



Comprehensive Annual Financial Report

Fiscal Years Ended

June 30, 2018 and 2017

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

**Prepared by:
Finance Department
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Chief Financial Officer**

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Kathryn Burns, Senior Accountant**

Our Mission Statement

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

Water Replenishment District of Southern California
Board of Directors as of June 30, 2018

| <u>Name</u> | <u>Division</u> | <u>Title</u> | <u>Elected/ Appointed</u> | <u>Current Term</u> |
|------------------------|-----------------|----------------|-------------------------------|-------------------------|
| John D.S. Allen | 3 | President | Elected | 01/17 – 01/21 |
| Sergio Calderon | 4 | Vice President | Elected | 01/15 – 01/19 |
| Willard H. Murray, Jr. | 1 | Secretary | Elected | 01/15 – 01/19 |
| Robert Katherman | 2 | Treasurer | Elected | 01/15 – 01/19 |
| Vera Robles-Dewitt | 5 | Director | Elected | 01/17 – 01/21 |

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

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DIRECTORS
JOHN D. S. ALLEN, PRESIDENT
SERGIO CALDERON, VICE PRESIDENT
VERA ROBLES DEWITT, SECRETARY
ROB KATHERMAN, TREASURER
WILLARD H. MURRAY, JR., DIRECTOR

ROBB WHITAKER, P.E., GENERAL MANAGER

December 26, 2018

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, 2018.

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, 2018. 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,

detering 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, in the past nearly 40 percent of the water consumed by the area served by the District comes from groundwater sources. Due to the drought and conservation, the percentage is now closer to 50 percent. 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 over 10 million residents in 88 cities spread across 4,100 square miles; Los Angeles County's population exceeds that of 43 states. If it were a country, it would be the twentieth largest economy in the world. In addition to its signature industries—entertainment, tourism and fashion—its enormous and diversified economy is home to the largest port complex in the Western Hemisphere and the largest number of manufacturing jobs of any county in the country. Other major industries include health care, education and knowledge creation and business services.

Los Angeles County has seen steady improvement over the past four years, both in terms of job gains and unemployment rate declines. This improvement is expected to continue in 2017 and 2018, although at a slower pace. With the economy back at full employment levels, wage gains are expected over the next year across many occupations. Households could experience significant gains in purchasing power this year as wage gains spread out more broadly than in recent years.

California water supplies are much better off than they were a year ago. The 2015/16 El Niño did produce additional rain and snow, however it was much farther north than expected. The additional rain in northern California has led to a healthy replenishment of the state's northern reservoirs including Shasta, Oroville and Folsom. Toward Los Angeles and San Diego, the winter's moisture has been much more disappointing. However, with the runoff from the storms in northern California boosting the reservoir levels, the Department of Water Resources (DWR) increased its water delivery estimate for most recipients to 60 percent of requests for the calendar year. DWR's initial State Water Project allocation, announced in December, was 10 percent of requests.

On the water conservation side of the equation, the State Water Resources Control Board recently announced that Californians have reduced residential water use by 28 percent in May 2017, compared to the same month in 2013. Cumulatively, local water suppliers have saved 1.6 million acre-feet in the 12 months since mandatory conservation goals began. Starting in June 2017, the State Water Resources Control Board recently updated emergency water conservation regulations to provide urban water agencies the ability to set their own conservation standards based on a "stress test" of supply reliability. Water suppliers must demonstrate that they have sufficient supplies to withstand three years of continuous drought or take additional measures that include mandatory conservation targets. The regulation is in effect through January 2018. The Water Replenishment District of Southern California has embraced water conservation and the use of recycled water for many years. Through coordination and planning with other local and regional water suppliers, the District continues to engage in developing long-term solutions to the various water supply challenges. These efforts are evidenced in the District's participation in regional

conjunctive use programs as well as local groundwater storage and recovery projects. It is through participation in these and other programs, such as the District's Water Independence Now (WIN) program, that will enable the District to continue to meet its long-term water supply needs.

The WIN program is specifically designed to make use of local water supplies to become completely independent of imported water from the Colorado River and the California State Water Project. Prior to 1961/62, the West and Central Groundwater Basins received about 36% of the replenishment water from storm water and 64% from imported water. Today, the demand for imported water has dropped dramatically due to the many projects and cooperative interagency programs WRD has helped develop. 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 current imported water needs with recycled water. This will be accomplished through completion of the Groundwater Reliability Improvement Program (GRIP) and the use of 100% recycled water at the West Coast and Dominguez Gap Seawater Intrusion Barrier Projects.

Source of economic data: Los Angeles County Profile; Los Angeles County Economic Development Corporation.

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 several public budget workshops, the WRD Board of Directors voted to increase the 2017-2018 Replenishment Assessment to \$318.00 per acre-foot. When compared to the cost of imported water of about \$1,058 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 and Standard & Poor's 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

As state water policy-makers have struggled for decades to figure out how to make the State Water Project (SWP) a more reliable system to export water from Northern California to the Central Valley and Southern California, WRD has implemented a step-by-step plan to eliminate our use of imported State Water Project water as well as Colorado River water for groundwater replenishment. The final step in the Water Independence Now (WIN) program we adopted in 2003 comes later this year with the opening of Albert Robles Center (ARC), WRD's signature advanced treated recycled water facility in Pico Rivera.

WIN for All

WIN does not end when ARC begins. The same principles that guided WRD's implementation of WIN over the past 15 years can be applied to reduce the region's reliance on imported water as well.

The WRD Board took a significant first step this year toward what we internally call WIN for All by awarding a contract to study the feasibility of a Brackish Water Reclamation Program to treat for beneficial use the 600,000 acre-feet of saline water that intruded into West Basin aquifers before the West Coast Seawater Intrusion Barrier was built out.

As important as the purpose of the study is the fact that this planning effort is genuinely regional in nature and includes six stakeholders who pump and wholesale potable water within the basin. WRD is persuaded that regional partnerships among and between entities that historically operate in relative isolation from one another is the model that will lead to regional groundwater storage projects, regional storm water projects, a regional brackish water reclamation program, and other initiatives that will result in greatly enhanced regional self-reliance. And that will be a Win for All.

Albert Robles Center

ARC is the crown jewel of WRD's water resource assets. It will produce 10,000 acre-feet of the highest quality water to blend with 11,000 acre-feet of high quality tertiary treated water, totally eliminating the need for 21,000 acre-feet of imported water in the San Gabriel Coastal Spreading Grounds. ARC will also be an educational destination for school kids to learn about water and how it is recycled and used to replenish groundwater, as well as for water professionals from around the world to study advanced water treatment technology.

ARC will be a community amenity for its neighbors and the City of Pico Rivera and will serve as a popular gathering place for public meetings. WRD is exceptionally proud of this facility, its well-designed public features and the neighborhood support it has received since we broke ground on

September 22, 2016. ARC is on schedule to start producing advanced treated recycled water before the end of calendar year 2018. Meeting the project's substantial completion date later this year marks the culmination of WRD's ambitious Water Independence Now (WIN) initiative begun in 2003. A formal dedication of the facility is planned for early 2019.

Robert W. Goldsworthy Expansion Completed

Construction to double the capacity of the Goldsworthy Desalter was completed in December 2017. The original capacity of 2,200 acre-feet was expanded to 4,800 acre-feet per year. The project treats a portion of the saline plume underlying the West Coast Basin and delivers the treated water to the City of Torrance potable water system, supplying 25% of the City's total water needs.

Remarkably, nearly 80% of the total cost of the expansion was paid with grants obtained by WRD. \$4 million came from the Department of Water Resources (DWR) Drought Relief funding program and \$3 million came from the Water Desalination Grant program administered by DWR. That \$7 million is equivalent to roughly \$28 for one year on the Replenishment Assessment, a significant savings for the pumper community.

Regional Brackish Water Reclamation Program

As successful as it is, the Goldsworthy Desalter is a relatively small solution to a much larger problem. Currently, 600,000 acre-feet of groundwater in the Basin cannot be pumped for potable use because of high salinity levels. In May, the WRD Board awarded a contract to CH2M/Jacobs to study the feasibility of a Regional Brackish Water Reclamation Program to examine desalinating the Basin. The feasibility study will include strategies to sustain a 20,000 per acre-foot yield for 30 years. That equates to 20 million gallons per day of new potable water supplies in the region, every day, for 30 years.

In addition to creating a new water supply, we will also reclaim the ability to store water in the Basin. The scale of this project represents a new frontier for WRD and a new collaborative model with our six stakeholder partners --- the cities of Los Angeles, Manhattan Beach and Torrance, Golden State Water Company, California Water Service Company, and the West Basin Municipal Water District. One-half of the cost of the feasibility study is paid by a Desalination Grant from the Department of Water Resources.

The lead consultant for the study has characterized the project as "the most complex and the most important" in the state.

Basin Cleanup and WRD's Safe Drinking Water Program

Assuring a safe and clean supply of groundwater has been part of WRD's mission since 1991. Since then, WRD has installed 16 wellhead treatment projects in the Central Basin portion of the District. These projects treat for potable use over 38,800 acre-foot per year, groundwater that would not otherwise be pumped. WRD began construction this year on three additional wellhead treatment projects --- in Huntington Park, Lynwood, and in the Arlington area of Los Angeles. These three projects will treat trichloroethylene (TCE) and return to beneficial use 2,550 acre-feet annually. By virtue of these 19 projects, more than 40,000 acre-feet is produced, sparing the respective pumpers from having to purchase a like amount of imported water.

Under WRD’s recently-adopted Disadvantaged Communities Pilot Program, WRD has assisted two pumpers (Bell Gardens and Maywood Mutual #2) in obtaining state funds for clean water-related projects. Six more await state funding.

Funding Support for WRD Projects

External funding in the form of grants, loans and operating subsidies under MWD’s Local Resources Program are increasingly important components of WRD’s project finance portfolio. Since July 2016, WRD has received a total of \$117,623,175 in federal, state and regional grants and a very low interest loan. Purposes, awarding authorities and funding amounts:

| Description | Agency | Grant Program/ Agreement # | Award Amount |
|---|---------------|---|-------------------------|
| Title XVI Water Recycling Projects | USBR | Water Smart, ARC construction | \$4,337,500 |
| Feasibility Study for the West Coast Basin Brackish Water Reclamation Project | DWR | Prop 1 Water Desalination Grant Program | \$700,000 |
| Perchlorate Remediation in Los Angeles Forebay | DWR | Prop 1 Groundwater Grant | \$7,275,675 |
| Local Resources Program (LRP) (for 10,000 AF) | MWD | Fixed ARC Incentive \$38/AF for 25 years | \$9,310,000 |
| Water Quality, Supply, and Infrastructure Improvement Act Grants | RMC | Prop 1, ARC landscape, storm water features | \$1,000,000 |
| DWR: Water Recycling Funding Program (CWSRF) | DWR | Prop 1 SRF Loan (1%), ARC construction | \$80,000,000 |
| DWR: Water Recycling Funding Program (CWSRF) | DWR | Prop 1 SRF Grant, ARC construction | \$15,000,000 |

The \$80 million State Revolving Fund Loan is as good as a grant. At a 1% interest rate over 30 years, the loan represents a \$74 million savings when compared to the 30-year cost of AAA-rated revenue bonds.

The total value of these awards equals a one-year Replenishment Assessment of more than \$470 per acre-foot, illustrating the crucial importance of external funding support for WRD projects.

