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%
7/1/2012	277,104	228,928	(48,176)	121%	98,129	-49%

**Schedule of Funding Progress – OPEB**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Liability [(B) – (A)] (UAL)	Funded Ratio [(A) / (B)]	Covered Payroll	UAL as Percentage of Covered Payroll
	(A)	(B)	(C)			
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%
7/1/2013	3,582,005	7,136,080	3,554,075	50%	3,200,000	111%

## **Statistical Section**

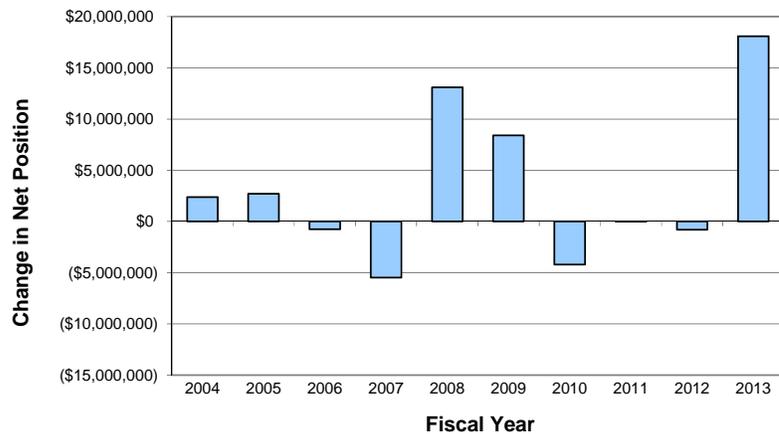
(This page intentionally left blank.)

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.

Table of Contents

	<u>Page</u>
Financial Trends	
These schedules contain information to help the reader understand how the District's financial performance and financial condition have changed over time.	42
Revenue Capacity	
These schedules contain information to help the reader assess the District's most significant own-source revenue, water sales.	46
Debt Capacity	
These schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt.	50
Demographic and Economic Statistics	
These schedules offer demographic indicators to help the reader understand the environment within which the District's financial activities take place.	52
Operating and Capacity Information	
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.	54

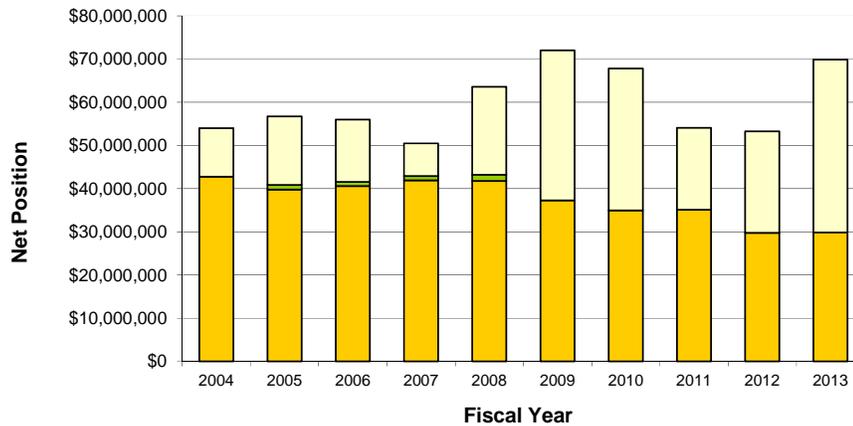
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Changes in net position:			
Operating revenues (see Schedule 2)	\$ 29,507,634	31,411,938	32,861,119
Operating expenses (see Schedule 3)	(27,696,168)	(28,632,898)	(33,793,189)
Overhead absorption	1,705,618	1,479,030	854,305
Depreciation and amortization	(1,772,637)	(1,641,524)	(1,800,675)
<b>Operating income (loss)</b>	<u>1,744,447</u>	<u>2,616,546</u>	<u>(1,878,440)</u>
Nonoperating revenues (expenses)			
Property taxes	345,034	64,099	131,978
Investment income	89,974	285,643	479,332
Interest Expense	-	-	-
Election costs	-	(729,911)	-
Gain/(Loss) on sale/disposition of assets	-	-	-
Other revenue/(expense), net	31,039	106,840	11,883
Net nonoperating revenues (expenses)	<u>466,047</u>	<u>(273,329)</u>	<u>623,193</u>
<b>Net income before capital contributions</b>	2,210,494	2,343,217	(1,255,247)
Capital contributions	184,242	357,726	498,414
<b>Changes in net position</b>	<u>\$ 2,394,736</u>	<u>2,700,943</u>	<u>(756,833)</u>
Net position by component:			
Net investment in capital assets	\$ 42,789,292	39,808,795	40,601,432
Restricted	-	1,058,377	986,555
Unrestricted	11,212,772	15,835,835	14,358,187
<b>Total net position</b>	<u>\$ 54,002,064</u>	<u>56,703,007</u>	<u>55,946,174</u>



