

WATER REPLENISHMENT DISTRICT OF SOUTHERN CALIFORNIA

ACHIEVEMENTS IN WATER INDEPENDENCE

**Comprehensive
Annual Financial Report**

**Fiscal Years Ending
June 30, 2014 and 2013**



**WATER REPLENISHMENT DISTRICT
OF SOUTHERN CALIFORNIA**



Comprehensive Annual Financial Report

Fiscal Years Ended

June 30, 2014 and 2013

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

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Our Mission Statement

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

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Water Replenishment District of Southern California
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Introductory Section

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December 16, 2014

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, 2014.

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, 2014. 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 approximately 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 the economy of Los Angeles County, however, as expected; there has been a gradual economic improvement. There was a one percent decrease in unemployment which fell from 10.9% in 2012 to 9.8% in 2013. It is expected to continue to fall to 8.7% in 2014 and 7.8% in 2015. Full recovery and a normal unemployment rate (7.5%) is still a few years away.

As in the prior year, the largest gains were in (a) leisure and hospitality, (b) professional, scientific and technical services, (c) health care and social assistance and (d) construction continued its long-term trend of job gains. These four industries combined to contribute more than 73% of the jobs created last year. Construction witnessed a third consecutive year of gains after three years of declines in the wake of the Great Recession. Following the trend of recent years, both manufacturing and government sector jobs lost ground.

The entertainment industry is one of the most visible and important industries in Los Angeles County. There has been a steady rise in local production since the recession; on-location film production rose as did total production days.

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 rose by 2.7% last year to a record \$414.5 billion and should increase an additional 4.5% this year and 6.9% in 2015.

The Los Angeles County economy will continue to advance on many fronts through 2014 and 2015, barring any unforeseen shocks to the national economy. Population crossed the 10 million threshold in 2013 and should continue to grow at just under one percent per year. Total personal income will move away from the recession-low of just over \$390 billion. In 2013, personal income increased 1.8% to \$451.1 billion and is expected to surpass \$493.0 billion in 2015.

As for the business sector, 2014 will bring opportunities for emerging as well as existing industries. Over the short to medium term, expansion will continue in the major industries of

technology, which includes manufacturing and service industries in aerospace, information technology, electronics, and biomedical technology.

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. On January 17, 2014, Governor Brown issued an official drought proclamation for California. Last year was the driest in the state in 199 years of record keeping. Some communities that depend on local surface water supplies are already rationing water. The situation in Southern California is far less dire; which embraced water conservation and the use of recycled water following the droughts of the 1970s and 1990s. 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 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 develop. 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 ten public budget workshops, the WRD Board of Directors voted to keep the 2014-2015 Replenishment Assessment at \$268.00 per acre-foot. When compared to the cost of imported water of about \$1,077 per acre-foot, groundwater represents a substantial savings. We are as proud of the very open and collaborative process we used to arrive at the result as we are of the result itself. Despite rising costs, especially for necessary legal services, we managed to stay the course through general belt-tightening and a conscious decision to reduce purchases for increasingly expensive imported water in favor of more cost-effective local supply.

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

The drought has resulted in enormous hardship throughout the state. By virtue of years of advance planning and project implementation, WRD remained well-positioned this year to fulfill our mission and to take additional steps on the road to independence from imported water for replenishment.

Water Supply at the Spreading Grounds

The District has completed the environmental documentation and design of two new turnout structures to connect the Los Angeles County Sanitation Districts’ recycled water delivery pipeline to the Montebello Forebay Spreading Grounds and the San Gabriel River. The structures are key elements of the Groundwater Reliability Improvement Program (GRIP) and upon completion next year will enable the delivery to the spreading grounds of an additional 11,000 acre-feet of recycled water per year on average. The Greater Los Angeles Integrated Regional Water Management Steering Committee has recommended \$4.5 million in Proposition 84 funding for these structures.

Environmental documentation and design work continued on GRIP. Anticipated to begin construction in 2016 or 2017, the GRIP Advanced Water Treatment Facility will produce 10,000 acre-feet of water for the spreading grounds. The use of advanced treated water will allow for additional quantities of tertiary recycled water to be spread during years with reduced levels of precipitation.

The longstanding WRD/Los Angeles County Department of Public Works (DPW) partnership has in recent years resulted in the construction of two additional rubber dams on the San Gabriel River, the expansion of the Whittier Narrows Conservation Pool, and the interconnection pipeline linking the two spreading grounds. These projects have enabled the capture of an additional 10,000 acre-feet of storm water for recharge during years of average rainfall. We continued work this year with DPW and the US Army Corps of Engineers on improvements to the Conservation Pool to capture an additional 1,100 acre-feet for groundwater augmentation.

[Water Supply at the Seawater Barriers](#)

Construction is nearly complete on the expansion of WRD's Leo J. Vander Lans Advanced Water Treatment Plant. The expansion will more than double the capacity of the plant from 3,600 acre-feet per year to 8,900 acre-feet. By October, 100% of the water injected into the Alamitos Barrier will be recycled water from that plant.

Seventy-five percent of the water supplied to the West Coast Basin Barrier last year was produced by the West Basin Municipal Water District's Edward C. Little Advanced Water Treatment Plant. That percentage keeps rising and by the end of the year, all 17,000 acre-feet required for injection into that barrier will be recycled.

Forty-two percent of the water supplied to the Dominguez Gap Barrier last year was water produced by the City of Los Angeles Terminal Island Advanced Water Treatment Plant. WRD is working with the Los Angeles City Bureau of Sanitation to expand the volume of recycled water produced, with the goal of eliminating the use of imported water by 2017.

[Goldsworthy Desalter](#)

Constructed in 2002, the Robert W. Goldsworthy Desalter extracts and treats a locally sustainable groundwater supply to reduce dependence on imported water while accelerating the remediation of a significant plume of brackish groundwater trapped inland when the seawater intrusion barriers were placed in operation. To date, the Desalter has treated more than 20,000 acre-feet of brackish water for potable use in the City of Torrance. The Desalter has an existing capacity of 2,200 acre-feet. This year, environmental documentation and final design were completed to expand the capacity of the plant to 4,400 acre-feet. \$4 million in Proposition 84 funding for the expansion has been recommended by the Greater Los Angeles Integrated Regional Water Management Steering Committee.

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, 2013. This was the tenth 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 2014.

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.

- Government Finance Officers Association Distinguished Budget Presentation Award
- California Society of Municipal Finance Officers Association Award of Excellence in Budgeting