Legislation Removes Cap on WRD Reserves

In response to a 1999 State Audit that found WRD's cash reserves to be "excessive," legislation adopted in 2000 placed a \$10 million "cap" on WRD's operating reserve. And 80% of that reserve had to go toward water purchases.

Since 2000, WRD has relied less on "purchased" water and more on water we produce on our own. The Leo J. Vander Lans Advanced Water Treatment Facility, for example, began producing water in 2005 to replace the imported water we used to buy for injection into the Alamitos Barrier. Its original 3,500 acre-foot capacity was expanded in 2014 to nearly 9,000 acre-feet per year.

Later this year, the ARC advanced water treatment facility will produce 10,000 acre-feet that will be blended with 11,000 acre-feet of tertiary water to replace 21,000 acre-feet of imported water we used to buy from a municipal water district.

A cap on WRD's reserve fund and a requirement that most of it go to "purchased" water may have made sense in 2000. But it makes less sense as we have shifted from reliance on imported water purchased from other agencies to investing in local supplies we develop on our own. WRD's fiscal needs have changed as a result. We need to spend more on operating expenses to maintain our projects and less on water from other agencies.

SB 963 by Senator Ben Allen removes the cap altogether, thus also eliminating the 80% purchased water requirement in the reserve language.

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, 2017. This was the thirteenth 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 only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

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

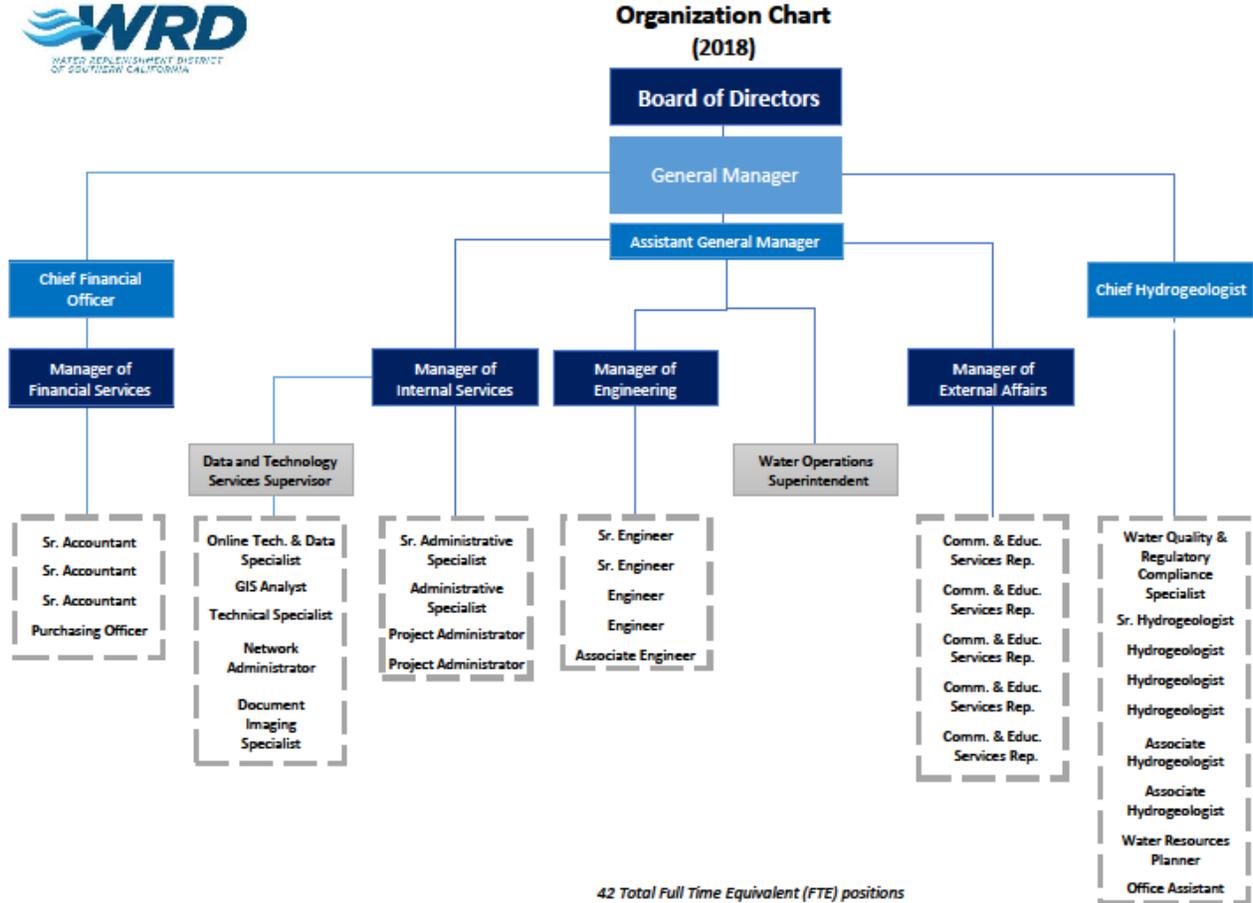
Preparation of this report was accomplished by the combined efforts of District staff. We appreciate the dedicated efforts and professionalism that our staff members bring to the District. We would also like to thank the members of the Board of Directors for their continued support in the planning and 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



42 Total Full Time Equivalent (FTE) positions
(38 funded by WRD replenishment assessment + 4 funded by Watermaster)

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, 2017

Christopher P. Morill

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), which comprise the statements of net position as of June 30, 2018 and 2017, the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements (collectively, the basic financial statements).

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 auditors' 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 financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2018 and 2017, and the changes in its financial position, and cash flows 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 4 through 9, and the required supplementary information on page 50 through 55, 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 and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly we do not express an opinion or provide any assurance on them.

Implementation of New Accounting Standards

As discussed in Notes 1 and 19, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions (OPEB)* effective for the fiscal year ended June 30, 2018. As a result of this implementation, the District's financial statements as of and for the year ended June 30, 2017 were restated to retroactively report the net OPEB liability and deferred outflows of resources related to OPEB of \$4,206,733 and \$1,048,933, respectively, as of June 30, 2017. Our opinion is not modified with respect to this matter.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 26, 2018, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's 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.

Vacquez & Company LLP

**Glendale, California
December 26, 2018**

**Water Replenishment District of Southern California
Management's Discussion and Analysis (Unaudited)
June 30, 2018 and 2017**

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, 2018 and 2017. 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 23.1% or \$23,326,973 from \$100,949,737 in fiscal year 2017 to \$124,276,710 in fiscal year 2018. Net position increased 15.1% or \$13,227,036 from \$87,722,701 in fiscal year 2016 to \$100,949,737 in fiscal year 2017.
- The District's total operating revenues slightly decreased by .4% or \$283,694 from \$74,573,333 in fiscal year 2017 to \$74,289,639 in fiscal year 2018.
- The District's total expenses decreased by 3% or \$2,153,683 from fiscal year 2017 to 2018. This was primarily due to the following:
 - The cost of imported spreading water decreased by \$11.6 million but was offset by the increase in the cost of water injection and increase in administrative cost due to increase in pension and OPEB expense resulting from updated actuarial valuation report from CalPERS, and implementation of GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*.
- From fiscal year 2016 to 2017, the District's total expenses increased by 21.9% or \$12,673,602 primarily due to the following:
 - The District reimburses the cost for the District's general election every two years to the County Registrar-Recorder. In fiscal year 2017, the cost was \$1.37 million;
 - Total water costs increased \$10,774,876 from \$36,913,524 in fiscal year 2016 to \$47,688,400 in 2017.
- During the fiscal year ended June 30, 2018, the District implemented GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*. This resulted in restatement of the District's beginning net position balance in 2017 and reporting of net OPEB liability of \$4,913,070 and \$4,206,733 as of June 30, 2018 and 2017, respectively.

Required Financial Statements

This annual report includes the basic 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.

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

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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.

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 14 through 49.

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 Statements of Net Position | | | | | | | |
|--------------------------------|--------------------------------------|-----------------------|----------------------|-------------|----------------------|----------------------|------------|--|
| | June 30, | | Change | | June 30, | | Change | |
| | 2018 | 2017 | Amount | % | 2016 | Amount | % | |
| | | (Restated) | | | | | | |
| Current assets | \$ 89,584,407 | \$ 68,511,957 | \$ 21,072,450 | 30.8 | \$ 68,486,791 | \$ 25,166 | 0.0 | |
| Restricted assets | 23,362,227 | 33,015,303 | (9,653,076) | -29.2 | 75,168,581 | (42,153,278) | -56.1 | |
| Other noncurrent assets | 343,403 | 662,998 | (319,595) | -48.2 | 1,028,682 | (365,684) | -35.5 | |
| Capital assets, net | 250,985,807 | 195,214,183 | 55,771,624 | 28.6 | 141,795,238 | 53,418,945 | 37.7 | |
| Total assets | <u>364,275,844</u> | <u>297,404,441</u> | <u>66,871,403</u> | <u>22.5</u> | <u>286,479,292</u> | <u>10,925,149</u> | <u>3.8</u> | |
| Deferred outflows of resources | 10,149,649 | 12,986,438 | (2,836,789) | -21.8 | 14,780,986 | (1,794,548) | -12.1 | |
| Current liabilities | 29,021,420 | 20,572,660 | 8,448,760 | 41.1 | 22,157,323 | (1,584,663) | -7.2 | |
| Noncurrent liabilities | 220,909,215 | 184,404,593 | 36,504,622 | 19.8 | 173,627,515 | 10,777,078 | 6.2 | |
| Total liabilities | <u>249,930,635</u> | <u>204,977,253</u> | <u>44,953,382</u> | <u>21.9</u> | <u>195,784,838</u> | <u>9,192,415</u> | <u>4.7</u> | |
| Deferred inflows of resources | 218,148 | 4,463,889 | (4,245,741) | -95.1 | 17,752,739 | (13,288,850) | -74.9 | |
| Net position | | | | | | | | |
| Net investment in capital | 64,895,311 | 58,811,863 | 6,083,448 | 10.3 | 45,393,945 | 13,417,918 | 29.6 | |
| Unrestricted | 59,381,399 | 42,137,874 | 17,243,525 | 40.9 | 42,328,756 | (190,882) | -0.5 | |
| Total net position | <u>\$ 124,276,710</u> | <u>\$ 100,949,737</u> | <u>\$ 23,326,973</u> | <u>23.1</u> | <u>\$ 87,722,701</u> | <u>\$ 13,227,036</u> | <u>15</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 and deferred outflows of resources of the District

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exceeded liabilities and deferred inflows of resources by \$124,276,710 and \$100,949,737 as of June 30, 2018 and 2017, respectively.

Total assets increased \$66.9 million or 22.5% in the current year primarily due to the proceeds from the Clean Water State Revolving Fund Loan received during the fiscal year. The debt proceeds were used to fund certain construction projects which include the Groundwater Replenishment Improvement Project (GRIP). Thus, Capital assets increased by \$55.8 million during the fiscal year 2018.

Deferred outflows of resources decreased (\$2,836,789) primarily due to amortization of deferred amount on refunding during the fiscal year.

Total liabilities increased by approximately \$45 million or 21.9% due to increase in accounts payable and additional loan drawn down from the Clean Water State Revolving Fund Loan.