Source: Water Replenishment District Accounting Department

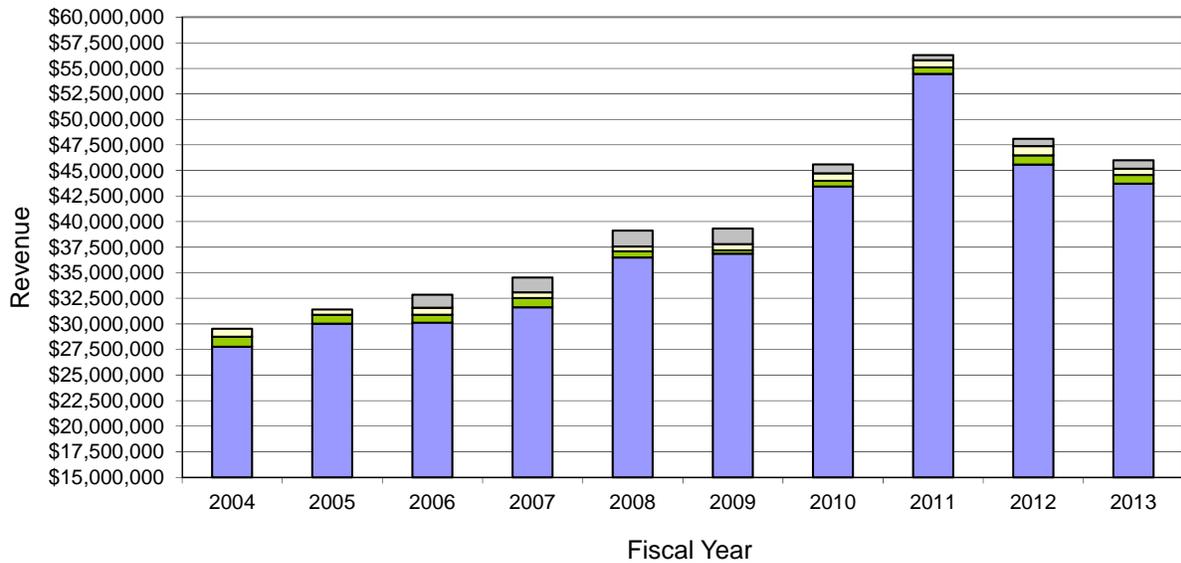
**Water Replenishment District of Southern California  
Financial Trends - Changes in Net Position by Component  
Last Ten Fiscal Years**