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

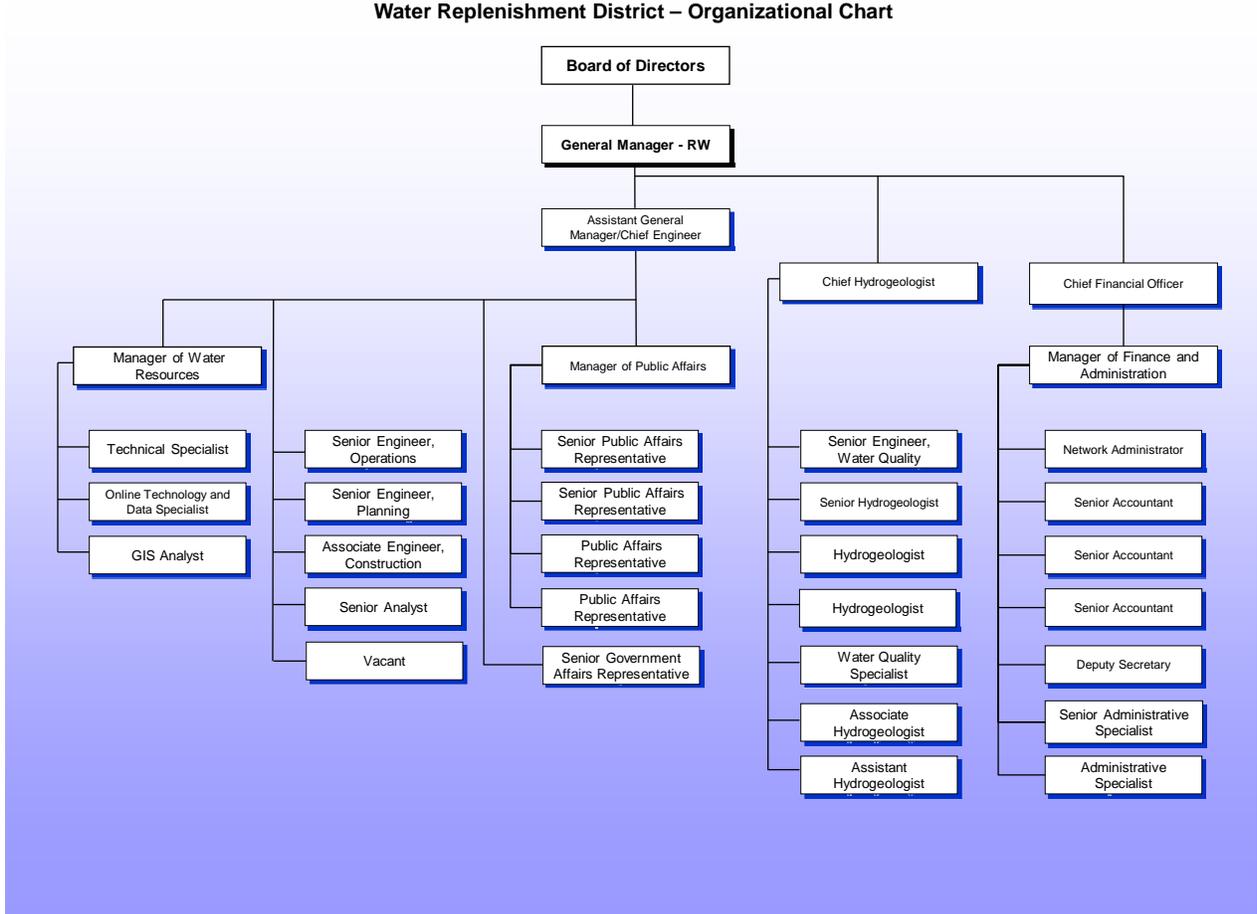
Respectfully submitted,



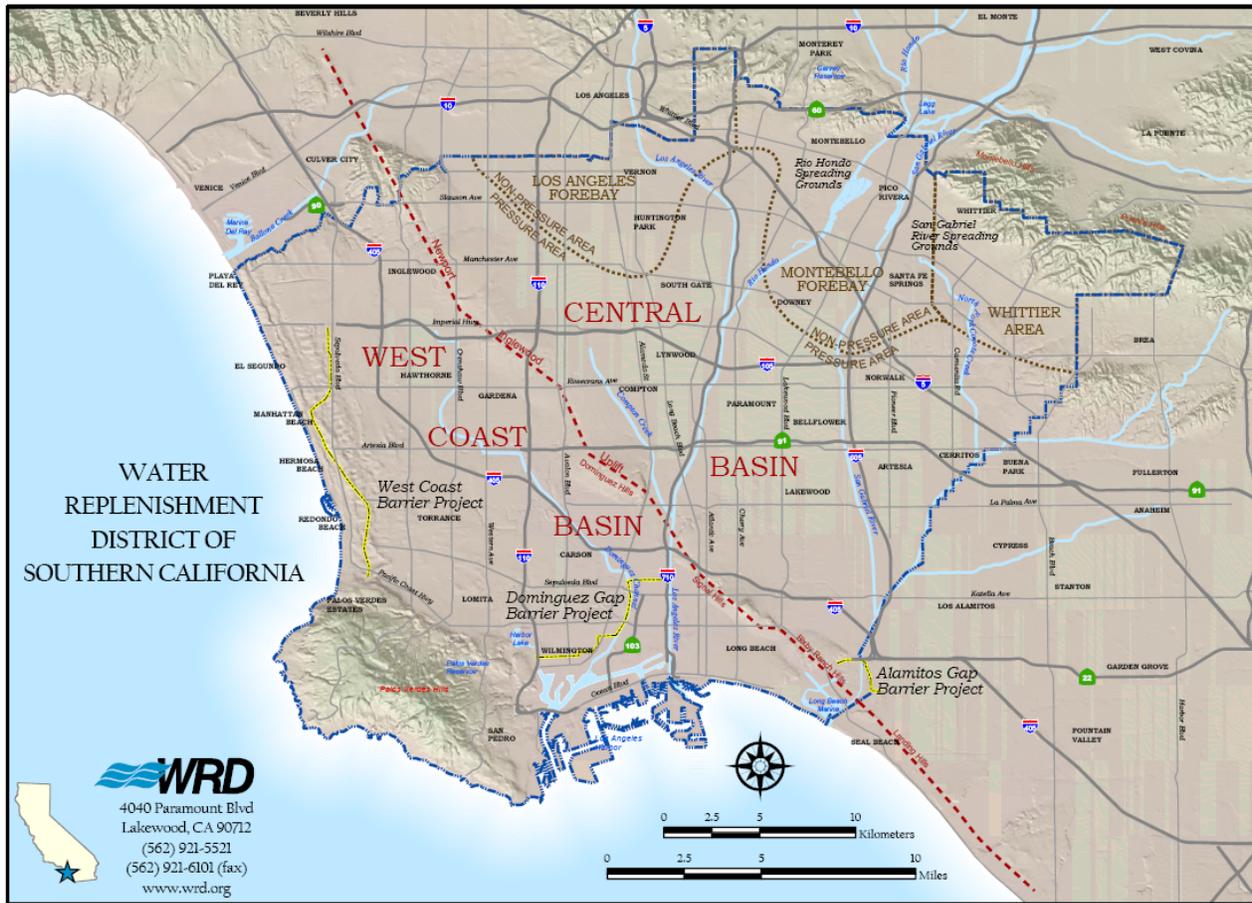
Scott M. Ota, CPA, CFF, CIRA, CGMA
Chief Financial Officer
Water Replenishment District of Southern California

Water Replenishment District of Southern California Organizational Chart

Water Replenishment District – Organizational Chart



Water Replenishment District of Southern California Map of the District





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, 2013

Executive Director/CEO

Financial Section

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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, 2014 and 2013, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, 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 opinion.



Opinion

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, 2014 and 2013, 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 38, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 16, 2014, 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 16, 2014**

**Water Replenishment District of Southern California
Management's Discussion and Analysis
June 30, 2014 and 2013**

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, 2014 and 2013. 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 31.8% or \$17,674,631 from \$55,608,713 in fiscal year 2013 to \$73,283,344 in fiscal year 2014 and increased by 7.4% or \$3,848,054 from \$51,760,659 in fiscal year 2012 to \$55,608,713 in fiscal year 2013.
- The District's operating revenues increased by 31.3% or \$14,383,637 in fiscal year 2014 primarily caused by an increase in pumping as well as an increase to the replenishment assessment from \$244 per acre-foot to \$268 per acre-foot and a higher deferral of revenue in fiscal year 2013.
- The District's operating expenses increased by 13.4% or \$5,218,573 and decreased (12.0%) or \$5,302,058 in fiscal years 2014 and 2013, respectively. This was primarily due to the following:
 - ✓ In fiscal year 2014, injection water increased \$5.9 million and In-lieu replenishment increased \$1.7 million while general and administrative costs decreased by \$1.7 million.
 - ✓ 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.

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, 2014 and 2013**

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

Financial Analysis of the District

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net 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	
	2014	2013	Amount	%	2012	Amount	%	
Current assets	\$ 78,005,581	\$ 69,410,426	\$ 8,595,155	12.4	\$ 50,331,450	\$ 19,078,976	37.9	
Restricted assets	50,275,005	61,578,774	(11,303,769)	-18.4	72,432,327	(10,853,553)	-15.0	
Noncurrent assets	1,731,149	2,228,499	(497,350)	-22.3	2,728,463	(499,964)	-18.3	
Capital assets	96,671,031	69,166,383	27,504,648	39.8	58,981,530	10,184,853	17.3	
	<u>226,682,766</u>	<u>202,384,082</u>	<u>24,298,684</u>	<u>12.0</u>	<u>184,473,770</u>	<u>17,910,312</u>	<u>9.7</u>	
Current liabilities	19,867,379	16,869,737	2,997,642	17.8	13,653,129	3,216,608	23.6	
Noncurrent liabilities	98,577,563	101,004,304	(2,426,741)	-2.4	104,407,119	(3,402,815)	-3.3	
Deferred inflows of resources	34,954,480	28,901,328	6,053,152	20.9	14,652,863	14,248,465	97.2	
	<u>153,399,422</u>	<u>146,775,369</u>	<u>6,624,053</u>	<u>4.5</u>	<u>132,713,111</u>	<u>14,062,258</u>	<u>10.6</u>	
Net position								
Net investment in capital assets	46,797,968	29,824,873	16,973,095	56.9	29,781,357	43,516	0.1	
Unrestricted	26,485,376	25,783,840	701,536	2.7	21,979,302	3,804,538	17.3	
	<u>\$ 73,283,344</u>	<u>\$ 55,608,713</u>	<u>\$ 17,674,631</u>	<u>31.8</u>	<u>\$ 51,760,659</u>	<u>\$ 3,848,054</u>	<u>7.4</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 \$73,283,344 and \$55,608,713 as of June 30, 2014 and 2013, respectively.

In 2014, the District saw an increase of \$17,674,631 in net position primarily due to an increase in water replenishment assessment revenues and capital contributions from outside funding. As shown above, capital assets have increased \$27,504,648 accounting for majority of the net change in total assets of \$24,298,684. With respect to increase in liabilities of \$6,624,053, deferred replenishment assessment revenue is the cause for the majority of the increase with accounts payable increasing \$2,997,642 due to a timing difference in the payment of invoices for water purchases.

**Water Replenishment District of Southern California
Management's Discussion and Analysis
June 30, 2014 and 2013**

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. 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.

At the end of fiscal years 2014 and 2013, the District shows a positive balance in unrestricted net position of \$26,485,376 and \$25,783,840, respectively, which will primarily be used for the future purchase of replenishment water.

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	Change	
	2014	2013	Amount	%	2012	Amount	%
Revenues:							
Operating revenues	\$ 60,386,705	\$ 46,003,068	\$ 14,383,637	31.3	\$ 48,121,854	\$ (2,118,786)	(4.4)
Nonoperating revenues							
Property taxes	544,319	606,562	(62,243)	(10.3)	476,937	129,625	27.2
Interest and investment earnings	244,961	259,644	(14,683)	(5.7)	121,351	138,293	114.0
Other, net	45,682	170,406	(124,724)	(73.2)	144,530	25,876	17.9
Total revenues	61,221,667	47,039,680	14,181,987	30.1	48,864,672	(1,824,992)	(3.7)
Expenses							
Operating expenses	44,086,875	38,868,302	5,218,573	13.4	44,170,360	(5,302,058)	(12.0)
Depreciation and amortization	2,537,023	2,495,964	41,059	1.6	2,446,962	49,002	2.0
Nonoperating expenses	3,130,364	3,935,225	(804,861)	(20.5)	3,802,841	132,384	3.5
Total expenses	49,754,262	45,299,491	4,454,771	9.8	50,420,163	(5,120,672)	(10.2)
Income (loss) before capital contributions	11,467,405	1,740,189	9,727,216	559.0	(1,555,491)	3,295,680	(211.9)
Capital contributions - capital grants	6,207,226	2,107,865	4,099,361	194.5	752,468	1,355,397	180.1
Change in net position	17,674,631	3,848,054	13,826,577	359.3	(803,023)	4,651,077	(579.2)
Net position at beginning of year	55,608,713	51,760,659	3,848,054	7.4	52,563,682	(803,023)	(1.5)
Net position at end of year	\$ 73,283,344	\$ 55,608,713	\$ 17,674,631	31.8	\$ 51,760,659	\$ 3,848,054	7.4

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 \$17,674,631 and \$3,848,054 during the fiscal year ended June, 30, 2014 and 2013, respectively. In 2014, the increase in net assets is due to total revenues of \$61,221,667 exceeding total expenses of \$49,754,262 with an additional \$6,207,226 in capital contributions. 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.