At the end of fiscal years 2018 and 2017, the District shows a positive balance in unrestricted net position of \$59,381,399 and \$42,137,874, 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 | | | | | | |
|--|--|----------------|---------------|-------|---------------|---------------|---------|
| | Years Ended June 30, | | Change | | Year ended | | Change |
| | 2018 | 2017 | Amount | % | 2016 | Amount | % |
| | | (Restated) | | | | | |
| Revenues: | | | | | | | |
| Operating revenues | \$ 74,289,639 | \$ 74,573,333 | \$ (283,694) | (0.4) | \$ 59,852,856 | \$ 14,720,477 | 24.6 |
| Nonoperating revenues | | | | | | | |
| Property taxes | 658,530 | 613,015 | 45,515 | 7.4 | 585,957 | 27,058 | 4.6 |
| Interest and investment earnings | 1,027,074 | 864,242 | 162,832 | 18.8 | 562,438 | 301,804 | 53.7 |
| Other, net | 4,209,797 | 3,270,421 | 939,376 | 28.7 | 4,192,116 | (921,695) | (22.0) |
| Total revenues | 80,185,040 | 79,321,011 | 864,029 | 1.1 | 65,193,367 | 14,127,644 | 21.7 |
| Expenses | | | | | | | |
| Operating expenses | 57,072,594 | 62,347,174 | (5,274,580) | (8.5) | 51,786,834 | 10,560,340 | 20.4 |
| Depreciation and amortization | 4,112,063 | 4,014,947 | 97,116 | 2.4 | 4,003,734 | 11,213 | 0.3 |
| Nonoperating expenses | 7,274,350 | 4,250,569 | 3,023,781 | 71.1 | 2,148,520 | 2,102,049 | 97.8 |
| Total expenses | 68,459,007 | 70,612,690 | (2,153,683) | (3.0) | 57,939,088 | 12,673,602 | 21.9 |
| Income before capital contributions | 11,726,033 | 8,708,321 | 3,017,712 | 34.7 | 7,254,279 | 1,454,042 | 20.0 |
| Capital contributions - capital grants | 11,600,940 | 7,550,656 | 4,050,284 | 53.6 | 450,878 | 7,099,778 | 1,574.7 |
| Change in net position | 23,326,973 | 16,258,977 | 7,067,996 | 43.5 | 7,705,157 | 8,553,820 | 111.0 |
| Net position - beginning of year as restated | 100,949,737 | 87,722,701 | 13,227,036 | 15.1 | 80,017,544 | 7,705,157 | 9.6 |
| Prior period adjustment | - | (3,031,941) | 3,031,941 | - | - | (3,031,941) | - |
| Net position - end of year | \$ 124,276,710 | \$ 100,949,737 | \$ 23,326,973 | 23.1 | \$ 87,722,701 | \$ 13,227,036 | 15.1 |

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 \$23,326,973 and \$16,258,977 (prior to restatement) during the fiscal years ended June 30, 2018 and 2017, respectively. In fiscal year 2018, the increase in net position is due to total revenues of \$80,185,040 exceeding total expenses of \$68,459,007 with capital contributions of \$11,600,940. In fiscal year 2017, the increase in net position is due to total revenues of \$79,321,011 exceeding total expenses of \$70,612,690 with capital contributions of \$7,550,656.

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

In fiscal year 2018, total revenue increased \$864,029 and total expenses decreased \$2,153,683 for a net increase of \$3,017,712. The District also saw an increase in capital contributions of \$4,050,284 for a net increase in change in net position for 2018 of \$7,067,996.

In fiscal year 2017, total revenue increased \$14,127,644 and total expenses increased \$12,673,602 for a net increase of \$1,454,042. The District also saw an increase in capital contributions of \$7,099,778 for a net increase in change in net position for 2017 of \$8,553,820.

Operating Revenues

| | <u>2018</u> | <u>2017</u> | <u>Change</u> | <u>2016</u> | <u>Change</u> |
|--------------------------------|----------------------|----------------------|---------------------|----------------------|----------------------|
| Operating Revenues: | | | | | |
| Water replenishment assessment | \$ 73,687,699 | \$ 73,822,097 | \$ (134,398) | \$ 58,128,626 | \$ 15,693,471 |
| Desalter assessments | 334,381 | - | 334,381 | 619,806 | (619,806) |
| Water treatment subsidies | 171,759 | 355,914 | (184,155) | 412,706 | (56,792) |
| Other operating income | <u>95,800</u> | <u>395,322</u> | <u>(299,522)</u> | <u>691,718</u> | <u>(296,396)</u> |
| Total operating revenues | <u>\$ 74,289,639</u> | <u>\$ 74,573,333</u> | <u>\$ (283,694)</u> | <u>\$ 59,852,856</u> | <u>\$ 14,720,477</u> |

Total operating revenues decreased slightly by \$283,694 from \$74,573,333 in 2017 to \$74,289,639 in fiscal year 2018.

Total operating revenues increased \$14,720,477 from \$59,852,856 in 2016 to \$74,573,333 in fiscal year 2017. The primary reason for the increase is the increase in the replenishment assessment from \$297.00 acre-foot to \$318.00 per acre-foot and an increase in deferred revenue due to imported spreading water purchases.

Operating Expenses - Water Supply Management Expenses

| | <u>2018</u> | <u>2017</u> | <u>Change</u> | <u>2016</u> | <u>Change</u> |
|--|----------------------|----------------------|-----------------------|----------------------|----------------------|
| Water supply management: | | | | | |
| Water purchases - injecting | \$ 26,328,547 | \$ 21,344,615 | \$ 4,983,932 | \$ 17,798,133 | \$ 3,546,482 |
| Water purchases - spreading | 10,707,564 | 22,333,722 | (11,626,158) | 16,290,901 | 6,042,821 |
| Connection fees | <u>1,970,372</u> | <u>4,010,063</u> | <u>(2,039,691)</u> | <u>2,824,490</u> | <u>1,185,573</u> |
| Total water supply management expenses | <u>\$ 39,006,483</u> | <u>\$ 47,688,400</u> | <u>\$ (8,681,917)</u> | <u>\$ 36,913,524</u> | <u>\$ 10,774,876</u> |

Water purchases make up the majority of the District's total operating expenses which saw a decrease of \$8,681,917 over the prior fiscal year. The main reason for the change was due to the decrease in the cost of spreading water and connections fees of \$ 11.6 million and \$2.0 million, respectively, offset by the increase in the cost of water injection of approximately \$5.0 million.

**Water Replenishment District of Southern California
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Capital Assets Administration

At June 30, 2018 and 2017, the District's investment in capital assets amounted to \$250,985,807 and \$195,214,183 (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-process. Major capital asset additions during fiscal year 2018 and 2017 include expenses related to the Leo J. Vander Lans Advanced Water Treatment Facility Expansion Project, Goldsworthy Desalter, 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.

| | Balance July 1, 2017 | Additions/ Transfers | Deletions/ Transfers | Balance June 30, 2018 |
|--------------------------|-------------------------|-------------------------|-------------------------|--------------------------|
| Non-depreciable assets | \$ 118,913,270 | \$ 59,883,687 | \$ (6,004,633) | \$ 172,792,324 |
| Depreciable assets | 112,104,525 | 6,004,633 | (168,500) | 117,940,658 |
| Accumulated depreciation | <u>(35,803,612)</u> | <u>(4,112,063)</u> | <u>168,500</u> | <u>(39,747,175)</u> |
| Capital assets, net | <u>\$ 195,214,183</u> | <u>\$ 61,776,257</u> | <u>\$ (6,004,633)</u> | <u>\$ 250,985,807</u> |

| | Balance July 1, 2016 | Additions/ Transfers | Deletions/ Transfers | Balance June 30, 2017 |
|--------------------------|-------------------------|-------------------------|-------------------------|--------------------------|
| Non-depreciable assets | \$ 61,504,989 | \$ 57,408,281 | \$ - | \$ 118,913,270 |
| Depreciable assets | 112,262,505 | 25,611 | (183,591) | 112,104,525 |
| Accumulated depreciation | <u>(31,972,256)</u> | <u>(4,014,947)</u> | <u>183,591</u> | <u>(35,803,612)</u> |
| Capital assets, net | <u>\$ 141,795,238</u> | <u>\$ 53,418,945</u> | <u>\$ -</u> | <u>\$ 195,214,183</u> |

Long-term Debt

At June 30, 2018 and 2017, the District had long-term debt of \$215,885,932 and \$178,903,498 outstanding, respectively (See Note 6 to the basic financial statement for further details).

Changes in long-term debt in fiscal year 2018 were as follows:

| | Balance July 1, 2017 | Additions | Deletions | Balance June 30, 2018 |
|--|-------------------------|----------------------|-----------------------|--------------------------|
| Replenishment Assessment Revenue Bonds | \$ 146,690,000 | \$ - | \$ (2,350,000) | \$ 144,340,000 |
| Clean Water State Revolving Fund Loan | 9,778,138 | 40,121,948 | - | 49,900,086 |
| | <u>156,468,138</u> | <u>40,121,948</u> | <u>(2,350,000)</u> | <u>194,240,086</u> |
| Bond premium | 22,435,360 | - | (789,514) | 21,645,846 |
| Total long-term debt | <u>\$ 178,903,498</u> | <u>\$ 40,121,948</u> | <u>\$ (3,139,514)</u> | <u>\$ 215,885,932</u> |

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Changes in long-term debt in fiscal year 2017 were as follows:

| | Balance July 1, 2016 | Additions | Deletions | Balance June 30, 2017 |
|--|-------------------------|---------------------|-----------------------|--------------------------|
| Replenishment Assessment Revenue Bonds | \$ 148,345,000 | \$ - | \$ (1,655,000) | \$ 146,690,000 |
| Clean Water State Revolving Fund Loan | - | 9,778,138 | - | 9,778,138 |
| | <u>148,345,000</u> | <u>9,778,138</u> | <u>(1,655,000)</u> | <u>156,468,138</u> |
| Bond premium | 23,224,874 | - | (789,514) | 22,435,360 |
| Total long-term debt | <u>\$ 171,569,874</u> | <u>\$ 9,778,138</u> | <u>\$ (2,444,514)</u> | <u>\$ 178,903,498</u> |