Fiscal Year						
2007	2008	2009	2010	2011	2012	2013
34,541,889	39,132,053	39,335,102	45,601,400	56,284,385	48,121,854	46,003,068
(39,817,101)	(24,576,237)	(28,362,636)	(46,705,411)	(52,788,111)	(44,170,360)	(38,868,302)
958,150	-	-	-	-	-	-
<u>(1,846,275)</u>	<u>(2,304,366)</u>	<u>(2,256,077)</u>	<u>(2,324,791)</u>	<u>(2,394,968)</u>	<u>(2,446,962)</u>	<u>(2,495,964)</u>
<u>(6,163,337)</u>	<u>12,251,450</u>	<u>8,716,389</u>	<u>(3,428,802)</u>	<u>1,101,306</u>	<u>1,504,532</u>	<u>4,638,802</u>
450,001	456,702	493,625	446,160	481,874	476,937	606,562
1,126,993	692,431	521,171	234,908	128,575	121,351	259,644
-	-	(1,013,099)	(1,183,999)	(1,170,199)	(3,802,841)	(3,935,225)
(1,094,665)	(570,547)	(511,638)	(450,000)	(1,008,030)	-	-
-	-	-	-	-	-	-
<u>58,679</u>	<u>182,611</u>	<u>180,482</u>	<u>131,199</u>	<u>100,761</u>	<u>144,530</u>	<u>170,406</u>
<u>541,008</u>	<u>761,197</u>	<u>(329,459)</u>	<u>(821,732)</u>	<u>(1,467,019)</u>	<u>(3,060,023)</u>	<u>(2,898,613)</u>
(5,622,329)	13,012,647	8,386,930	(4,250,534)	(365,713)	(1,555,491)	1,740,189
148,577	97,516	9,284	60,577	348,943	752,468	2,107,865
<u>(5,473,752)</u>	<u>13,110,163</u>	<u>8,396,214</u>	<u>(4,189,957)</u>	<u>(16,770)</u>	<u>(803,023)</u>	<u>3,848,054</u>
41,938,718	41,757,258	37,305,026	34,945,659	35,110,097	29,781,357	29,824,873
989,332	1,447,030	-	-	-	-	-
<u>7,544,372</u>	<u>20,378,297</u>	<u>34,673,773</u>	<u>32,843,183</u>	<u>18,952,155</u>	<u>21,979,302</u>	<u>25,783,840</u>
<u>50,472,422</u>	<u>63,582,585</u>	<u>71,978,799</u>	<u>67,788,842</u>	<u>54,062,252</u>	<u>51,760,659</u>	<u>55,608,713</u>



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

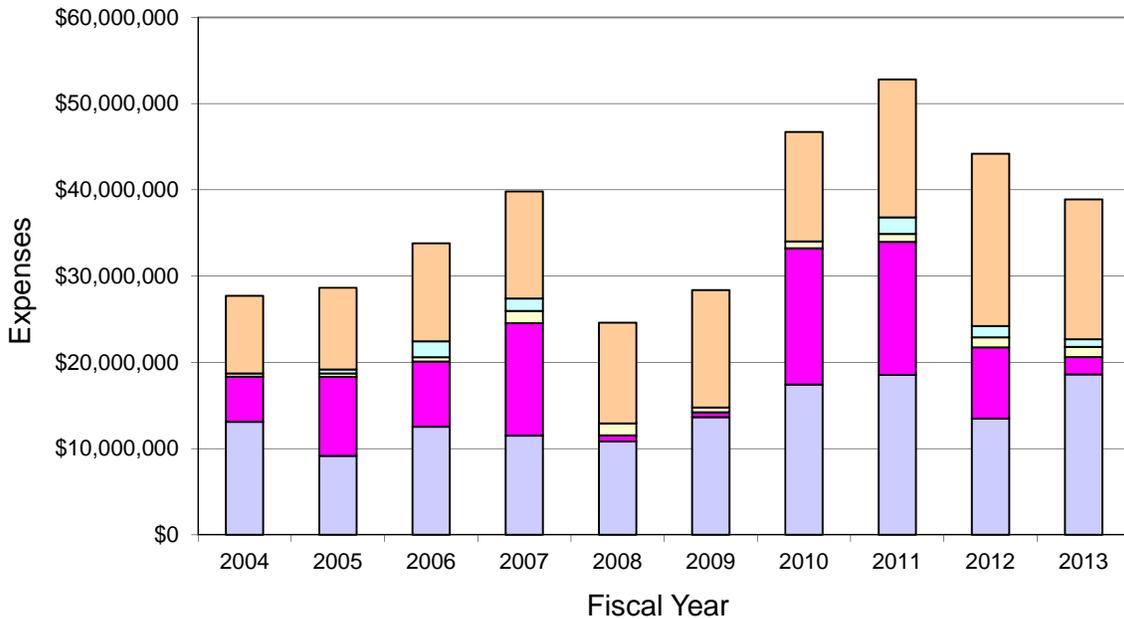
Fiscal Year	Water Replenishment Assessment	Desalter Assessments	Water Treatment Subsidies	Other Operating Income	Total Operating Revenue
2004	\$ 27,763,886	\$ 964,600	\$ 779,148	\$ -	\$ 29,507,634
2005	30,022,445	868,968	520,525	-	31,411,938
2006	30,131,602	772,067	681,026	1,276,424	32,861,119
2007	31,613,924	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
2013	43,710,697	868,531	591,292	832,548	46,003,068



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
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
2013	18,599,786	2,021,060	1,187,540	888,692	16,171,224	38,868,302