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

In 2014, total revenue increased \$14,181,987 with total expenses increasing only \$4,454,771 for a net income before capital contributions of \$9,727,216. The District also received an additional \$4,099,361 in capital contributions in 2014 which added to the increase in net position of \$13,826,577.

**Water Replenishment District of Southern California
Management's Discussion and Analysis
June 30, 2014 and 2013**

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.

Operating Revenue

	2014	2013	Change	2012	Change
Operating Revenues:					
Water replenishment assessment	\$ 58,665,579	\$ 43,710,697	\$ 14,954,882	\$ 45,571,109	\$ (1,860,412)
Desalter assessments	840,559	868,531	(27,972)	913,204	(44,673)
Water treatment subsidies	377,650	591,292	(213,642)	894,411	(303,119)
Other operating income	502,917	832,548	(329,631)	743,130	89,418
Total operating revenues	<u>\$ 60,386,705</u>	<u>\$ 46,003,068</u>	<u>\$ 14,383,637</u>	<u>\$ 48,121,854</u>	<u>\$ (2,118,786)</u>

The rise in revenue in 2014 is primarily due to the increase of \$24 per acre-foot in the replenishment assessment from \$244 to \$268 with an additional 3,000 acre-feet pumped from the basin over the prior year and higher deferral of revenue in fiscal year 2013. There were also decreases of (\$571,245) in other non-replenishment assessment revenue.

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).

Operating Expenses - Water Supply Management Expenses

	2014	2013	Change	2012	Change
Water supply management:					
Water purchases - injecting	\$ 24,496,761	\$ 18,599,786	\$ 5,896,975	\$ 13,466,495	\$ 5,133,291
Water purchases - spreading	1,780,436	2,021,060	(240,624)	8,285,830	(6,264,770)
Connection fees	1,285,551	1,187,540	98,011	1,146,511	41,029
Total water supply management expenses	<u>\$ 27,562,748</u>	<u>\$ 21,808,386</u>	<u>\$ 5,754,362</u>	<u>\$ 22,898,836</u>	<u>\$ (1,090,450)</u>

Water purchases make up the majority of the District's operating expenses which saw an increase of \$5,754,362 over the prior fiscal year; the majority of which is due to increased injection of water at the Dominguez Gap Seawater Intrusion Barrier. The District also saw a slight increase of injection costs at the West Coast Barrier.

The total net decrease in water supply management expenses of (\$1,090,450) in fiscal year 2013 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.

**Water Replenishment District of Southern California
Management's Discussion and Analysis
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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 2014 and 2013, the District's investment in capital assets amounted to \$96,697,031 and \$69,166,383 (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 2014 include expenses related to the Leo J. Vander Lans Advanced Water Treatment Facility, the Regional Groundwater Monitoring Program and the Groundwater Reliability Improvement Program (GRIP).

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

	<u>Balance 2013</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2014</u>
Non-depreciable assets	\$ 24,816,050	\$ 30,041,671	\$ (1,714,984)	\$ 53,142,737
Depreciable assets	67,217,222	1,714,984	-	68,932,206
Accumulated depreciation	<u>(22,866,889)</u>	<u>(2,537,023)</u>	<u>-</u>	<u>(25,403,912)</u>
Capital assets, net	<u>\$ 69,166,383</u>	<u>\$ 29,219,632</u>	<u>\$ (1,714,984)</u>	<u>\$ 96,671,031</u>

	<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>

**Water Replenishment District of Southern California
Management's Discussion and Analysis
June 30, 2014 and 2013**

Long-term Debt

At the end of fiscal years 2014 and 2013, the District had long-term debt of \$100,148,068 and \$100,920,284 outstanding, respectively (See Note 6 for further details).

Changes in long-term debt in 2014 were as follows:

	Balance 2013	Additions	Deletions	Balance 2014
Certificate of participation (2004)	\$ 13,385,000	\$ -	\$ (385,000)	\$ 13,000,000
Certificate of participation (2008)	17,255,000	-	(350,000)	16,905,000
Certificate of participation (2011)	69,195,000	-	-	69,195,000
	<u>99,835,000</u>	-	<u>(735,000)</u>	<u>99,100,000</u>
Bond discount	(424,141)	-	16,853	(407,288)
Bond premium	1,509,425	-	(54,069)	1,455,356
	<u>\$ 100,920,284</u>	<u>\$ -</u>	<u>\$ (772,216)</u>	<u>\$ 100,148,068</u>

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>	-	<u>(675,000)</u>	<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>

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

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

		June 30,	
		2014	2013
ASSETS			
Current assets			
Cash and investments	\$	57,659,423	\$ 38,497,307
Interest receivable		3,008	1,125
Water replenishment assessments receivable, net		14,805,846	30,010,158
Grants receivable		4,685,993	52,530
Notes receivable - current portion		497,349	497,349
Prepaid expenses and other deposits		353,962	351,957
Total current assets - unrestricted		78,005,581	69,410,426
Restricted current assets - cash and cash equivalents			
Cash and investments		50,275,005	61,578,774
Total current assets		128,280,586	130,989,200
Noncurrent assets			
Notes receivable		1,731,149	2,228,499
Capital assets, net		96,671,031	69,166,383
Total noncurrent assets		98,402,180	71,394,882
Total assets		226,682,766	202,384,082
LIABILITIES			
Current liabilities			
Accounts payable and accrued expenses		10,357,626	8,324,054
Accrued wages and related payables		120,194	102,710
Compensated absences - current portion		122,288	128,833
Advances from Caltrans		5,467,988	5,577,972
Interest payable		1,989,283	2,001,168
Certificates of participation - current portion		1,810,000	735,000
Total current liabilities		19,867,379	16,869,737
Noncurrent liabilities			
Compensated absences, net of current portion		239,495	283,042
Unearned replenishment assessment		-	535,978
Certificates of participation - net of current portion		98,338,068	100,185,284
Total noncurrent liabilities		98,577,563	101,004,304
Total liabilities		118,444,942	117,874,041
DEFERRED INFLOWS OF RESOURCES			
Unearned revenue - replenishment assessments		34,954,480	28,901,328
Total deferred inflows of resources		34,954,480	28,901,328
NET POSITION			
Net position			
Net investment in capital assets		46,797,968	29,824,873
Unrestricted		26,485,376	25,783,840
Total net position	\$	73,283,344	\$ 55,608,713

See notes to the financial statements.

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

	Years ended June 30,	
	2014	2013
Operating revenues		
Water replenishment assessment	\$ 58,665,579	\$ 43,710,697
Desalter assessments	840,559	868,531
Water treatment subsidies	377,650	591,292
Other operating income	502,917	832,548
Total operating revenues	60,386,705	46,003,068
Operating expenses		
Water supply management:		
Water purchases - injecting	24,496,761	18,599,786
Water purchases - spreading	1,780,436	2,021,060
Connection fees	1,285,551	1,187,540
Groundwater basin management:		
In-lieu replenishment	2,028,005	888,692
General and administrative	14,496,122	16,171,224
Total operating expenses	44,086,875	38,868,302
Operating income before depreciation and amortization	16,299,830	7,134,766
Depreciation and amortization	(2,537,023)	(2,495,964)
Operating income	13,762,807	4,638,802
Nonoperating revenue (expense)		
Property taxes	544,319	606,562
Interest and investment earnings	244,961	259,644
Interest expense	(3,130,364)	(3,935,225)
Other, net	45,682	170,406
Net nonoperating revenue (expense)	(2,295,402)	(2,898,613)
Income before capital contributions	11,467,405	1,740,189
Capital contributions - capital grants	6,207,226	2,107,865
Total capital contributions	6,207,226	2,107,865
Change in net position	17,674,631	3,848,054
Total net position - beginning of year	55,608,713	51,760,659
Total net position - end of year	\$ 73,283,344	\$ 55,608,713

See notes to the financial statements.

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

	Years ended June 30,	
	2014	2013
Cash flows from operating activities		
Cash receipts from water assessments and subsidies	\$ 81,153,873	\$ 49,396,071
Cash paid to vendors and suppliers for materials and services	(38,578,710)	(34,894,371)
Cash paid to employees for salaries and wages	(3,509,206)	(3,597,978)
Net cash provided by operating activities	39,065,957	10,903,722
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(28,432,592)	(11,835,314)
Payment of long-term debt	(772,216)	(675,000)
Proceeds from state and federal capital grants	1,573,763	2,084,598
Deferred capital project	(109,984)	(163,646)
Interest paid on long-term debt	(4,751,328)	(4,665,237)
Net cash used in capital and related financing activities	(32,492,357)	(15,254,599)
Cash flows from non-capital financing activities		
Proceeds from property taxes	544,319	606,562
Net cash provided by non-capital financing activities	544,319	606,562
Cash flows from investing activities		
Principal received from (issuance of) notes receivable	497,350	570,056
Interest and investment earnings	243,078	260,160
Net cash provided by investing activities	740,428	830,216
Change in cash and cash equivalents	7,858,347	(2,914,099)
Cash and cash equivalents - beginning of year	100,076,081	102,990,180
Cash and cash equivalents - end of year	\$ 107,934,428	\$ 100,076,081
Reconciliation of cash and cash equivalents to statements of net position		
Cash and cash equivalents	\$ 57,659,423	\$ 38,497,307
Restricted assets - cash and cash equivalents	50,275,005	61,578,774
Total cash and cash equivalents	\$ 107,934,428	\$ 100,076,081
Noncash, investing, capital and financing activities		
Change in fair value of investments	\$ -	\$ -
Capital contributions - capital grants	\$ -	\$ -
Capitalized interest	\$ 1,609,079	\$ 834,460

See notes to the financial statements.

Water Replenishment District of Southern California
Statements of Cash Flows (Continued)

	Years ended June 30,	
	2014	2013
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 13,762,807	\$ 4,638,802
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,537,023	2,495,964
Other non-operating revenues (expenses), net	45,682	170,406
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Water replenishment assessments receivable, net	15,204,312	(10,862,222)
Prepaid expenses and other deposits	(2,005)	(324,641)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses - water purchases	2,033,572	3,341,584
Unearned revenue - replenishment assessments	6,053,152	14,084,819
Accrued wages and related payables	17,484	1,776
Accrued OPEB cost	-	(2,639,666)
Unearned replenishment assessment	(535,978)	-
Compensated absences	(50,092)	(3,100)
Total adjustments	25,303,150	6,264,920
Net cash provided by operating activities \$	39,065,957	\$ 10,903,722

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 a 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, 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.