Requests for Information

This management's discussion and analysis 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, | |
|--|---------------|----------------|
| | 2018 | 2017 |
| ASSETS | (Restated) | |
| Current assets | | |
| Cash and cash equivalents | \$ 47,951,465 | \$ 47,307,938 |
| Water replenishment assessments receivable, net | 41,186,111 | 20,481,843 |
| Grants receivable | 1,469 | - |
| Notes receivable - current portion | 308,421 | 505,940 |
| Prepaid expenses and other deposits | 136,941 | 216,236 |
| Total current assets - unrestricted | 89,584,407 | 68,511,957 |
| Restricted current assets - cash and cash equivalents | | |
| Cash and cash equivalents | 23,362,227 | 33,015,303 |
| Total current assets | 112,946,634 | 101,527,260 |
| Noncurrent assets | | |
| Notes receivable - net of current portion | 308,460 | 616,881 |
| Net pension asset | 34,943 | 46,117 |
| Capital assets, net | 250,985,807 | 195,214,183 |
| Total noncurrent assets | 251,329,210 | 195,877,181 |
| Total assets | 364,275,844 | 297,404,441 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred amount on debt refunding | 6,433,209 | 9,485,875 |
| Deferred outflows related to pensions | 2,707,779 | 2,451,630 |
| Deferred outflows related to OPEB | 1,008,661 | 1,048,933 |
| Total deferred outflows of resources | 10,149,649 | 12,986,438 |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable and accrued expenses | 15,334,052 | 8,965,483 |
| Accrued wages and related payables | 279,064 | 190,998 |
| Compensated absences - current portion | 162,491 | 184,190 |
| Advances from Caltrans | 5,132,802 | 5,198,850 |
| Interest payable | 2,854,458 | 2,893,625 |
| Long-term debt - current portion | 5,258,553 | 3,139,514 |
| Total current liabilities | 29,021,420 | 20,572,660 |
| Noncurrent liabilities | | |
| Net pension liability | 4,977,020 | 4,188,699 |
| Compensated absences - net of current portion | 391,746 | 245,177 |
| Net OPEB liability | 4,913,070 | 4,206,733 |
| Long-term debt - net of current portion | 210,627,379 | 175,763,984 |
| Total noncurrent liabilities | 220,909,215 | 184,404,593 |
| Total liabilities | 249,930,635 | 204,977,253 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Deferred inflows of resources - replenishment assessments | - | 4,154,665 |
| Deferred inflows related to pensions | 204,978 | 309,224 |
| Deferred inflows related to OPEB | 13,170 | - |
| Total deferred inflows of resources | 218,148 | 4,463,889 |
| NET POSITION | | |
| Net position | | |
| Net investment in capital assets | 64,895,311 | 58,811,863 |
| Unrestricted | 59,381,399 | 42,137,874 |
| Total net position \$ | 124,276,710 | \$ 100,949,737 |

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, | |
|--|-----------------------------|-----------------------|
| | 2018 | 2017 |
| | | (Restated) |
| Operating revenues | | |
| Water replenishment assessments | \$ 73,687,699 | \$ 73,822,097 |
| Desalter assessments | 334,381 | - |
| Water treatment subsidies | 171,759 | 355,914 |
| Other operating income | 95,800 | 395,322 |
| Total operating revenues | 74,289,639 | 74,573,333 |
| Operating expenses | | |
| Water supply management: | | |
| Water purchases - injecting | 26,328,547 | 21,344,615 |
| Water purchases - spreading | 10,707,564 | 22,333,722 |
| Connection fees | 1,970,372 | 4,010,063 |
| General and administrative | 18,066,111 | 14,658,774 |
| Total operating expenses | 57,072,594 | 62,347,174 |
| Operating income before depreciation and amortization | 17,217,045 | 12,226,159 |
| Depreciation and amortization | (4,112,063) | (4,014,947) |
| Operating income | 13,104,982 | 8,211,212 |
| Nonoperating revenue (expense) | | |
| Property taxes | 658,530 | 613,015 |
| Interest and investment earnings | 1,027,074 | 864,242 |
| Interest expense | (6,174,350) | (2,875,746) |
| Election costs | (1,100,000) | (1,374,823) |
| Other, net | 4,209,797 | 3,270,421 |
| Net nonoperating revenue (expense) | (1,378,949) | 497,109 |
| Income before capital contributions | 11,726,033 | 8,708,321 |
| Capital contributions - capital grants | 11,600,940 | 7,550,656 |
| Total capital contributions | 11,600,940 | 7,550,656 |
| Change in net position | 23,326,973 | 16,258,977 |
| Total net position - beginning of year before restatement | 100,949,737 | 87,722,701 |
| Prior period adjustment | - | (3,031,941) |
| Net position - beginning of year as restated | 100,949,737 | 84,690,760 |
| Total net position - end of year | \$ 124,276,710 | \$ 100,949,737 |

See notes to the financial statements.

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

| | Years ended June 30, | |
|--|-----------------------------|----------------------|
| | 2018 | 2017 |
| Cash flows from operating activities | | |
| Cash receipts from water assessments and subsidies | \$ 49,430,706 | \$ 62,889,929 |
| Cash paid to vendors and suppliers for materials and services | (40,395,144) | (56,128,440) |
| Cash paid to employees for salaries and wages | (5,765,105) | (4,359,022) |
| Net cash provided by operating activities | 3,270,457 | 2,402,467 |
| Cash flows from capital and related financing activities | | |
| Acquisition and construction of capital assets | (59,883,687) | (57,433,892) |
| Payment of long-term debt | (2,350,000) | (1,655,000) |
| Proceeds from issuance of debt | 40,121,948 | 9,778,138 |
| Proceeds from capital contributions - capital grants | 11,599,471 | 7,555,514 |
| Deferred capital project | (66,048) | (45,016) |
| Interest paid on long-term debt | (7,003,031) | (6,235,275) |
| Net cash used in capital and related financing activities | (17,581,347) | (48,035,531) |
| Cash flows from non-capital financing activities | | |
| Cash paid for election expenses | (1,100,000) | (1,374,823) |
| Proceeds from other nonoperating revenue (expense), net | 4,209,797 | 3,270,421 |
| Proceeds from property taxes | 658,530 | 613,015 |
| Net cash provided by non-capital financing activities | 3,768,327 | 2,508,613 |
| Cash flows from investing activities | | |
| Collection (issuance) of notes receivable | 505,940 | 110,980 |
| Interest and investment earnings | 1,027,074 | 864,242 |
| Net cash provided by investing activities | 1,533,014 | 975,222 |
| Change in cash and cash equivalents | (9,009,549) | (42,149,229) |
| Cash and cash equivalents - beginning of year | 80,323,241 | 122,472,470 |
| Cash and cash equivalents - end of year | \$ 71,313,692 | \$ 80,323,241 |
| Reconciliation of cash and cash equivalents to statements of net position | | |
| Cash and cash equivalents | \$ 47,951,465 | \$ 47,307,938 |
| Restricted assets - cash and cash equivalents | 23,362,227 | 33,015,303 |
| Total cash and cash equivalents | \$ 71,313,692 | \$ 80,323,241 |
| Noncash, investing, capital and financing activities | | |
| Capitalized interest | \$ 3,736,849 | \$ 5,198,150 |

See notes to the financial statements.

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

| | Years ended June 30, | |
|--|----------------------|---------------------|
| | 2018 | 2017 |
| Reconciliation of operating income to net cash provided by operating activities | | |
| Operating income | \$ 13,104,982 | \$ 8,211,212 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation | 4,112,063 | 4,014,947 |
| Changes in assets and liabilities: | | |
| (Increase) decrease in assets: | | |
| Water replenishment assessments receivable, net | (20,704,268) | 201,275 |
| Prepaid expenses and other deposits | 79,295 | (29,770) |
| Net pension assets | 11,174 | 57,224 |
| Increase (decrease) in liabilities: | | |
| Accounts payable and accrued expenses - water purchases | 6,368,569 | (404,554) |
| Deferred outflows of resources | 2,836,789 | 2,843,481 |
| Deferred inflows of resources | (4,245,741) | (13,288,850) |
| Accrued wages and related payables | 88,066 | (55,581) |
| Net pension liability | 788,321 | 998,419 |
| Net OPEB liability | 706,337 | (180,036) |
| Compensated absences | 124,870 | 34,700 |
| Total adjustments | (9,834,525) | (5,808,745) |
| Net cash provided by operating activities | \$ 3,270,457 | \$ 2,402,467 |

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 a legally separate entity, 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 value. Nonoperating revenues, such as grant funding and investment income, result from non-exchange transactions, in which, the District gives or receives value without directly receiving or 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 position replaces the balance sheet and reports assets, liabilities, and the difference between them as net position, not equity. A statement of revenues, expenses and changes in net position 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.

Implementation of New Accounting Pronouncements

During the fiscal year ended June 30, 2018, the District adopted the following new Statements of GASB:

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*. This Statement replaced the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple- Employer Plans*, for OPEB. The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and government employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosures and required supplementary information requirements about defined benefit OPEB are also addressed in this Statement.

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

Pension

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pension, and pension expense, information about the fiduciary net position of the District's California Public Employees' Retirement System (CalPERS) plan (Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Postemployment Benefits Other than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense, information about the fiduciary net position of the District's OPEB Plan (Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

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 12 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 \$0 at June 30, 2018 and 2017.

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

Property Taxes and Assessments - The County Assessor's Office assesses all real and personal property within the County each year. The County Tax Collector's Office bills and collects the District's share of property taxes and assessments.

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

The County Treasurer's Office remits current and delinquent property tax collections to the District throughout the year. Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations.

Property taxes receivable at year-end are related to property taxes collected by the County, 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 acquisition 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. A 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
- Building and improvements - 30 to 40 years

In accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, the District has evaluated 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, 2018 and 2017.

Bond premium – The Bond premium 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. 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. Accumulated vacation time is accrued at year-end to account for the District's obligation to the employees for the amount owed.

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

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.

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 and unexpended proceeds of debt restricted to the financing of capital assets, net of accumulated depreciation and reduced by any related 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 restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments or restrictions imposed by law through constitutional provisions or enabling legislation. The District did not have any restricted net position as of June 30, 2018 and 2017.
- Unrestricted - This component of net position consists of net position that does not meet the definition of restricted net position or net investment in capital assets.

Revenues, Expenses and Changes in Net Position

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.

Other

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.

Water Replenishment District of Southern California
Notes to Financial Statements
Years ended June 30, 2018 and 2017

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

Reclassifications

Certain reclassifications have been made to the prior year financial statement presentation to conform to the current year's format. Total net position and change in net position are unchanged from these reclassifications.

NOTE 2 CASH AND INVESTMENTS

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

| | 2018 | 2017 |
|--------------------------------------|---------------|---------------|
| Cash and cash equivalents | \$ 47,951,465 | \$ 47,307,938 |
| Restricted cash and cash equivalents | 23,362,227 | 33,015,303 |
| Total cash and cash equivalents | \$ 71,313,692 | \$ 80,323,241 |

Cash and investments as of June 30 consist of the following:

| | 2018 | 2017 |
|---|---------------|---------------|
| Deposits with financial institutions | \$ 53,500,563 | \$ 62,631,845 |
| Cash and cash equivalents with fiscal agent | 17,813,129 | 17,691,396 |
| Total cash and cash equivalents | \$ 71,313,692 | \$ 80,323,241 |

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

| | 2018 | 2017 |
|---|---------------|---------------|
| Operating Reserve Fund | \$ 6,139,529 | \$ 11,167,048 |
| Reserved cash and cash equivalents: | | |
| Water Purchase Fund | 19,971,249 | 17,713,076 |
| Capital Projects | 8,930,466 | 8,014,637 |
| Debt Service Reserve Fund | 15,230,714 | 13,411,553 |
| Total reserved cash and cash equivalents | 44,132,429 | 39,139,266 |
| Restricted cash: | | |
| Capital Projects - Bond Trustee | 5,768,397 | 24,469,410 |
| Cal Trans Trust Fund | 5,549,098 | 5,545,769 |
| Debt Service Reserve Fund - Bond Trustee | - | 1,748 |
| Restricted cash and cash equivalents | 11,317,495 | 30,016,927 |
| Reconciling items: | | |
| Capital Projects Reimbursement in Transit | 9,724,239 | - |
| Total restricted cash | 21,041,734 | 30,016,927 |
| Total Cash and Cash Equivalents | \$ 71,313,692 | \$ 80,323,241 |

Water Replenishment District of Southern California
Notes to Financial Statements
Years ended June 30, 2018 and 2017

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

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

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

| Authorized Investment Type | Maximum Maturity | Maximum Percentage of Portfolio | Maximum Investment in One Issuer |
|-------------------------------------|------------------|---------------------------------|----------------------------------|
| Local Agency Bonds | 5 years | None | None |
| U.S. Treasury Obligations | 5 years | None | None |
| U.S. Agency Securities | 5 years | None | None |
| Banker's Acceptances | 180 days | 40% | 30% |
| Commercial Paper | 270 days | 25% | 10% |
| Negotiable Certificates of Deposit | 5 years | 30% | None |
| Repurchase Agreements | 1 year | None | None |
| Reverse Repurchase Agreements | 92 days | 20% off 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.