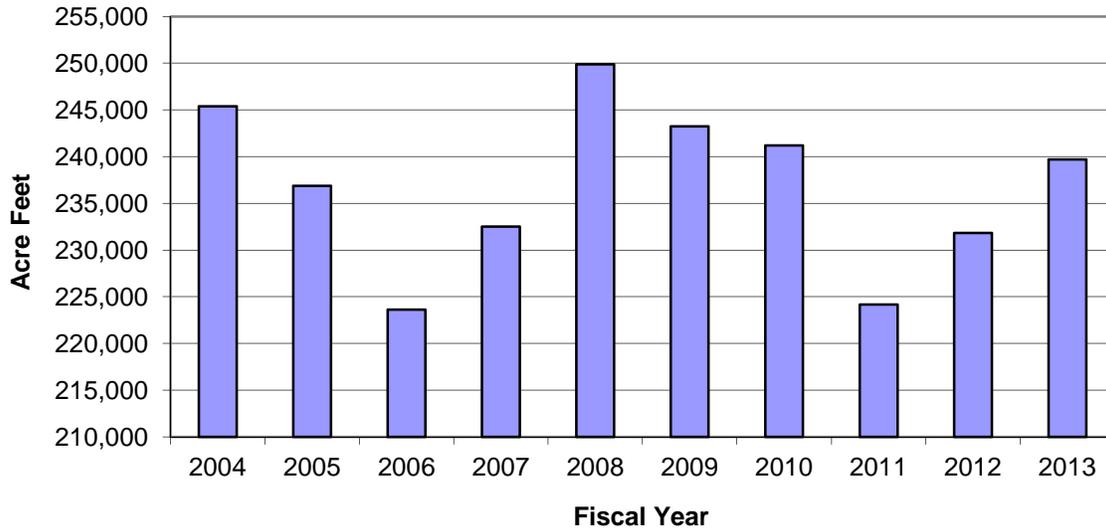


Source: Water Replenishment District Accounting Department

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

---

Fiscal Year	Water Pumped (Acre Feet)
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
2013	239,691



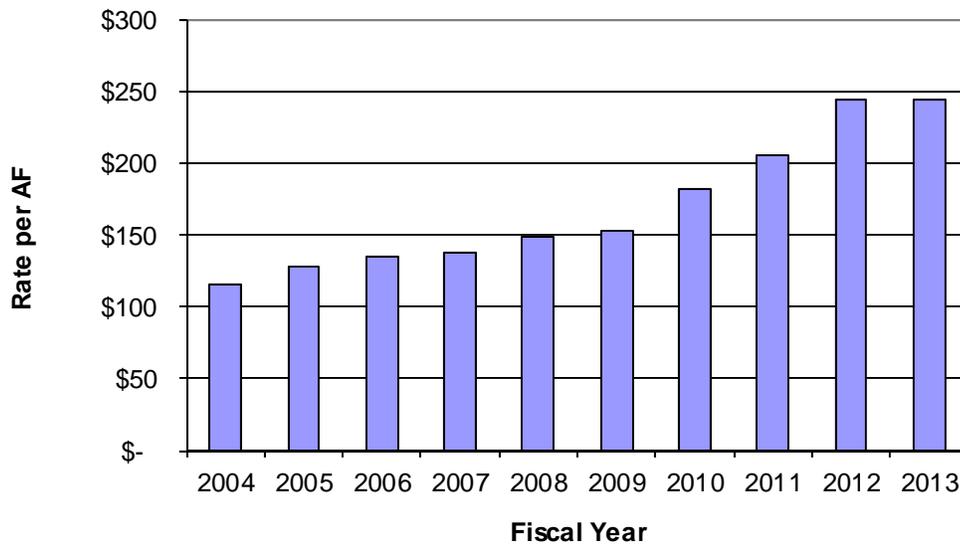
**Note:** See Schedule 2 "Operating Revenue by Source" for information regarding water revenues.