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

- 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, 2014 and 2013.

- 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 \$235,739 and \$616,511 at June 30, 2014 and 2013, respectively.

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.

Water Replenishment District of Southern California
Notes to Financial Statements
Years ended June 30, 2014 and 2013

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

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, 2014 and 2013.

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.

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

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, 2014 and 2013.
- 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 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.

Water Replenishment District of Southern California
Notes to Financial Statements
Years ended June 30, 2014 and 2013

NOTE 2 CASH AND INVESTMENTS

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

	2014	2013
Cash and cash equivalents	\$ 57,659,423	\$ 38,497,307
Restricted cash and cash equivalents	50,275,005	61,578,774
Total cash and investments	\$ <u>107,934,428</u>	\$ <u>100,076,081</u>

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

	2014	2013
Deposit with financial institutions	\$ 57,659,423	\$ 36,643,919
Local Agency Investment Fund	-	1,853,388
Cash with fiscal agent - mutual funds	50,275,005	61,578,774
Total cash and investments	\$ <u>107,934,428</u>	\$ <u>100,076,081</u>

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

	2014	2013
Operating Reserve Fund	\$ 7,183,435	\$ 9,314,893
Reserved cash and cash equivalents:		
Water Purchase Fund	41,536,000	14,425,800
Capital Projects	882,000	558,926
Debt Service Reserve Fund	10,517,000	7,203,045
Cal Trans Trust Fund	5,467,988	5,577,972
Other Postemployment Benefit Obligation	777,000	-
Total reserved cash and cash equivalents	<u>59,179,988</u>	<u>27,765,743</u>
Restricted cash:		
Capital Projects - Bond Trustee	42,181,005	53,460,608
Debt Service Reserve Fund - Bond Trustee	8,094,000	8,118,166
Restricted cash and cash equivalents	<u>50,275,005</u>	<u>61,578,774</u>
Reconciling items:		
Capital Projects Reimbursement in Transit	(12,908,000)	-
Grant Revenue	4,204,000	1,416,672
Total restricted cash	<u>41,571,005</u>	<u>62,995,446</u>
Total Cash and Cash Equivalents	\$ <u>107,934,428</u>	\$ <u>100,076,081</u>

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

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

Water Replenishment District of Southern California
Notes to Financial Statements
Years ended June 30, 2014 and 2013

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

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

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, 2014 and 2013, the District's funds are placed in investments with maturities of 12 months or less.

Water Replenishment District of Southern California
Notes to Financial Statements
Years ended June 30, 2014 and 2013

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

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, 2014, were as follows:

Investment Type	Total Investment	Remaining Maturity (in Months)		
		12 Months or Less	13 to 24 Months	25+ Months
Cash and investments with fiscal agent:				
Money Market Mutual Funds	\$ 50,275,005	\$ 50,275,005	\$ -	\$ -

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	-	-
Total	\$ 63,432,162	\$ 63,432,162	\$ -	\$ -

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, 2014, were as follows:

Investment Type	Total Investment	Minimum Legal Rating	Ratings as of Year End			
			Unrated	AAA	AA-	BBB+
Local Agency Investment Fund	\$ -	N/A	\$ -	\$ -	\$ -	\$ -
Cash and investments with fiscal agent:						
Money Market Mutual Funds	50,275,005	A	-	50,275,005	-	-
Total	\$ 50,275,005		\$ -	\$ 50,275,005	\$ -	\$ -

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	-	-
Total	\$ 63,432,162		\$ 1,853,388	\$ 61,578,774	\$ -	\$ -

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

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, 2014 and 2013, 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.

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, 2014 and 2013, \$7,211,674 and \$2,772,787, 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 \$0 and \$1.9 million at June 30, 2014 and 2013, 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 \$60.3 billion and \$58.9 billion, respectively. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

Water Replenishment District of Southern California
Notes to Financial Statements
Years ended June 30, 2014 and 2013

NOTE 3 NOTES RECEIVABLE

Notes receivable consist of the following:

		2014		2013
Notes receivable - current portion	\$	497,349	\$	497,349
Notes receivable - noncurrent portion		1,731,149		2,228,499
	\$	2,228,498	\$	2,725,848

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, 2014 and 2013 were \$377,776 and \$566,666, 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, 2014 and 2013 were \$1,184,881 and \$1,382,361, 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, 2014 and 2013 were \$665,841 and \$776,821, respectively.

Future collections of notes receivable are as follows:

2015	\$	497,349
2016		497,348
2017		308,460
2018		308,460
2019		308,460
Thereafter		308,421
	\$	2,228,498

Water Replenishment District of Southern California
Notes to Financial Statements
Years ended June 30, 2014 and 2013

NOTE 4 CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2014 were as follows:

	Balance 2013	Additions/ Transfers	Deletions/ Transfers	Balance 2014
Non-depreciable assets				
Land	\$ 2,644,753	\$ -	\$ -	\$ 2,644,753
Construction-in-process	22,171,297	30,041,671	(1,714,984)	50,497,984
Total non-depreciable assets	<u>24,816,050</u>	<u>30,041,671</u>	<u>(1,714,984)</u>	<u>53,142,737</u>
Depreciable assets				
Building and improvements	10,283,111	-	-	10,283,111
Utility plant and equipment	38,074,348	-	-	38,074,348
Capacity rights	2,439,604	-	-	2,439,604
Monitoring and injection equipment	16,318,739	1,714,984	-	18,033,723
Service connections	101,420	-	-	101,420
Total depreciable assets	<u>67,217,222</u>	<u>1,714,984</u>	<u>-</u>	<u>68,932,206</u>
Accumulated depreciation and amortization				
Building and improvements	(1,539,356)	(348,561)	-	(1,887,917)
Utility plant and equipment	(12,585,106)	(1,269,145)	-	(13,854,251)
Capacity rights	(649,151)	(82,960)	-	(732,111)
Monitoring and injection equipment	(8,010,537)	(834,329)	-	(8,844,866)
Service connections	(82,739)	(2,028)	-	(84,767)
Total accumulated depreciation and amortization	<u>(22,866,889)</u>	<u>(2,537,023)</u>	<u>-</u>	<u>(25,403,912)</u>
Depreciable assets, net	<u>44,350,333</u>	<u>(822,039)</u>	<u>-</u>	<u>43,528,294</u>
Capital assets, net \$	<u>\$ 69,166,383</u>	<u>\$ 29,219,632</u>	<u>\$ (1,714,984)</u>	<u>\$ 96,671,031</u>

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

	Balance 2012	Additions/ Transfers	Deletions/ Transfers	Balance 2013
Non-depreciable assets				
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>
Depreciable assets				
Building and improvements	10,283,111	-	-	10,283,111
Utility plant and equipment	38,074,348	-	-	38,074,348
Capacity rights	2,439,604	-	-	2,439,604
Monitoring and injection equipment	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>
Accumulated depreciation and amortization				
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>

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.

Water Replenishment District of Southern California
Notes to Financial Statements
Years ended June 30, 2014 and 2013

NOTE 4 CAPITAL ASSETS (CONTINUED)

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:

	<u>2014</u>	<u>2013</u>
Leo J. Vander Lans Advanced Water Treatment Facility (LJVWTF) expansion	\$ 35,315,157	\$ 12,154,570
Dominguez Gap recycled water project	913,182	913,182
Caltans Pipeline	942,233	324,734
Regional Groundwater Monitoring Program	2,324,922	1,536,196
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)	4,821,312	2,595,825
Groundwater Infrastructure	60,000	60,000
Environmental Monitoring	3,479	-
Bond interest for capital projects	3,748,824	2,217,915
Total construction-in-process	<u>\$ 50,497,984</u>	<u>\$ 22,171,297</u>

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 is capitalized in accordance with GASB No. 34. Interest costs of \$1,609,079 and \$834,460 were capitalized during the years ended June 30, 2014 and 2013, respectively.

NOTE 5 COMPENSATED ABSENCES

Changes in compensated absences were as follows:

	<u>2014</u>	<u>2013</u>
Balance at beginning of year	\$ 411,875	\$ 414,975
Earned by employees	135,118	179,829
Payments to employees	<u>(185,210)</u>	<u>(182,929)</u>
Balance at end of year	361,783	411,875
Less current portion	<u>(122,288)</u>	<u>(128,833)</u>
Long-term portion	<u>\$ 239,495</u>	<u>\$ 283,042</u>

Water Replenishment District of Southern California
Notes to Financial Statements
Years ended June 30, 2014 and 2013

NOTE 6 LONG-TERM DEBT

Changes in long-term debt for the year ended June 30, 2014 were as follows:

	Balance 2013	Additions	Deletions	Balance 2014
Certificate of participation (2004)	\$ 13,385,000	\$ -	\$ (385,000)	\$ 13,000,000
Certificate of participation (2008)	17,255,000	-	(350,000)	16,905,000
Certificate of participation (2011)	69,195,000	-	-	69,195,000
	<u>99,835,000</u>	-	(735,000)	99,100,000
Bond discount	(424,141)	-	16,853	(407,288)
Bond premium	1,509,425	-	(54,069)	1,455,356
	<u>\$ 100,920,284</u>	<u>\$ -</u>	<u>\$ (772,216)</u>	<u>\$ 100,148,068</u>

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)	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>

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, 2014 and 2013, the principal outstanding was \$13,000,000 and \$13,385,000, 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, 2014 and 2013, the principal outstanding was \$16,905,000 and \$17,255,000, respectively.

Water Replenishment District of Southern California
Notes to Financial Statements
Years ended June 30, 2014 and 2013

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, 2014 and 2013, the principal outstanding was \$69,195,000.