Water Replenishment District of Southern California
Notes to Financial Statements
Years ended June 30, 2018 and 2017

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

| <u>Authorized Investment Type</u> | <u>Maximum Maturity</u> | <u>Maximum Percentage of Portfolio</u> | <u>Maximum Investment in One Issuer</u> |
|-----------------------------------|-------------------------|--|---|
| U.S. Treasury Obligations | 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, 2018 and 2017, the District's funds are placed in investments with maturities of 12 months or less.

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

Maturities of investments at June 30, 2018, were as follows:

| <u>Investment Type</u> | <u>Total</u> | <u>Remaining Maturity (in Months)</u> | | |
|---|----------------------|---------------------------------------|------------------------|-------------------|
| | | <u>12 Months or Less</u> | <u>13 to 24 Months</u> | <u>25+ Months</u> |
| Money Market Mutual Funds | 7,479,983 | 7,479,983 | - | - |
| Cash and investments with fiscal agent: | | | | |
| Money Market Mutual Funds | 17,813,129 | 17,813,129 | | |
| | <u>\$ 25,293,112</u> | <u>\$ 25,293,112</u> | <u>\$ -</u> | <u>\$ -</u> |

Maturities of investments at June 30, 2017, were as follows:

| <u>Investment Type</u> | <u>Total</u> | <u>Remaining Maturity (in Months)</u> | | |
|---|----------------------|---------------------------------------|------------------------|-------------------|
| | | <u>12 Months or Less</u> | <u>13 to 24 Months</u> | <u>25+ Months</u> |
| Money Market Mutual Funds | \$ 20,459,572 | \$ 20,459,572 | \$ - | \$ - |
| Cash and investments with fiscal agent: | | | | |
| Money Market Mutual Funds | 17,691,396 | 17,691,396 | | |
| | <u>\$ 38,150,968</u> | <u>\$ 38,150,968</u> | <u>\$ -</u> | <u>\$ -</u> |

Water Replenishment District of Southern California
Notes to Financial Statements
Years ended June 30, 2018 and 2017

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

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 cash equivalents and investments as of June 30, 2018, were as follows:

| Investment Type | Total | Minimum Legal Rating | Ratings as of Year End | | | |
|---|----------------------|----------------------------|------------------------|----------------------|-------------|-------------|
| | | | Unrated | AAA | AA- | BBB+ |
| Money Market Mutual Funds | 7,479,983 | | | 7,479,983 | | |
| Cash and investments with fiscal agent: | | | | | | |
| Money Market Mutual Funds | 17,813,129 | | | 17,813,129 | | |
| | <u>\$ 25,293,112</u> | A | <u>\$ -</u> | <u>\$ 25,293,112</u> | <u>\$ -</u> | <u>\$ -</u> |

Credit ratings of cash equivalents and investments as of June 30, 2017, were as follows:

| Investment Type | Total | Minimum Legal Rating | Ratings as of Year End | | | |
|---|----------------------|----------------------------|------------------------|----------------------|-------------|-------------|
| | | | Unrated | AAA | AA- | BBB+ |
| Money Market Mutual Funds | \$ 20,459,572 | N/A | \$ - | \$ 20,459,572 | \$ - | \$ - |
| Cash and investments with fiscal agent: | | | | | | |
| Money Market Mutual Funds | 17,691,396 | | | 17,691,396 | | |
| | <u>\$ 38,150,968</u> | A | <u>\$ -</u> | <u>\$ 38,150,968</u> | <u>\$ -</u> | <u>\$ -</u> |

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, 2018 and 2017, there were no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments.

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

Custodial Credit Risk

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

As of June 30, 2018, \$49,571,488 of the District's deposits with financial institutions in excess of federal depository insurance limits was held in collateralized accounts.

Fair Value Measurements

GASB Statement No. 72, *Fair Value Measurement and Application* establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; while Level 3 inputs are significant unobservable inputs.

- Level 1 - inputs are quoted prices for identical assets or liabilities in active markets that government can access at the measurement date.
- Level 2 - inputs are other than quoted prices included in Level 1 that are observable for an asset or liability, either directly or indirectly.
- Level 3 - inputs are unobservable inputs for an asset or liability.

The only investments that the District has are money market mutual funds which are measured using Level 2 inputs.

Water Replenishment District of Southern California
Notes to Financial Statements
Years ended June 30, 2018 and 2017

NOTE 3 NOTES RECEIVABLE

Notes receivable are presented as follows in the statement of net position as of June 30:

| | 2018 | 2017 |
|---------------------------------------|-------------------|--------------|
| Notes receivable - current portion | \$ 308,421 | \$ 505,940 |
| Notes receivable - noncurrent portion | 308,460 | 616,881 |
| | \$ 616,881 | \$ 1,122,821 |

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 repayment of the loan in the amount of \$220,000 started upon completion of the project and full disbursement of the loan proceeds to the City. The balance at June 30, 2018 and 2017 was \$394,960 and \$789,921, 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 as of June 30, 2018. Annual repayment of the loan in the amount of \$110,000 started in the fiscal year 2010-2011 when the project was completed. The outstanding balance at June 30, 2018 and 2017 was \$221,921 and \$332,900, respectively.

Future scheduled repayments of notes receivable are as follows:

| Year ending June 30 | Amount |
|---------------------|------------|
| 2019 | \$ 308,421 |
| 2020 | 308,460 |
| | \$ 616,881 |

Water Replenishment District of Southern California
Notes to Financial Statements
Years ended June 30, 2018 and 2017

NOTE 4 CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2018 were as follows:

| | Balance July 1, 2017 | Additions/ Transfers | Deletions/ Transfers | Balance June 30, 2018 |
|--|-------------------------|-------------------------|-------------------------|--------------------------|
| Non-depreciable assets | | | | |
| Land | \$ 16,673,743 | \$ - | \$ - | \$ 16,673,743 |
| Construction-in-process | 102,239,527 | 59,883,687 | (6,004,633) | 156,118,581 |
| Total non-depreciable assets | <u>118,913,270</u> | <u>59,883,687</u> | <u>(6,004,633)</u> | <u>172,792,324</u> |
| Depreciable assets | | | | |
| Building and improvements | 10,283,111 | - | - | 10,283,111 |
| Utility plant and equipment | 78,358,170 | 6,004,633 | - | 84,362,803 |
| Capacity rights | 2,439,604 | - | - | 2,439,604 |
| Monitoring and injection equipment | 20,922,220 | - | (168,500) | 20,753,720 |
| Service connections | 101,420 | - | - | 101,420 |
| Total depreciable assets | <u>112,104,525</u> | <u>6,004,633</u> | <u>(168,500)</u> | <u>117,940,658</u> |
| Accumulated depreciation and amortization | | | | |
| Building and improvements | (2,714,039) | (275,374) | - | (2,989,413) |
| Utility plant and equipment | (20,350,723) | (2,812,097) | - | (23,162,820) |
| Capacity rights | (976,038) | (81,309) | - | (1,057,347) |
| Monitoring and injection equipment | (11,671,961) | (941,255) | 168,500 | (12,444,716) |
| Service connections | (90,851) | (2,028) | - | (92,879) |
| Total accumulated depreciation and amortization | <u>(35,803,612)</u> | <u>(4,112,063)</u> | <u>168,500</u> | <u>(39,747,175)</u> |
| Depreciable assets, net | <u>76,300,913</u> | <u>1,892,570</u> | <u>-</u> | <u>78,193,483</u> |
| Capital assets, net | <u>\$ 195,214,183</u> | <u>\$ 61,776,257</u> | <u>\$ (6,004,633)</u> | <u>\$ \$250,985,807</u> |

Changes in capital assets for the year ended June 30, 2017 were as follows:

| | Balance July 1, 2016 | Additions/ Transfers | Deletions/ Transfers | Balance June 30, 2017 |
|--|-------------------------|-------------------------|-------------------------|--------------------------|
| Non-depreciable assets | | | | |
| Land | \$ 13,065,694 | \$ 3,608,049 | \$ - | \$ 16,673,743 |
| Construction-in-process | 48,439,295 | 53,800,232 | - | 102,239,527 |
| Total non-depreciable assets | <u>61,504,989</u> | <u>57,408,281</u> | <u>-</u> | <u>118,913,270</u> |
| Depreciable assets | | | | |
| Building and improvements | 10,283,111 | - | - | 10,283,111 |
| Utility plant and equipment | 78,358,170 | - | - | 78,358,170 |
| Capacity rights | 2,439,604 | - | - | 2,439,604 |
| Monitoring and injection equipment | 21,080,200 | 25,611 | (183,591) | 20,922,220 |
| Service connections | 101,420 | - | - | 101,420 |
| Total depreciable assets | <u>112,262,505</u> | <u>25,611</u> | <u>(183,591)</u> | <u>112,104,525</u> |
| Accumulated depreciation and amortization | | | | |
| Building and improvements | (2,438,665) | (275,374) | - | (2,714,039) |
| Utility plant and equipment | (17,731,453) | (2,619,270) | - | (20,350,723) |
| Capacity rights | (894,729) | (81,309) | - | (976,038) |
| Monitoring and injection equipment | (10,818,586) | (1,036,966) | 183,591 | (11,671,961) |
| Service connections | (88,823) | (2,028) | - | (90,851) |
| Total accumulated depreciation and amortization | <u>(31,972,256)</u> | <u>(4,014,947)</u> | <u>183,591</u> | <u>(35,803,612)</u> |
| Depreciable assets, net | <u>80,290,249</u> | <u>(3,989,336)</u> | <u>-</u> | <u>76,300,913</u> |
| Capital assets, net | <u>\$ 141,795,238</u> | <u>\$ 53,418,945</u> | <u>\$ -</u> | <u>\$ \$195,214,183</u> |

Water Replenishment District of Southern California
Notes to Financial Statements
Years ended June 30, 2018 and 2017

NOTE 4 CAPITAL ASSETS (CONTINUED)

Major capital asset additions during the year include work on various stages of construction projects. A significant portion of these additions related to various projects that were completed during the current year and transferred out of construction-in-process and into the related capital assets categories.