**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
2004	\$ 115
2005	128
2006	135
2007	138
2008	149
2009	153
2010	182
2011	205
2012	244
2013	244



**Notes:**

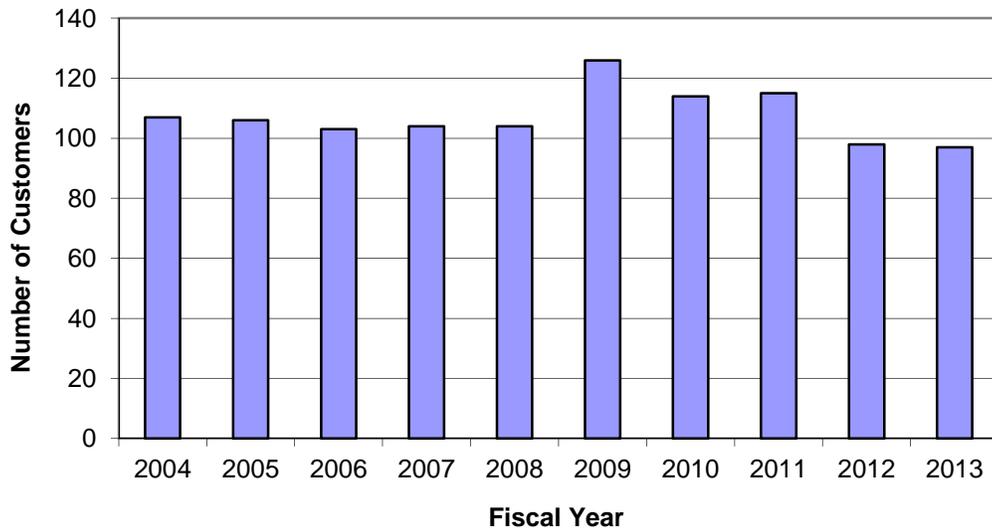
Rates as of June 30 of each fiscal year.

**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
2004	107
2005	106
2006	103
2007	104
2008	104
2009	126
2010	114
2011	115
2012	98
2013	97



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

**Source:** Water Replenishment District Accounting Department

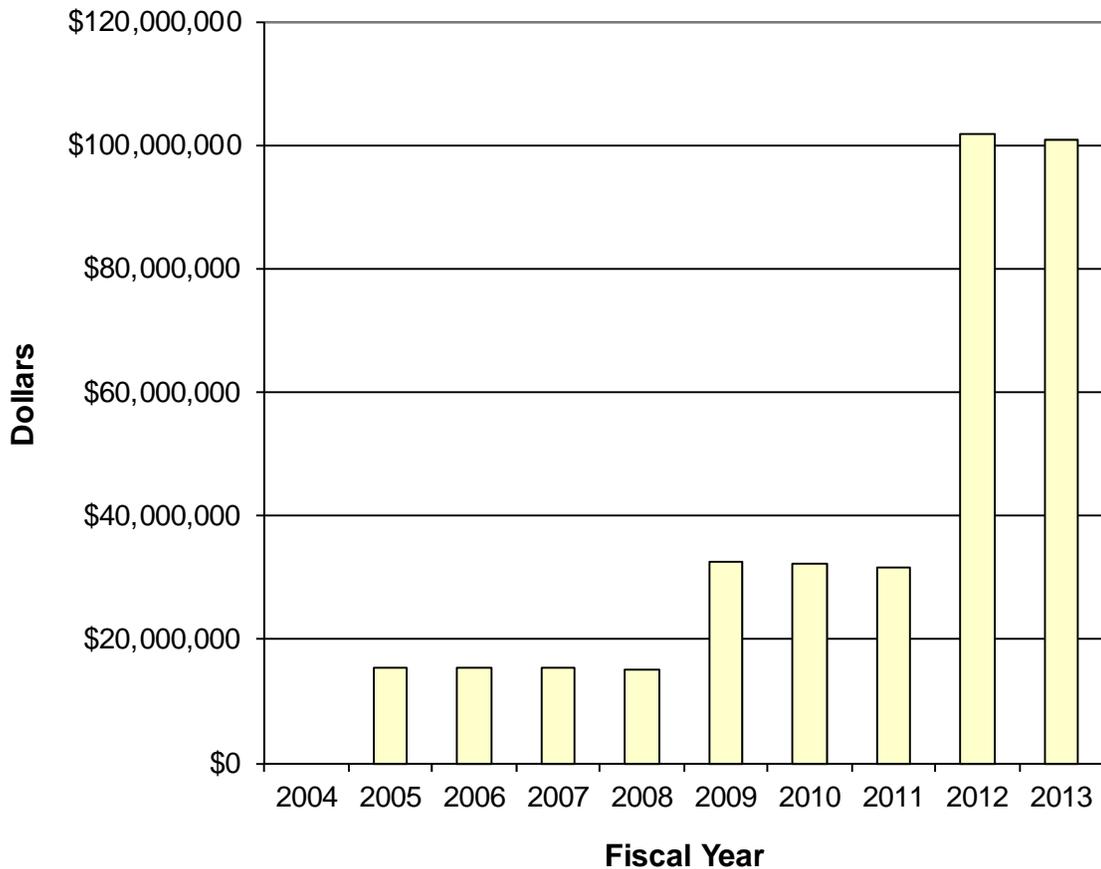
**Water Replenishment District of Southern California  
Revenue Capacity - Principal Customers  
Current Fiscal Year and Ten Years Ago**