Annual debt service payments are as follows:

Fiscal Year	Principal	Interest	Total
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	2,105,000	4,447,070	6,552,070
2020-2024	11,970,000	20,792,252	32,762,252
2025-2029	15,060,000	17,697,018	32,757,018
2030-2034	19,215,000	13,553,469	32,768,469
2035-2039	24,840,000	7,923,794	32,763,794
2040	18,260,000	1,396,206	19,656,206
Total	\$ 99,100,000	\$ 84,369,256	\$ 183,469,256
Less current portion	1,810,000		
Total non-current	\$ 97,290,000		

Accrued interest amounted to approximately \$2.0 million as of June 30, 2014 and 2013.

Water Replenishment District of Southern California
Notes to Financial Statements
Years ended June 30, 2014 and 2013

NOTE 7 UNEARNED REVENUE

The City of Long Beach prepaid its water replenishment assessment per the terms of a groundwater banking agreement between the District and the City of Long Beach. This revenue became earned income during the year ended June 30, 2014.

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, 2014 and 2013, the District has spent \$2,532,012 and \$2,422,028 on the project, leaving an unexpended balance of \$5,467,988 and \$5,577,972, respectively.

NOTE 9 DEFERRED INFLOWS OF RESOURCES

During the year ended 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 \$35.0 million and \$28.9 million as of June 30, 2014 and 2013, 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:

	2014	2013
Capital assets, net	\$ 96,671,031	\$ 69,166,383
Certificates of participation:		
Current portion	(1,810,000)	(735,000)
Noncurrent portion	(98,338,068)	(100,185,284)
Unspent debt proceeds	50,275,005	61,578,774
Net investment in capital assets	\$ 46,797,968	\$ 29,824,873

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, 2014 and 2013 was \$2,050,280 and \$1,950,206, 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 2014 and 2013 were 16.77% and 16.34%, 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, 2014, the District's annual pension cost of \$860,608 was equal to its required and actual contribution. The required contribution for the fiscal year ended June 30, 2014 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, 2014 and 2013

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	19 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) (Changed to 7.50% for June 30, 2011 valuation)
Projected Salary Increases	3.55% to 14.45% depending on age, service, and type of employment (Changed to 3.30% to 14.20% for June 30, 2011 valuation)
Inflation	3% (Changed to 2.75% for June 30, 2011 valuation)
Payroll Growth	3.25% (Changed to 3.00% for June 30, 2011 valuation)
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% (Changed to annual inflation growth of 2.75% for June 30, 2011 valuation)

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, 2012	\$ 763,118	100%	-
June 30, 2013	869,381	100%	-
June 30, 2014	860,608	100%	-

Based on the latest Actuarial Study of the plan pool as of June 30, 2012, the latest actuarial valuation date, the Unfunded Actuarial Accrued Liability (UAAL) ratio to covered payroll was 116.6%. The actuarial asset value of the pool was \$903 million; the actuarial accrued liability was \$1,082 million resulting in unfunded actuarial accrued liability of \$179 million. The plan was 83.5 % funded as of June 30, 2012.

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

Water Replenishment District of Southern California
Notes to Financial Statements
Years ended June 30, 2014 and 2013

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, 2014 and 2013, the District’s actual annual contributions to the PARS plan amounted to \$15,760 and \$24,862 respectively. These were equivalent to the annual required contribution.

As of June 30, 2014, the District has not received the more updated actuarial valuation for PARS. Management believes 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 and Note 13, 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 2014 and 2013, the District paid \$591,190 and \$3,741,160, 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, 2014 and 2013

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 38 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, an inflation rate of 7.0%, 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, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Annual required contribution	\$ 589,500	\$ 745,309
Interest on net OPEB obligation	(21,199)	147,569
Adjustment to ARC	<u>19,201</u>	<u>(91,650)</u>
Annual OPEB cost	587,502	801,228
Contribution (including benefit payments)	<u>(591,190)</u>	<u>(3,741,160)</u>
Increase (decrease) in net OPEB obligation	(3,688)	(2,939,932)
Net OPEB obligation (prepayment) - beginning of year	<u>(300,266)</u>	<u>2,639,666</u>
Net OPEB obligation (prepayment) - end of year	\$ (303,954)	\$ (300,266)

Water Replenishment District of Southern California
Notes to Financial Statements
Years ended June 30, 2014 and 2013

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 2014, 2013 and 2012 was:

Fiscal Year End	Annual OPEB Cost	Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Prepayment)
6/30/2012	\$ 734,886	\$ 165,662	23%	\$ 2,639,666
6/30/2013	801,228	3,741,160	467%	(300,266)
6/30/2014	587,502	591,190	101%	(303,954)

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 111%. During the year, the District opened an irrevocable trust and contributed \$591,190 to the plan.

Refer to Required Supplementary Information on page 38 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, 2014, 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, 2014 and 2013. 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, 2014 and 2013.

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, 2014 and 2013

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.

Water Purchase Agreement

On February 18, 2014, the District approved a water purchase agreement with Central Basin Municipal Water District (CBMWD) for the purchase of 60,000 AF of untreated tier 1 imported water for a total cost of \$40,000,000. The agreement shall expire upon the fulfillment of the purchase of the 60,000 AF of water from CBMWD or upon the fifth (5th) anniversary of the effective date, whichever comes first.

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 \$6.1 million of open construction contracts as of June 30, 2014.

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	\$ 37,177,950	\$ 33,809,888	\$ 3,368,062
Goldsworthy Desalter	1,054,574	789,144	265,430
Caltrans Pipeline	745,698	745,698	-
Regional Groundwater Monitoring Program	9,727,708	8,998,458	729,250
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	4,399,238	2,875,350	1,523,888
	<u>\$ 58,718,629</u>	<u>\$ 52,641,999</u>	<u>\$ 6,076,630</u>

Operating Leases

The District has entered into an operating lease for land which does not contain a purchase option. Rental expense was \$139,356 and \$137,882 for the years ended June 30, 2014 and 2013, respectively. Future minimum annual fixed rentals required during the years 2015 through 2020 under this lease are:

2015	\$ 121,433
2016	82,080
2017	62,862
2018	43,643
2019	43,643
Thereafter	25,459
	<u>\$ 379,120</u>

NOTE 17 PROP 218 CASE

The District is currently defending a series of cases in Los Angeles Superior Court based on claims that it failed to comply with the requirements under Prop 218 when imposing its annual replenishment assessments (RAs). These cases seek refunds of the RAs paid. The District denies that Prop 218 is applicable to its adoption of an annual RA and intends to vigorously defend against these cases.

- *City of Cerritos, et al. v. Water Replenishment District of Southern California*, Case No. BS128136 ("Main Refund Case"). The Cities of Cerritos, Downey and Signal Hill (the "Cities") filed suit against the District alleging that the District failed to comply with the requirements under Prop 218 when imposing its annual replenishment assessments (RAs). 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 claim for damages is adjudicated by the trial court. The Cities filed a Supplemental Petition on the same grounds for the RAs from 2011-12 to 2012-13. The Supplemental Petition is set for Writ hearing on March 10, 2015. Trial on the one remaining cause of action for damages in the original Complaint is set to begin on December 8, 2014. The Cities seek a full refund of the 2006-2011 RAs paid.
- *Tesoro Refining v. Water Replenishment District of Southern California*, Case No. BS134239, and *Tesoro Refining and Marketing Company v. Water Replenishment District of Southern California*, Case No. BS139830. Tesoro challenges the RAs imposed from 2006-2007 to 2011-2012 based on Prop 218 and non-Prop 218 theories. Similar to the case above, at the Writ stage the court ruled for plaintiff 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 are adjudicated by the trial court. Pursuant to a joint request of the parties, the February 2, 2015 trial date was recently vacated. The next status conference for this case is scheduled for April 10, 2015.
- *City of Pico Rivera v. Water Replenishment District of Southern California*, Case No. BS139228. The City of Pico Rivera challenges the RAs imposed from 2008-09 to 2012-13 based on Prop 218 and non-Prop 218 theories. Pursuant to the tolling agreement entered by the Parties, the City of Pico Rivera entered a notice of dismissal on November 3, 2014.

In an effort to validate the 2011-12 RA based on prescriptive water rights theory, the District has filed a case in Los Angeles Superior Court, captioned, *Water Replenishment District of Southern California v. All Persons Interested*, Case No. BC464772. This case includes Cross-Complaint filed by the cities of Bellflower and Lynwood related to the payment of RAs under Prop 218. Bellflower's First Amended Cross-Complaint seeks declaratory relief regarding the application of Prop 218 to WRD's RAs for fiscal years 2007/08 through 2011/12 and damages. WRD dismissed its Validation Action without prejudice on March 12, 2013. Bellflower's Cross-Complaint is still pending with a trial set on March 2, 2015.

NOTE 17 PROP 218 CASE (CONTINUED)

Further, the District has filed a series of cases, which have been consolidated, in Los Angeles Superior Court against those that failed to pay the 2010-11 and 2011-12 RAs.

- *Water Replenishment District of Southern California v. City of Signal Hill*, Case No. VC060496 (lead case).
- *Water Replenishment District of Southern California v. City of Downey*, Case No. VC060546.
- *Water Replenishment District of Southern California v. City of Cerritos*, Case No. VC060498.
- *Water Replenishment District of Southern California v. City of Bellflower*, Case No. VC060499.
- *Water Replenishment District of Southern California v. City of Pica Rivera*, Case No. VC060592.
- *Water Replenishment District of Southern California v. City of Huntington Park*, Case No. BC512581.

The court is trailing these cases behind the Main Refund Case and no trial date has been set for these consolidated actions.

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 SUBSEQUENT EVENTS

The District has evaluated events or transactions through December 16, 2014, 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 20 CALIFORNIA PUBLIC EMPLOYEES' PENSION REFORM ACT

After spending close to a year exploring and debating reforms to public pension systems in California, lawmakers in Sacramento passed Assembly Bill 340 (AB 340) on August 31, 2012. AB 340 known as the California Public Employees' Pension Reform Act of 2013 (PEPRA) which amends various provisions of the Public Employees' Retirement Law (PERL) and County Employee's Retirement Law of 1937 (CERL), was signed into law by the Governor on September 12, 2012. PEPRA 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. The District believes that PEPRA does not have a significant impact on the District's June 30, 2014 financial statements.