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 as of June 30 are as follows:

| | <u>2018</u> | <u>2017</u> |
|--|-----------------------|-----------------------|
| Leo J. Vander Lans Advanced Water Treatment Facility (LJWWTF) Expansion | \$ 664,410 | \$ 408,696 |
| Caltans Pipeline | 913,182 | 913,182 |
| Goldworthy Desalter | 23,733,131 | 17,812,248 |
| Regional Groundwater Monitoring Program | 765,354 | 51,890 |
| Safe Drinking Water Program | 1,023,918 | 806,189 |
| Dominguez Gap Recycled Water Project | 814,405 | 808,973 |
| Replenishment operations (Interconnection Pipeline) | 300,000 | 300,000 |
| Alamitos Physical Barrier Project | 549,475 | 549,475 |
| Groundwater Replenishment Improvement Project (GRIP) | 99,224,712 | 58,521,969 |
| Groundwater Infrastructure Improvements | 779,147 | 779,147 |
| Environmental and Compliance Monitoring | 1,149,590 | 1,137,318 |
| Bond interest for capital projects | 19,715,369 | 15,978,520 |
| WRD New Building | 869,100 | 668,159 |
| Whittier Narrow Conservation Pool | 817,915 | 817,915 |
| SCADA | 2,546,698 | 1,357,280 |
| Asset Management | 1,424,225 | 848,248 |
| Paramount Equipment/Fleet Center | 471,325 | 319,279 |
| Administrative | 166,149 | 161,039 |
| Regional Brackish Water Reclamation Program | 73,364 | - |
| General Engineering Administration | 117,112 | - |
| Total construction-in-process | <u>\$ 156,118,581</u> | <u>\$ 102,239,527</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 cost of \$3,736,849 and \$5,198,150 was capitalized during the years ended June 30, 2018 and 2017, respectively.

Water Replenishment District of Southern California
Notes to Financial Statements
Years ended June 30, 2018 and 2017

NOTE 5 COMPENSATED ABSENCES

Changes in compensated absences were as follows:

| | 2018 | 2017 |
|------------------------------|-------------------|-------------------|
| Balance at beginning of year | \$ 429,367 | \$ 394,667 |
| Earned by employees | 199,934 | 200,748 |
| Payments to employees | (75,064) | (166,048) |
| Balance at end of year | 554,237 | 429,367 |
| Less current portion | (162,491) | (184,190) |
| Long-term portion | \$ 391,746 | \$ 245,177 |

NOTE 6 LONG-TERM DEBT

Changes in long-term debt for the year ended June 30, 2018 were as follows:

| | Balance July 1, 2017 | Additions | Deletions | Balance June 30, 2018 | Current Portion |
|---|-------------------------|----------------------|-----------------------|--------------------------|---------------------|
| Replenishment Assessment Revenue Bonds (2015) | \$ 146,690,000 | \$ - | \$ (2,350,000) | \$ 144,340,000 | \$ 2,445,000 |
| Clean Water State Revolving Fund Loan | 9,778,138 | 40,121,948 | - | 49,900,086 | 2,024,039 |
| | 156,468,138 | 40,121,948 | (2,350,000) | 194,240,086 | 4,469,039 |
| Bond premium | 22,435,360 | - | (789,514) | 21,645,846 | 789,514 |
| | \$ 178,903,498 | \$ 40,121,948 | \$ (3,139,514) | \$ 215,885,932 | \$ 5,258,553 |

Changes in long-term debt for the year ended June 30, 2017 were as follows:

| | Balance July 1, 2016 | Additions | Deletions | Balance June 30, 2017 | Current Portion |
|---|-------------------------|---------------------|-----------------------|--------------------------|---------------------|
| Replenishment Assessment Revenue Bonds (2015) | \$ 148,345,000 | \$ - | \$ (1,655,000) | \$ 146,690,000 | \$ 2,350,000 |
| Clean Water State Revolving Fund Loan | - | 9,778,138 | - | 9,778,138 | - |
| | 148,345,000 | 9,778,138 | (1,655,000) | 156,468,138 | 2,350,000 |
| Bond premium | 23,224,874 | - | (789,514) | 22,435,360 | 789,514 |
| | \$ 171,569,874 | \$ 9,778,138 | \$ (2,444,514) | \$ 178,903,498 | \$ 3,139,514 |

Replenishment Assessment Revenue Bonds

On December 10, 2015, the District issued \$148,345,000 of Replenishment Assessment Revenue Bonds, Series 2015. The bonds were rated AA+ from both Standard & Poor's and Fitch Ratings. The proceeds were used to refinance the District's outstanding 2004, 2008 and 2011 certificates of participation and provide \$69,500,000 which will fund the District's 5-year capital improvement plan, including projects such as the Groundwater Reliability Improvement Project, the expansion of the Goldsworthy Desalter, the Groundwater Basin Management Program and the Safe Drinking Water Program. The bonds call for level debt service payments and mature in annual installments through the year ended June 30, 2046.

Water Replenishment District of Southern California
Notes to Financial Statements
Years ended June 30, 2018 and 2017

NOTE 6 LONG-TERM DEBT (CONTINUED)

Clean Water State Revolving Fund Loan

In October 2017, the Board of Directors of the District approved an agreement with California's State Water Resources Control Board (SWRCB) that will provide \$95 million in funding for the construction of the Groundwater Reliability Improvement Project (GRIP), an advanced water treatment facility currently under construction in the City of Pico Rivera. Of the \$95 million in funding, SWRCB has agreed to provide \$15 million as grant funds while the remaining \$80 million will be a loan that is payable in annual installments starting on December 31, 2019 and matures on December 31, 2048. The \$80 million loan has an interest rate of 1%. During the years ended June 30, 2018 and 2017, the District received \$40,121,948 and \$9,778,138, respectively, from SWRCB.

Future minimum principal and interest payments on all long-term debt noted above are as follows:

| Fiscal Year | Principal | Interest | Total |
|----------------------|----------------|----------------|----------------|
| 2019 | \$ 4,469,039 | \$ 7,420,989 | \$ 11,890,028 |
| 2020 | 4,899,265 | 7,403,118 | 12,302,383 |
| 2021 | 5,045,264 | 7,313,039 | 12,358,303 |
| 2022 | 5,207,796 | 7,152,507 | 12,360,303 |
| 2023 | 5,376,574 | 6,983,604 | 12,360,178 |
| 2024-2028 | 29,682,942 | 32,103,573 | 61,786,515 |
| 2029-2033 | 35,234,087 | 26,554,178 | 61,788,265 |
| 2034-2038 | 41,570,119 | 20,218,271 | 61,788,390 |
| 2039-2043 | 36,610,000 | 9,622,450 | 46,232,450 |
| 2044-2046 | 26,145,000 | 1,596,500 | 27,741,500 |
| Total | \$ 194,240,086 | \$ 126,368,229 | \$ 320,608,315 |
| Less current portion | 4,469,039 | | |
| Total non-current | \$ 189,771,047 | | |

Accrued interest payable amounted to approximately \$2.9 million as of June 30, 2018 and 2017.

NOTE 7 UNEARNED REVENUE

Cities may prepay their water replenishment assessment per the terms of a groundwater banking agreement between the District and the respective city. There was no unearned revenue as of June 30, 2018 and 2017.

Water Replenishment District of Southern California
Notes to Financial Statements
Years ended June 30, 2018 and 2017

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 advanced the \$8.0 million to the District to fund the proposed pipeline project. As of June 30, 2018 and 2017, the District has spent \$2,867,199 and \$2,801,150 on the project, leaving an unexpended balance on the advance of \$5,132,801 and \$5,198,850, respectively.

NOTE 9 DEFERRED INFLOWS OF RESOURCES

In accordance with GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, for rate-regulated activities the District defers the recognition of revenues until the related costs or charges associated with the rates assessed are incurred. The balance of Deferred Revenue – Replenishment Assessments of \$0 million and \$4.2 million as of June 30, 2018 and 2017, respectively, pertains 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 are reported as deferred inflows of resources in the Statement of Net Position.

NOTE 10 NET POSITION - NET INVESTMENT IN CAPITAL ASSETS

The calculation of net position - balance of net investment in capital assets at June 30 is as follows:

| | | 2018 | | 2017 |
|---|----|----------------------|----|-------------------|
| Capital assets, net | \$ | 250,985,807 | \$ | 195,214,183 |
| Long-term debt | | (215,885,932) | | (178,903,498) |
| Deferred amount on refunding | | 6,433,209 | | 9,485,875 |
| Unspent debt proceeds | | 23,362,227 | | 33,015,303 |
| Net position - net investment in capital assets | \$ | 64,895,311 | \$ | 58,811,863 |

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 Programs. 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.

NOTE 11 DEFERRED COMPENSATION SAVINGS PLAN (CONTINUED)

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, 2018 and 2017 was \$4,087,015 and \$4,013,560, respectively.

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

NOTE 12 DEFINED BENEFIT PENSION PLAN

Plan Description

The District's defined benefit pension plan (the Plan) provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. The Plan is part of the Miscellaneous Risk Pool Public Agency portion of the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer defined benefit pension plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California (State).

A menu of benefit provisions, as well as other requirements, is established by State statutes within the Public Employees' Retirement Law. The Plan selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through the District resolution. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office – 400 Q Street, Sacramento, California 95811.

Funding Policy

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. Under the Public Employees' Pension Reform Act (PEPRA) of 2013, the District pays the member contribution to CalPERS (8% of annual covered salary) for classic members (defined as eligible participants hired prior to January 1, 2013). New members hired on or after January 1, 2013 are also required to contribute at least 50% of their normal pension cost rate.

NOTE 12 DEFINED BENEFIT PENSION PLAN (CONTINUED)

The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the fiscal years ended June 30, 2018 and 2017 was 13.50% and 13.00%, for classic members, respectively. Required employer contribution rate for new members is 7% for the fiscal years ended June 30, 2018 and 2017.

Pension Liability, Pension Expense and Deferred Outflows/Inflows of Resources Related to Pension

As of June 30, the District reported its proportionate share of the net pension liability of the Plan as follows:

| | 2018 | 2017 |
|--|---------------------|--------------|
| Proportionate share of net pension liability | \$ 4,977,020 | \$ 4,188,699 |
| Total net pension liability | \$ 4,977,020 | \$ 4,188,699 |

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2017, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

For measurement period 2017, CalPERS provides the GASB Statement No. 68 Accounting Valuation Report for the miscellaneous risk pool and allocation methodology to be used by participants in the risk pool. The schedules of employer allocation include allocation rate for the Total Pension Liability, Plan Fiduciary Net Position and all other pension amounts (e.g. deferred outflows/inflows of resources and pension expense). The Total Pension Liability and other pension amounts are allocated based on the Actuarial Accrued Liability from the most recent Actuarial Valuation Report as of June 30, 2016 used for funding purposes. The Plan Fiduciary Net Position is allocated based on the sum of the Plan's Market Value of Assets from the most recent Actuarial Valuation as of June 30, 2016 used for funding purposes plus supplemental payments made by employers during the current measurement period to reduce their unfunded actuarial accrued liabilities.

Water Replenishment District of Southern California
Notes to Financial Statements
Years ended June 30, 2018 and 2017

NOTE 12 DEFINED BENEFIT PENSION PLAN (CONTINUED)

The District's proportionate share for pension items as provided by CalPERS are as follows:

| | |
|---|-------------|
| | 2018 |
| Total pension liability and other pension amounts | 0.0013575 |
| Plan fiduciary net position | 0.0013885 |

For the years ended June 30, 2018 and 2017, the District recognized pension expense of \$1,302,401 and \$260,296, respectively. At June 30, 2018 and 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

| | 2018 | | 2017 | |
|---|--------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Pension contributions subsequent to measurement date | \$ 901,063 | \$ - | \$ 830,116 | \$ - |
| Differences between actual and expected experience | 7,312 | (104,760) | 65,602 | (4,557) |
| Changes in assumption | 907,266 | (69,180) | - | (224,426) |
| Changes in employer's proportion | 352,496 | (31,038) | 105,414 | (31,481) |
| Differences between the employer's contribution and the employer's proportionate share of contributions | 280,863 | - | 182,621 | (48,760) |
| Net differences between projected and actual earnings on plan investments | 205,186 | - | 1,205,687 | - |
| Total | \$ 2,654,186 | \$ (204,978) | \$ 2,389,440 | \$ (309,224) |

\$901,063 and \$830,116 reported as deferred outflows of resources as of June 30, 2018 and 2017, respectively, related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019 and 2018, respectively.