<b>Customer</b>	<b>2013</b>		<b>2004</b>	
	<b>Water Pumped (AF)</b>	<b>Percentage of Total</b>	<b>Water Pumped (AF)</b>	<b>Percentage of Total</b>
Golden State Water Company	34,711	14%	31,160	13%
Long Beach, City of	30,796	13%	21,173	9%
Downey, City of	16,471	7%	18,237	7%
California Water Service Company	16,045	7%	15,583	6%
Lakewood, City of	9,825	4%	9,464	4%
Cerritos, City of	8,943	4%	10,349	4%
South Gate, City of	8,345	3%	10,913	4%
Vernon, City of	7,258	3%	9,022	4%
Compton, City of	6,347	3%	6,853	3%
Los Angeles Department of Water & Power	6,310	3%	13,791	6%
Total	<u>145,051</u>	<u>61%</u>	<u>146,545</u>	<u>60%</u>
Total Water Consumed (Acre Feet)	<u>239,691</u>	<u>100%</u>	<u>245,425</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	Certificates of Participation	Total		
		Debt	Per Capita	As a Share of Personal Income
2004	\$ -	\$ -	-	0.000000%
2005	15,410,000	15,410,000	1.57	0.004314%
2006	15,410,000	15,410,000	1.58	0.003995%
2007	15,410,000	15,410,000	1.59	0.003849%
2008	15,100,000	15,100,000	1.55	0.003617%
2009	32,658,447	32,658,447	3.33	0.008319%
2010	32,175,300	32,175,300	3.27	0.007981%
2011	31,552,153	31,552,153	3.19	0.007496%
2012	101,632,500	101,632,500	10.20	0.023458%
2013	100,920,284	100,920,284	10.06	0.022619%



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 <sup>(1)</sup>	Net Available Revenues	Debt Service			Coverage Ratio
				Principal	Interest	Total	
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
2013	45,212,320	(38,868,302)	6,344,018	675,000	4,815,932	5,490,932	1.16

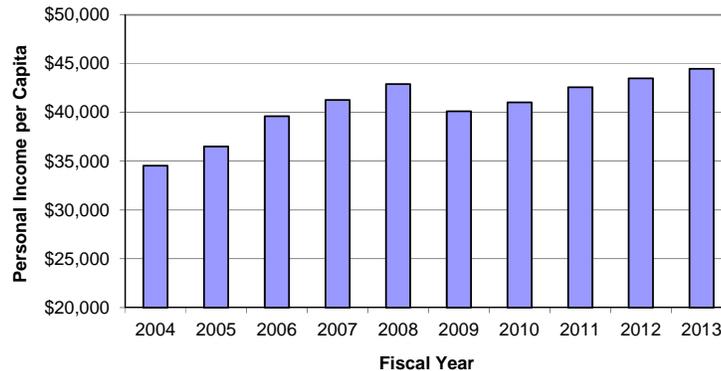
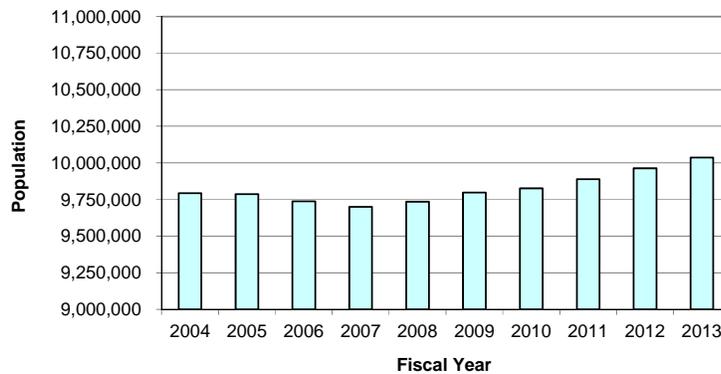
**Notes:**