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2014, 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. 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 are intended to improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and 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, 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.

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Required Supplementary Information

**Water Replenishment District of Southern California
Required Supplementary Information (Unaudited)
Years ended June 30, 2014 and 2013**

Schedule of Funding Progress – CalPERS

Actuarial Valuation Date	Actuarial Asset Value in '000 (A)	Entry Age Actuarial Accrued Liability (AAL) in '000 (B)	Unfunded AAL [(B) – (A)] (UAAL) in '000 (C)	Funded Ratio [(A) / (B)] (D)	Covered Payroll in '000 (E)	Unfunded AAL as Percentage of Covered Payroll $\frac{[(B)-(A)]}{(E)}$ (F)
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%
June 30, 2012	903,411	1,081,963	178,552	83.50%	153,162	116.58%

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

Schedule of Funding Progress – PARS

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded Actuarial Liability [(B) – (A)] (UAL) (C)	Funded Ratio [(A) / (B)] (D)	Covered Payroll (E)	UAL as Percentage of Covered Payroll (F)
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	0%
7/1/2012	277,104	228,928	(48,176)	121%	98,129	0%

Schedule of Funding Progress – OPEB

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded Liability [(B) – (A)] (UAL) (C)	Funded Ratio [(A) / (B)] (D)	Covered Payroll (E)	UAL as Percentage of Covered Payroll (F)
7/1/2010	\$ -	\$ 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

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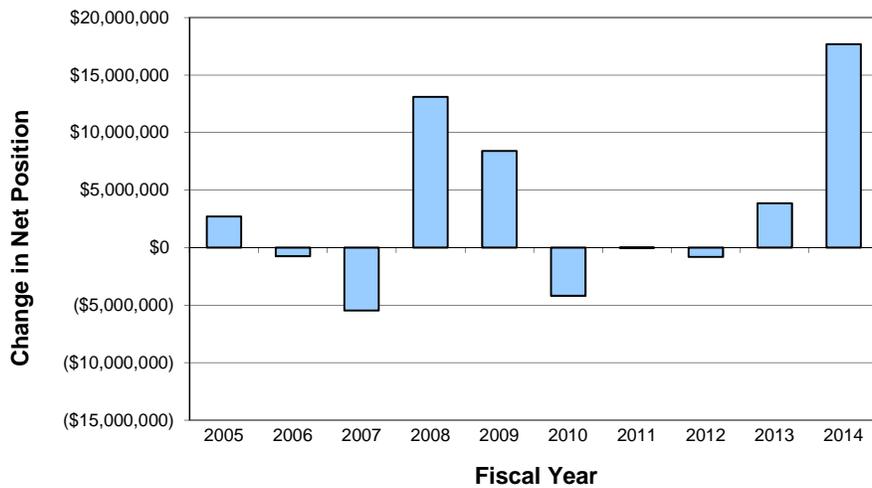
This part of the District's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the District's overall financial health.

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

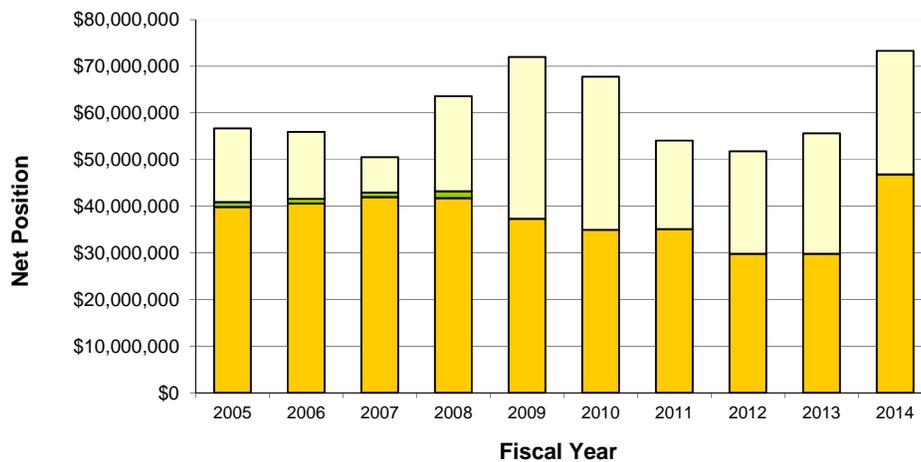
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Changes in net position:			
Operating revenues	\$ 31,411,938	32,861,119	34,541,889
Operating expenses	(28,632,898)	(33,793,189)	(39,817,101)
Overhead absorption	1,479,030	854,305	958,150
Depreciation and amortization	(1,641,524)	(1,800,675)	(1,846,275)
Operating income(loss)	<u>2,616,546</u>	<u>(1,878,440)</u>	<u>(6,163,337)</u>
Non-operating revenues(expenses)			
Property taxes, net of collection expenses	64,099	131,978	450,001
Investment income(loss)	285,643	479,332	1,126,993
Interest Expense	-	-	-
Election costs	(729,911)	-	(1,094,665)
Gain/(Loss) on sale/disposition of assets	-	-	-
Other revenue/(expense), net	106,840	11,883	58,679
Net non-operating revenues (expenses)	<u>(273,329)</u>	<u>623,193</u>	<u>541,008</u>
Net income before capital contributions	2,343,217	(1,255,247)	(5,622,329)
Capital contributions	<u>357,726</u>	<u>498,414</u>	<u>148,577</u>
Changes in net position	<u><u>2,700,943</u></u>	<u><u>(756,833)</u></u>	<u><u>(5,473,752)</u></u>
Net position by component:			
Net investment in capital assets	\$ 39,808,795	40,601,432	41,938,718
Restricted	1,058,377	986,555	989,332
Unrestricted	<u>15,835,835</u>	<u>14,358,187</u>	<u>7,544,372</u>
Total net position	<u><u>56,703,007</u></u>	<u><u>55,946,174</u></u>	<u><u>50,472,422</u></u>



Source: Water Replenishment District Accounting Department

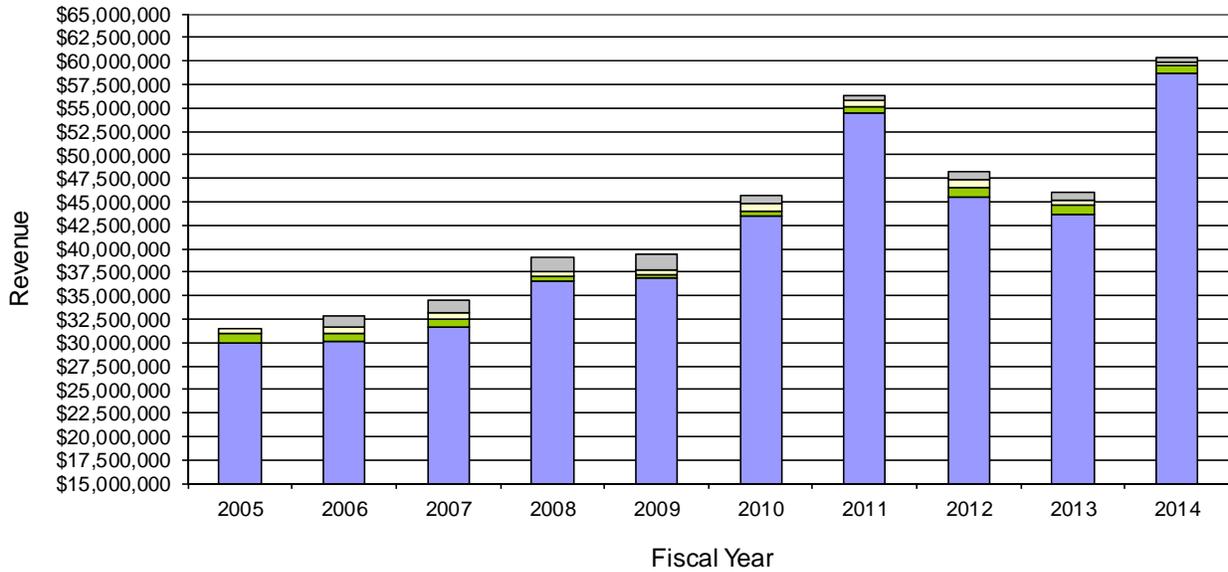
**Water Replenishment District of Southern California
Financial Trends - Changes in Net Position by Component (Unaudited)
Last Ten Fiscal Years**

		Fiscal Year						
		2008	2009	2010	2011	2012	2013	2014
\$		39,132,053	39,335,102	45,601,400	56,284,385	48,121,854	46,003,068	60,386,705
		(24,576,237)	(28,362,636)	(46,705,411)	(52,788,111)	(44,170,360)	(38,868,302)	(44,086,875)
		-	-	-	-	-	-	-
		(2,304,366)	(2,256,077)	(2,324,791)	(2,394,968)	(2,446,962)	(2,495,964)	(2,537,023)
		12,251,450	8,716,389	(3,428,802)	1,101,306	1,504,532	4,638,802	13,762,807
		456,702	493,625	446,160	481,874	476,937	606,562	544,319
		692,431	521,171	234,908	128,575	121,351	259,644	244,961
		-	(1,013,099)	(1,183,999)	(1,170,199)	(3,802,841)	(3,935,225)	(3,130,364)
		(570,547)	(511,638)	(450,000)	(1,008,030)	-	-	-
		-	-	-	-	-	-	-
		182,611	180,482	131,199	100,761	144,530	170,406	45,682
		761,197	(329,459)	(821,732)	(1,467,019)	(3,060,023)	(2,898,613)	(2,295,402)
		13,012,647	8,386,930	(4,250,534)	(365,713)	(1,555,491)	1,740,189	11,467,405
		97,516	9,284	60,577	348,943	752,468	2,107,865	6,207,226
\$		<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>	<u>17,674,631</u>
\$		41,757,258	37,305,026	34,945,659	35,110,097	29,781,357	29,824,873	46,797,968
		1,447,030	-	-	-	-	-	-
		20,378,297	34,673,773	32,843,183	18,952,155	21,979,302	25,783,840	26,485,376
\$		<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>	<u>73,283,344</u>