Water Replenishment District of Southern California
Notes to Financial Statements
Years ended June 30, 2018 and 2017

NOTE 12 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized as pension expense as follows:

| Year ending June 30 | Amount |
|---------------------|------------|
| 2019 | \$ 539,752 |
| 2020 | 702,005 |
| 2021 | 428,211 |
| 2022 | (121,823) |
| 2023 | - |
| Thereafter | - |

Actuarial Assumptions

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions:

| | |
|-----------------------|------------------|
| Valuation Date | June 30, 2016 |
| Measurement Date | June 30, 2017 |
| Actuarial Cost Method | Entry Age Normal |

Actuarial Assumptions

| | |
|----------------------------------|-------|
| Discount Rate | 7.15% |
| Inflation | 2.75% |
| Projected Salary Increase | (1) |
| Mortality | (2) |
| Post-Retirement Benefit Increase | (3) |

- (1) Varies by Entry Age and Service
- (2) Derived using CALPERS' Membership data for all funds
- (3) Contract COLA up to 2.75% until Purchasing Power Protection
Allowance Floor on Purchasing Power applies, 2.75% thereafter

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

NOTE 12 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent, gross of administrative expense. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.15 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Water Replenishment District of Southern California
Notes to Financial Statements
Years ended June 30, 2018 and 2017

NOTE 12 DEFINED BENEFIT PENSION PLAN (CONTINUED)

| <u>Asset Class</u> | <u>Current Target Allocation</u> | <u>Real Return Years 1 - 10 (a)</u> | <u>Real Return Years 11+ (b)</u> |
|-------------------------------|--|---|--------------------------------------|
| Global Equity | 47.00% | 4.90% | 5.38% |
| Global Fixed Income | 19.00% | 0.80% | 2.27% |
| Inflation Sensitive | 6.00% | 0.60% | 1.39% |
| Private Equity | 12.00% | 6.60% | 6.63% |
| Real Estate | 11.00% | 2.80% | 5.21% |
| Infrastructure and Forestland | 3.00% | 3.90% | 5.36% |
| Liquidity | 2.00% | -0.40% | -0.90% |
| | <u>100.00%</u> | | |

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

| | |
|-----------------------|--------------|
| 1% Decrease | 6.15% |
| Net Pension Liability | \$ 7,967,628 |
| | |
| Current Discount Rate | 7.15% |
| Net Pension Liability | \$ 4,977,020 |
| | |
| 1% Increase | 8.15% |
| Net Pension Liability | \$ 2,500,144 |

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

Payable to the Pension Plan

As of June 30, 2018 and 2017, the District did not have outstanding amounts of contributions due to the pension plan required for the years ended June 30, 2018 and 2017.

NOTE 13 PUBLIC AGENCY RETIREMENT SYSTEM (PARS) PLAN

Plan Description

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 plan provides a benefit equal to “2% at 62” for Board members of the District hired after December 31, 2012 and are not participating in the CalPERS plan.

Funding Policy

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.

Pension Liability, Pension Expense and Deferred Outflows/Inflows of Resources Related to Pension

The following table shows the changes in the Plan’s Net Pension Liability over the measurement period:

| | <u>Increase (Decrease)</u> | | |
|---|--------------------------------|------------------------------------|--------------------------------------|
| | <u>Total Pension Liability</u> | <u>Plan Fiduciary Net Position</u> | <u>Net Pension Liability (Asset)</u> |
| Changes in Net Pension Liability (Asset) | (a) | (b) | (a) - (b) |
| Balances as of June 30, 2017 | \$ 365,564 | \$ 411,680 | \$ (46,117) |
| Changes for the year: | | | |
| Service cost | 13,512 | - | 13,512 |
| Interest on total pension liability | 20,409 | - | 20,409 |
| Benefit payments | (16,208) | (16,208) | - |
| Employer contributions | - | 12,571 | (12,571) |
| Member contributions | - | 6,051 | (6,051) |
| Net investment income | - | 6,208 | (6,208) |
| Administrative expenses | - | (2,083) | 2,083 |
| Balances as of June 30, 2018 | <u>\$ 383,277</u> | <u>\$ 418,220</u> | <u>\$ (34,943)</u> |

The net pension liability (asset) of the Plan is measured as of June 30, 2018, and the total pension liability (asset) for the Plan used to calculate the net pension liability (asset) was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2018 using standard update procedures.

Water Replenishment District of Southern California
Notes to Financial Statements
Years ended June 30, 2018 and 2017

NOTE 13 PUBLIC AGENCY RETIREMENT SYSTEM (PARS) PLAN (CONTINUED)

For the year ended June 30, 2018, the District recognized pension expense of \$25,414. At June 30, 2018 and 2017, the District reported deferred outflows of resources related to pension from the following sources:

| | 2018 | 2017 |
|---|---|--------------------------------------|
| | Deferred Outflows of Resources | Deferred Outflows of Resources |
| Differences between actual and expected experience | \$ 29,141 | \$ 44,478 |
| Net difference between projected and actual earnings on investments | 24,452 | 17,712 |
| Total | \$ 53,593 | \$ 62,190 |

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized as pension expense as follows:

| Year ending June 30 | Amount |
|---------------------|-----------|
| 2018 | \$ 25,039 |
| 2019 | 20,568 |
| 2020 | 4,699 |
| 2021 | 3,287 |
| 2022 | - |
| Thereafter* | - |

*Note that additional future deferred inflows and outflows of resources may impact these amounts.

NOTE 13 PUBLIC AGENCY RETIREMENT SYSTEM (PARS) PLAN (CONTINUED)

Actuarial Assumptions

The total pension liability (asset) in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions:

| | |
|-----------------------|------------------|
| Valuation Date | June 30, 2016 |
| Measurement Date | June 30, 2018 |
| Actuarial Cost Method | Entry Age Normal |

Actuarial Assumptions

| | |
|----------------------------------|-------|
| Discount Rate | 5.50% |
| Inflation | 3.00% |
| Payroll Growth | 3.00% |
| Projected Salary Increase | 3.00% |
| Investment Rate of Return | 5.50% |
| Cost of Living Adjustments | 2.00% |
| Mortality | (1) |
| Post-Retirement Benefit Increase | 3.00% |

(1) Consistent with the rates used to value the CalPERS plan

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period 1997 to 2011 with an assumed base year of 2008 and full generational improvements using Scale AA.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-term Arithmetic Real Rate of Return (a)</u> | <u>Long-term Geometric Real Rate of Return (b)</u> |
|--------------------------|------------------------------|---|--|
| Cash | 4.42% | 0.31% | 0.31% |
| Core Fixed Income | 79.60% | 2.14% | 2.02% |
| Equity Market | 11.97% | 4.59% | 3.32% |
| Foreign Developed Equity | 2.59% | 5.52% | 3.91% |
| Emerging Markets Equity | 0.99% | 7.82% | 4.59% |
| Real Estate | 0.43% | 5.04% | 3.27% |
| | <u>100.00%</u> | | |

(a) An expected inflation of 2.32% used for this period.

(b) An expected inflation of 2.30% used for this period.

| | |
|-----------------------------------|-------|
| Long-term expected rate of return | 5.50% |
|-----------------------------------|-------|

NOTE 13 PUBLIC AGENCY RETIREMENT SYSTEM (PARS) PLAN (CONTINUED)

Sensitivity of the Proportionate Share of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate.

| | | | |
|-------------------------------|----|-------|----------|
| 1% Decrease | | 4.50% | |
| Net Pension Liability (Asset) | \$ | | 12,002 |
| | | | |
| Current Discount Rate | | 5.50% | |
| Net Pension Liability (Asset) | \$ | | (34,943) |
| | | | |
| 1% Increase | | 6.50% | |
| Net Pension Liability (Asset) | \$ | | (72,715) |

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued PARS financial reports.

Payable to the Pension Plan

As of June 30, 2018 and 2017, the District did not have outstanding amount of contributions to the plan required for the years ended June 30, 2018 and 2017.

NOTE 14 OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description

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; however, they receive no benefits until age 55. Retirees, spouses and surviving spouses receive a benefit equal to the entire medical and dental premium cost. In addition, retirees participate in a Medical Reimbursement Program and Vision Reimbursement Program.

Employees hired on or after December 20, 2001 and before January 1, 2012 qualify for postemployment healthcare benefits if they retire at age 55 or older with 12 or more years of service. Retirees, spouses and surviving spouses receive a benefit equal to the entire medical and dental premium cost. In addition, retirees participate in a Medical Reimbursement Program and Vision Reimbursement Program.

Water Replenishment District of Southern California
Notes to Financial Statements
Years ended June 30, 2018 and 2017

NOTE 14 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Employees hired after December 31, 2011 qualify for postemployment healthcare benefits if they retire at age 55 or older with 10 or more years of service. They will be eligible for an Employer Contribution toward the cost of medical and dental coverage according to the following schedule:

| <u>Credited Years of Service</u> | <u>Percentage of Employer Contribution</u> |
|--------------------------------------|--|
| 10 | 50% |
| 11 | 55% |
| 12 | 60% |
| 13 | 65% |
| 14 | 70% |
| 15 | 75% |
| 16 | 80% |
| 17 | 85% |
| 18 | 90% |
| 19 | 95% |
| 20 or more | 100% |

Employees hired after December 31, 2011 are not eligible to participate in the Medical Reimbursement Program or the Vision Reimbursement Program.

Employees covered by benefit terms

At June 30, 2017 (valuation date), the following employees were covered by the benefit terms of the Plan:

| Category | Count |
|-----------------------------------|------------------|
| Active employees | 42 |
| Retired members and beneficiaries | 13 |
| Terminated vested | <u>2</u> |
| | <u><u>57</u></u> |

Net OPEB Liability

The District's net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017.

NOTE 14 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Actuarial Assumptions

This valuation assumes that the District will contribute the annual determined contribution less the pay-as-you-go cost to CERBT. The Normal Cost is the portion of the Actuarial Present Value of benefits allocated to a valuation year. The UAAL is the excess of the Entry Age Normal Actuarial Accrued Liability over the Market Value of Assets.

The total OPEB liability for the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

| | |
|-----------------------------|--|
| Actuarial cost method | Entry age actuarial cost method |
| Inflation | 2.26% |
| Salary increases | 3.25% per year |
| Investment rate of return | 6.73%; based on CERBT investment allocation strategy 2 |
| Healthcare cost trend rates | 8.4% trending down to 5% over 15 years (Pre-65) 5% per year (Post-65) |
| Mortality rates | Based on 2014 CalPERS active mortality for Miscellaneous employees |

Long-term Expected Rate of Return

As of June 30, 2017, the long-term expected rates of return for each major investment class in the Plan's portfolio are as follows:

| <u>Investment Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|-------------------------------|--------------------------|---|
| Global Equity | 43% | 5.43% |
| Fixed Income | 49% | 1.63% |
| Real Estate Investment Trusts | 8% | 5.06% |
| Liquidity | 0% | 0.00% |
| Total | <u>100%</u> | |

The above table shows the target asset allocation in the CERBT Strategy 2.