(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)
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	11.7%	9,797,400	392,579,855	40,111
2010	12.4%	9,826,773	403,144,483	41,025
2011	12.5%	9,889,056	420,913,463	42,564
2012	11.1%	9,962,563	433,261,902	43,489
2013	10.2%	10,035,490	446,167,850	44,459



**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

Estimates for 2012 & 2013 - **Sources:** Regional Economic Information System, Bureau of Economic Analysis, U.S. Department of Commerce, CalGov.com/Los Angeles County Economic Forecast

**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)**

---

Platinum Equity  
Trader Joe's Co. Inc.  
Capital Group Cos.  
Unified Grocers Inc.  
Forever 21 Inc.  
United Oil  
Newegg Inc.  
Parsons  
Roll Global LLC  
World Oil Corp

(2) Ranked by 2011 Revenue  
**Source:** Los Angeles Business Journal

**Largest Employers (3)**

---

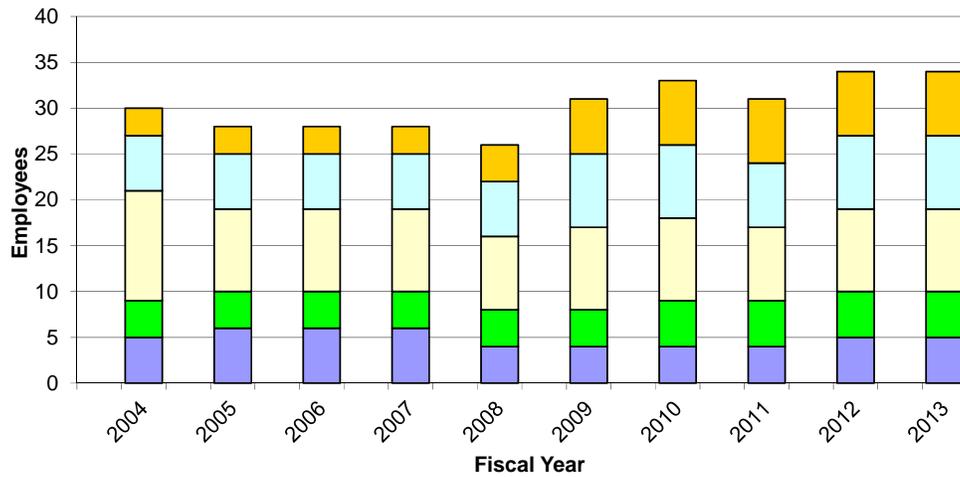
County of Los Angeles  
Los Angeles Unified School District  
Federal Government  
City of Los Angeles (Including DWP)  
University of California, Los Angeles  
Kaiser Permanente  
State of California (non-education)  
Northrop Grumman Corp.  
University of Southern California  
Target Corp.  
Kroger Co. (Ralphs, Food 4 Less)  
Bank of America  
Cedars-Sinai Medical Center

(3) Information by number of employees  
**Source:** California Employment Development  
Department, the Los Angeles Business Journal,  
and Almanac Research

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

**Employees**

Department	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Administration	5	6	6	6	4	4	4	4	5	5
Finance	4	4	4	4	4	4	5	5	5	5
Engineering	12	9	9	9	8	9	9	8	9	9
Hydrogeology	6	6	6	6	6	8	8	7	8	8
External Affairs	3	3	3	3	4	6	7	7	7	7
<b>Total</b>	<b>30</b>	<b>28</b>	<b>28</b>	<b>28</b>	<b>26</b>	<b>31</b>	<b>33</b>	<b>31</b>	<b>34</b>	<b>34</b>



**Other Operating and Capacity Indicators**

Fiscal Year	Number of Groundwater Pumps	Acre Feet Injected
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
2013	543	23,277

Sources: Water Replenishment District Engineering and Accounting Departments

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

(This page intentionally left blank.)

**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, in accordance with the 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, the financial statements of Water Replenishment District of Southern California (the District), as of and for the year ended June 30, 2013, and the related notes to the financial statements which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 18, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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 or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Vargay + Company LLP*

**Los Angeles, California  
December 18, 2013**