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

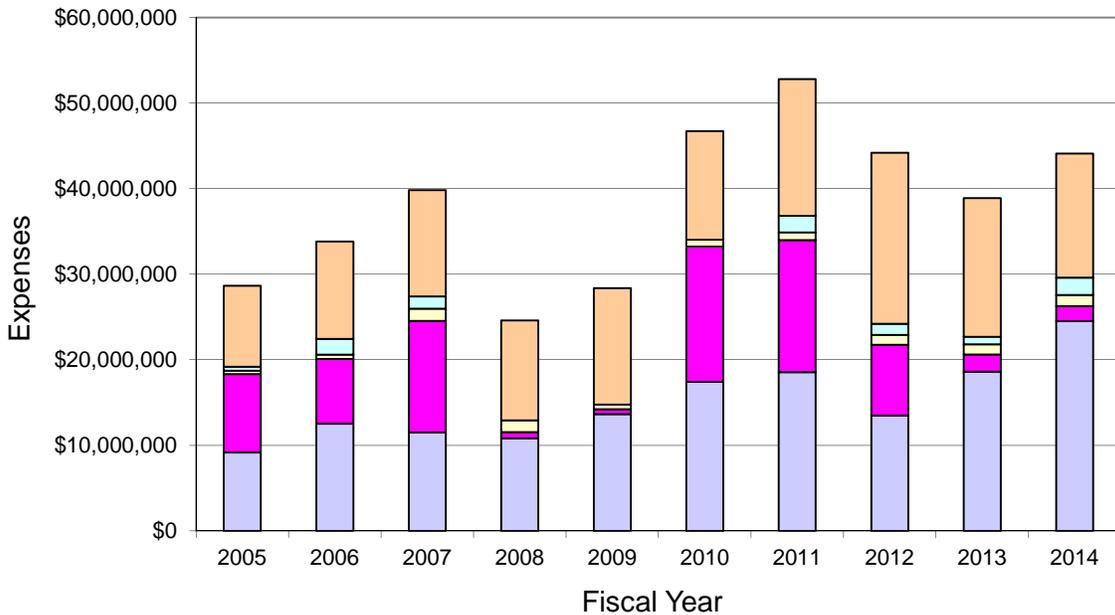
Fiscal Year	Water Replenishment Assessment	Desalter Assessments	Water Treatment Subsidies	Other Operating Revenue	Total Operating Revenue
2005	\$ 30,022,445	\$ 868,968	\$ 520,525	\$ -	\$ 31,411,938
2006	30,131,602	772,067	681,026	1,276,424	32,861,119
2007	31,613,924	904,186	562,977	1,460,802	34,541,889
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
2014	58,665,579	840,559	377,650	502,917	60,386,705



Source: Water Replenishment District Accounting Department

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

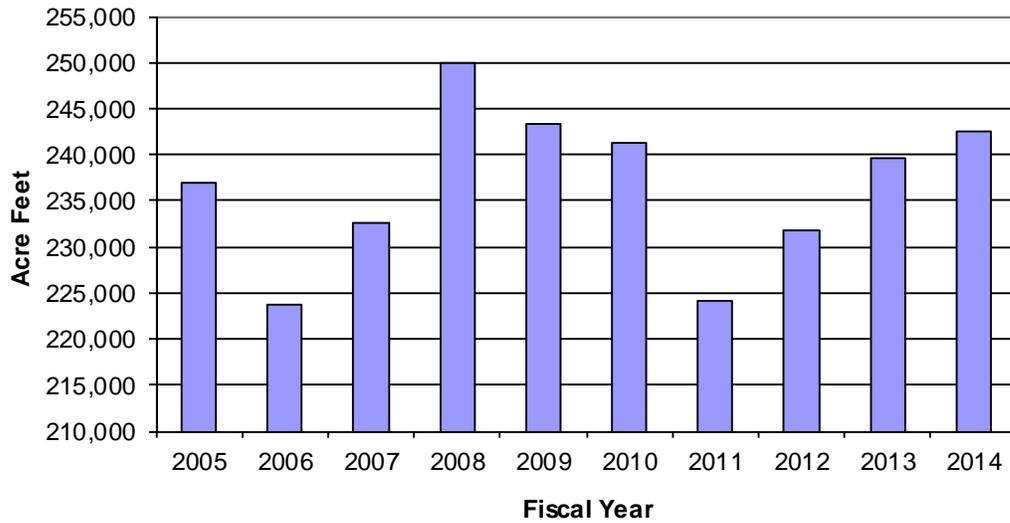
Fiscal Year	Water Purchases Injecting	Water Purchases Spreading	Connection Fees	In-lieu Replenishment	General and Administrative	Total Operating Expenses
2005	\$ 9,173,618	\$ 9,143,822	\$ 386,788	\$ 475,272	\$ 9,453,398	\$ 28,632,898
2006	12,521,505	7,559,361	520,595	1,830,941	11,360,787	33,793,189
2007	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
2014	24,496,761	1,780,436	1,285,551	2,028,005	14,496,122	44,086,875



Source: Water Replenishment District Accounting Department

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

Fiscal Year	Water Pumped (Acre Feet)
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
2014	242,545

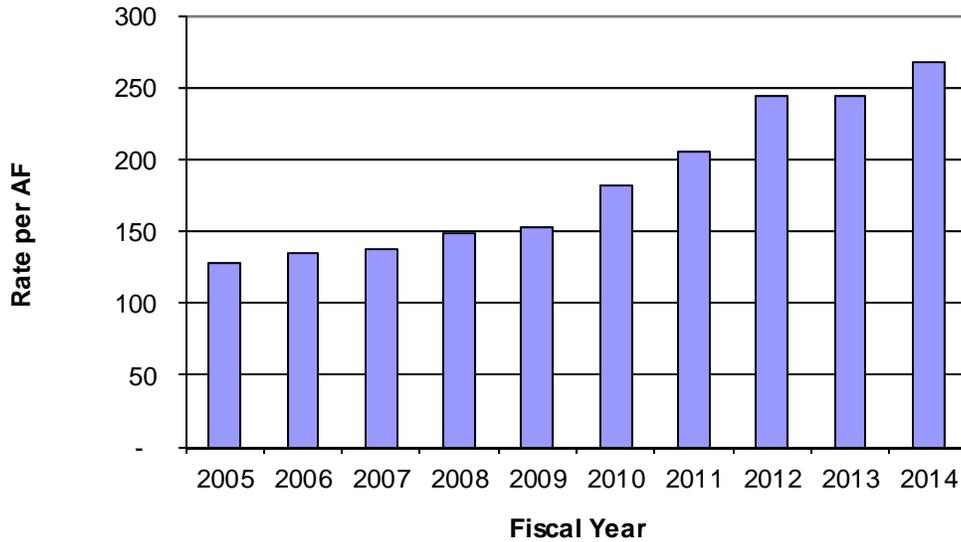


Note: See Schedule 2 "Operating Revenue by Source" for information regarding water revenues.

Source: Water Replenishment District Accounting Department

**Water Replenishment District of Southern California
Revenue Capacity - Revenue Rates (Unaudited)
Last Ten Fiscal Years**

Fiscal Year	Rate per AF
2005	\$ 128
2006	135
2007	138
2008	149
2009	153
2010	182
2011	205
2012	244
2013	244
2014	268



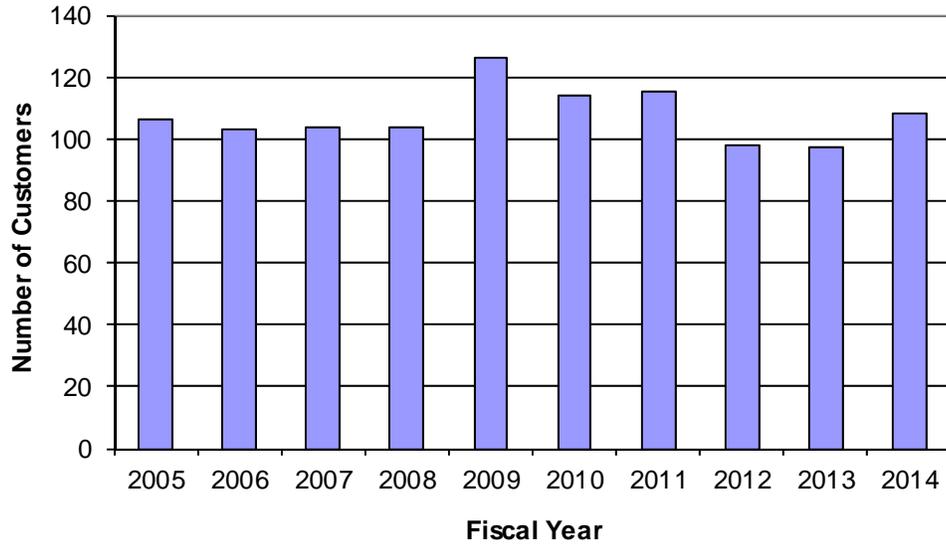
Notes:

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 (Unaudited)
Last Ten Fiscal Years**

Fiscal Year	Number of Pumpers
2005	106
2006	103
2007	104
2008	104
2009	126
2010	114
2011	115
2012	98
2013	97
2014	108



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

Source: Water Replenishment District Accounting Department

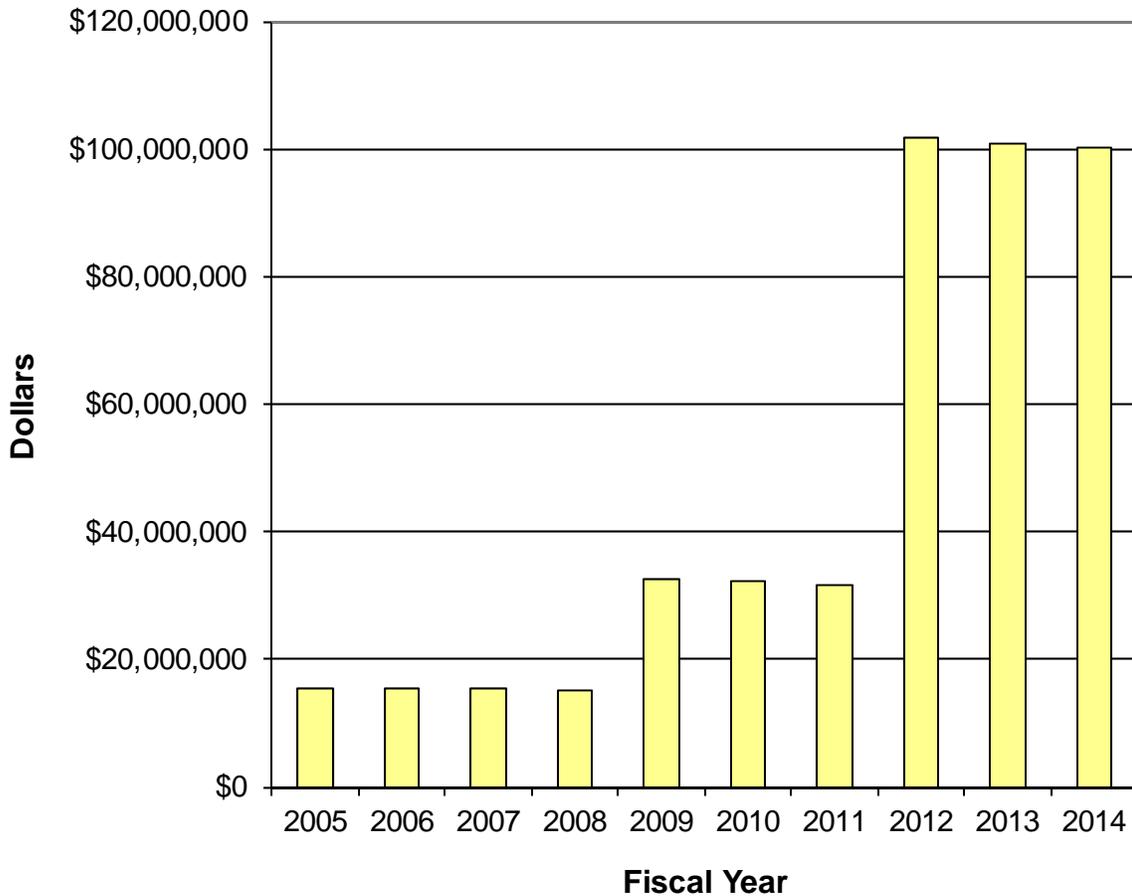
**Water Replenishment District of Southern California
Revenue Capacity - Principal Customers (Unaudited)
Current Fiscal Year and Ten Years Ago**

Customer	2014		2005	
	Water Pumped (AF)	Percentage of Total	Water Pumped (AF)	Percentage of Total
Golden State Water Company	35,997	15%	30,190	13%
Long Beach, City of	27,444	11%	24,744	10%
Downey, City of	16,473	7%	16,955	7%
California Water Service Company	15,299	6%	14,379	6%
Lakewood, City of	10,152	4%	13,874	6%
Los Angeles Department of Water & Power	9,727	4%	10,789	5%
Cerritos, City of	9,253	4%	10,434	4%
South Gate, City of	8,340	3%	8,869	4%
Compton, City of	7,859	3%	8,206	3%
Vernon, City of	7,155	3%	6,607	3%
Total	<u>147,700</u>	<u>61%</u>	<u>145,047</u>	<u>61%</u>
Total Water Consumed (Acre Feet)	<u>242,545</u>	<u>100%</u>	<u>236,855</u>	<u>100%</u>

Source: Water Replenishment District Accounting Department

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

Fiscal Year	Certificates of Participation	Total		
		Debt	Per Capita	As a Share of Personal Income
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	10.13	0.022784%
2014	100,148,068	100,148,068	10.00	0.021954%



Source: Water Replenishment District Accounting Department

**Water Replenishment District of Southern California
Debt Capacity - Debt Coverage (Unaudited)
Last Ten Fiscal Years**

Fiscal Year	Net Revenues (2)	Operating Expenses (1)	Net Available Revenues	Debt Service			Coverage Ratio
				Principal	Interest	Total	
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
2014	64,298,529	(44,086,875)	20,211,654	735,000	4,788,544	5,523,544	3.66

Notes:

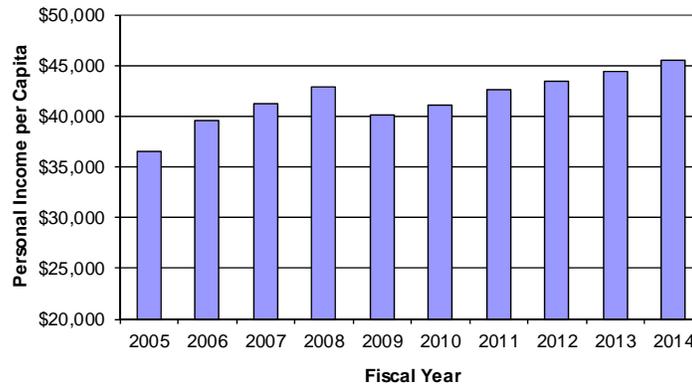
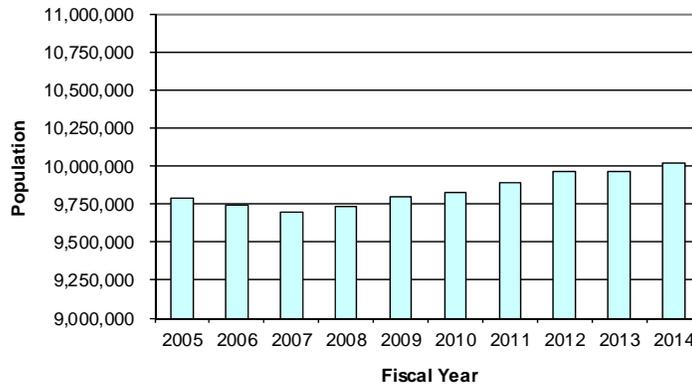
(1) Operating expenses exclude depreciation expense

(2) Net revenues is made up of total operating revenues, net nonoperating revenue (expense) and total capital contributions from the statements of revenue, expenses, and changes in net position.

Source: Water Replenishment District Accounting Department

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

Year	Unemployment Rate (1)	Population (2)	Personal Income (thousands of dollars) (2)	Personal Income per Capita (2)
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	9.6%	9,962,789	442,935,636	44,459
2014	8.2%	10,017,068	456,177,277	45,540



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 California Labor Market Info, Los Angeles Business Journal, FRED Economic Data - St. Louis Fed

(2) Per capita personal income was computed using Census Bureau midyear population estimates and Real Per Capita Income estimates from CalGov's Los Angeles County Economic Forecast. 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, CalGov.com/Los Angeles County Economic Forecast

Water Replenishment District of Southern California
Demographics and Economic Statistics – Largest Employers - County of Los Angeles
(Unaudited)
June 30, 2014

Largest Public Companies (1)

The Walt Disney Company
DirecTV Group
Occidental Petroleum
Edison International
Health Net
Jacobs Engineering Group
Reliance Steel & Aluminum Company
AECOM Technology
Dole Food Company
Avery Dennison

(1) Ranked by 2011 sales volume

Source: Fortune Magazine, Hoovers Online

Largest Private Companies (2)

Platinum Equity
Capital Group of Companies
Consolidated Electrical Distributors
Parsons
Forever 21 Inc.
Newegg Inc.
Roll Global LLC
Smart & Final
Guitar Center

(2) Ranked by 2011 sales volume

Source: Forbes Magazine, Hoovers Online

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

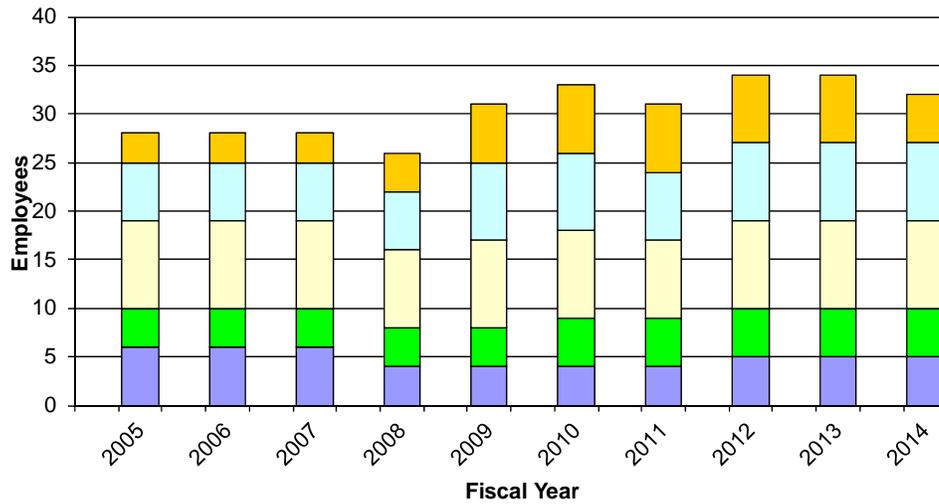
(3) Ranked by 2011 number of employees in Los Angeles County

Source: California Employment Development Department, the Los Angeles Business Journal, and Almanac research

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

Employees

Department	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Administration	6	6	6	4	4	4	4	5	5	5
Finance	4	4	4	4	4	5	5	5	5	5
Engineering	9	9	9	8	9	9	8	9	9	9
Hydrogeology	6	6	6	6	8	8	7	8	8	8
External Affairs	3	3	3	4	6	7	7	7	7	5
Total	28	28	28	26	31	33	31	34	34	32



Other Operating and Capacity Indicators

Fiscal Year	Number of Groundwater Pumps	Acre Feet Injected
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	27,408
2012	548	19,023
2013	543	23,277
2014	538	30,075

Sources: Water Replenishment District Engineering and Accounting Departments

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

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

**The Honorable Members of the Board of Directors
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 the Water Replenishment District of Southern California (the District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated December 16, 2014.

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 opinion 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.

Vacques & Company LLP

Los Angeles, California
December 16, 2014