Discount rate

The discount rate is based on a blend of (a) the long-term expected rate of return on assets for benefits covered by plan assets and a yield or index for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or better for benefits not covered by plan assets.

Above are the arithmetic long-term expected real rates of return by asset class for the next 10 years as provided in a report by JP Morgan. For years thereafter, returns were based on historical average index real returns over the last 30 years assuming a similar equity/fixed investment mix and a 2.26% inflation rate.

Water Replenishment District of Southern California
Notes to Financial Statements
Years ended June 30, 2018 and 2017

NOTE 14 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Change in the Net OPEB Liability

| | Increases (Decreases) | | |
|--|-------------------------|--------------------------------|-----------------------|
| | Total OPEB Liability | Plan Fiduciary Net Position | Net OPEB Liability |
| Balances at June 30,2016 | \$ 9,244,324 | \$ 5,037,591 | \$ 4,206,733 |
| Changes for the year: | | | |
| Service cost | 363,121 | - | 363,121 |
| Interest | 638,606 | - | 638,606 |
| Differences between expected and actual experience | 106,713 | - | 106,713 |
| Change in assumptions | 1,026,121 | - | 1,026,121 |
| Net investment income | - | 382,144 | (382,144) |
| Employer - cash subsidy | - | 1,048,933 | (1,048,933) |
| Benefit payments | (240,933) | (240,933) | - |
| Administrative expense | - | (2,853) | 2,853 |
| Net changes | <u>1,893,628</u> | <u>1,187,291</u> | <u>706,337</u> |
| Balances at June 30,2017 | <u>\$ 11,137,952</u> | <u>\$ 6,224,882</u> | <u>\$ 4,913,070</u> |

Sensitivity of the net OPEB liability to changes in the discount rate

The net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (5.73%) or one percentage point higher (7.73%) follows:

| | Discount Rate 1% Lower 5.73% | Valuation Discount Rate 6.73% | Discount Rate 1% Higher 7.73% |
|--------------------|---|--|--|
| Net OPEB liability | \$ 3,460,817 | \$ 4,913,070 | \$ 6,708,754 |

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates

The net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than current healthcare cost trend rates follows:

| | Trend 1% lower | Valuation Trend | Trend 1% higher |
|--------------------|-----------------------|------------------------|------------------------|
| Net OPEB liability | \$ 3,325,475 | \$ 4,913,070 | \$ 6,902,475 |

Water Replenishment District of Southern California
Notes to Financial Statements
Years ended June 30, 2018 and 2017

NOTE 14 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

OPEB Expense and Deferred Inflows and Outflows of Resources Related to OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of \$759,779 with details as follows:

| | | <u>Total</u> |
|---|----|-----------------------|
| Service Cost | \$ | 363,121 |
| Interest on Total OPEB Liability | | 638,606 |
| Recognized Differences between Expected and Actuarial Experience | | 11,697 |
| Recognized Changes of Assumptions | | 112,476 |
| Projected Earnings on OPEB Plan Investments | | (365,682) |
| Recognized Differences between Expected and Actual Earnings on Plan Investments | | (3,292) |
| Administrative Expense | | 2,853 |
| Total OPEB Expense | \$ | <u><u>759,779</u></u> |

At June 30, 2018, the District reported the following deferred outflows of resources and deferred inflows of resources related to OPEB:

| | <u>Deferred Outflows of Resources</u> | | <u>Deferred Inflows of Resources</u> |
|---|---|-------------------------|--|
| Pension contributions subsequent to measurement date | \$ | - | \$ - |
| Differences between actual and expected experience | | 95,016 | |
| Changes in assumptions | | 913,645 | - |
| Net differences between projected and actual earnings on plan investments | | | - |
| | | | 13,170 |
| Total | \$ | <u><u>1,008,661</u></u> | \$ <u><u>13,170</u></u> |

Water Replenishment District of Southern California
Notes to Financial Statements
Years ended June 30, 2018 and 2017

NOTE 14 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

| Year ended June 30 | Amount |
|--------------------|------------|
| 2019 | \$ 120,881 |
| 2020 | 120,881 |
| 2021 | 120,881 |
| 2022 | 120,879 |
| 2023 | 124,173 |
| Thereafter | 387,796 |
| | \$ 995,491 |

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, 2018 and 2017, 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 \$5,000,000, combined single limit at \$5,000,000 per occurrence. The District purchased additional excess coverage layers: \$55 million for general, auto and public officials liability, which increases the limits on the insurance coverage noted above.

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 \$150 million per occurrence it is subject to a \$1,000 deductible per occurrence. The District has a total insurable value of \$73,054,752.
- Boiler and machinery coverage for the replacement cost up to \$150 million per occurrence, subject to various deductibles depending on the type of equipment.

NOTE 15 RISK MANAGEMENT (CONTINUED)

- 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, 2018 and 2017. 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).

NOTE 16 COMMITMENTS

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.

Basin Improvement Project Funding Agreement

On May 1, 2015, the District approved a settlement agreement with the cities of Bellflower, Cerritos, Downey and Signal Hill. This settlement was due to litigation related to claims that the District failed to comply with the requirements under Proposition 218 when imposing its annual replenishment assessments. As part of the agreement, the District shall fund \$5,000,000 in basin improvement projects of these cities within seven years from the effective date of the agreement.

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 \$50 million of open construction contracts as of June 30, 2018.

Water Replenishment District of Southern California
Notes to Financial Statements
Years ended June 30, 2018 and 2017

NOTE 16 COMMITMENTS (CONTINUED)

The contracts outstanding include:

| Project Name | Total Approved Contract | Construction Costs to-date | Balance to Complete |
|---|----------------------------|-------------------------------|------------------------|
| LJWTF Expansion | \$ 763,282 | \$ 565,250 | \$ 198,032 |
| Goldsworthy Desalter Expansion | 20,053,680 | 19,342,698 | 710,982 |
| Caltrans Pipeline | 745,698 | 745,698 | - |
| Regional Groundwater Monitoring Program 2018 Wells | 1,439,500 | 699,170 | 740,330 |
| Groundwater Infrastructure | 1,021,000 | 1,011,391 | 9,609 |
| Interconnection Pipeline | 3,800,000 | 3,800,000 | - |
| Safe Drinking Water Program | 2,267,619 | 825,676 | 1,441,943 |
| Dominguez Gap Recycled Water Project | 477,944 | 477,944 | - |
| WRD Building | 805,480 | 789,365 | 16,115 |
| Groundwater Replenishment Improvement Project (ARC) | 142,419,063 | 98,764,516 | 43,654,547 |
| General Engineering Admin (New) | 409,440 | 124,124 | 285,316 |
| Environmental Monitoring | 1,122,670 | 1,122,670 | - |
| Whittier Narrow Conservation Pool | 1,475,000 | 815,000 | 660,000 |
| SCADA System Master | 2,825,829 | 2,317,830 | 507,999 |
| Asset Management | 1,586,995 | 1,206,587 | 380,408 |
| Paramount Equip/Fleet Center | 178,000 | 138,813 | 39,187 |
| Regional Brackish Reclamation Program | 1,425,868 | 64,703 | 1,361,165 |
| Administrative | 140,909 | 140,909 | - |
| | <u>\$ 182,957,977</u> | <u>\$ 132,952,344</u> | <u>\$ 50,005,633</u> |

Operating Leases

The District has entered into an operating lease for land which does not contain a purchase option. Rental expense was \$265,140 and \$139,260 for the years ended June 30, 2018 and 2017, respectively.

Future minimum annual fixed rentals required during the fiscal years 2019 through 2023 under this lease are:

| Year ending June 30 | Amount |
|---------------------|------------------|
| 2019 | \$ 36,464 |
| 2020 | 6,973 |
| 2021 | 6,973 |
| 2022 | 6,973 |
| 2023 | 6,973 |
| | <u>\$ 64,357</u> |

Water Replenishment District of Southern California
Notes to Financial Statements
Years ended June 30, 2018 and 2017

NOTE 17 PROPOSITION (PROP) 218 CASE

The District is currently defending a case 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). This case seeks refund 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 this case. A brief description of the status of the case is as follows:

1. *Water Replenishment District v. Tesoro Refining*; LASC Case No. BC493914. The case is based on an alleged failure to comply with Prop 218 when setting the District's annual Replenishment Assessment. The case was decided in favor of the District and Plaintiff is currently appealing.
2. *Woods v. Water Replenishment District*; LASC Case No. BC66124. Plaintiff Woods is seeking damages for nuisance, inverse condemnation and related causes of action related to the construction of the GRIP advanced water treatment facility. This case is covered by insurance and is being handled through insurance counsel. No trial date has been set in this matter.

NOTE 18 CONTINGENCIES

Litigation

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

Grant Awards

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

NOTE 19 RESTATEMENT OF FISCAL YEAR 2017 FINANCIAL STATEMENTS

The fiscal year 2017 financial statements were restated to reflect the retroactive effect of implementing GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, as follows:

| | | Net Position | Net OPEB Liability | Deferred Outflows of Resources |
|--|----|--------------------|-----------------------|--------------------------------------|
| June 30, 2017 balance as previously reported | \$ | 103,981,678 | \$ 125,859 | \$ - |
| Adjustment to implement GASB Statement No.75 | | <u>(3,031,941)</u> | <u>4,080,874</u> | <u>1,048,933</u> |
| June 30, 2017 balance as restated | \$ | <u>100,949,737</u> | <u>\$ 4,206,733</u> | <u>\$ 1,048,933</u> |

NOTE 20 SUBSEQUENT EVENTS

On November 29, 2018, the District priced \$73.1 million of Replenishment Assessment Revenue Bonds and anticipates the bond closing on December 18, 2018. The bonds were rated AA+ from both Standard & Poor's and Fitch Ratings. The bonds will fund the District's 5-year Capital Improvement Plan including projects such as the Water Independence Now Program, Groundwater Basin Management Program, the Groundwater Quality Protection and Remediation Plan and the Regional Brackish Water Reclamation Program. The bonds call for level debt service payments through 2049.

Other than noted above, the District has evaluated events or transactions through December 26, 2018, the date on which the financial statements were available to be issued, for potential recognition or disclosure in the financial statements and determined no other subsequent matters require disclosure or adjustment to the accompanying financial statements.

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2018, 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 Statement No. 83 – *Certain Asset Retirement Obligations*. This Statement will enhance comparability of financial statements among governments by establishing uniform criteria for governments to recognize and measure certain asset retirement obligations (AROs), including obligations that may not have been previously reported. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring disclosures related to those AROs. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2018.

GASB Statement No. 84 – *Fiduciary Activities*. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Greater consistency and comparability enhances the value provided by the information reported in financial statements for assessing government accountability and stewardship. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2018.

GASB Statement No. 85 – *Omnibus 2017*. The requirements of this Statement will enhance consistency in the application of accounting and financial reporting requirements. Consistent reporting will improve the usefulness of information for users of state and local government financial statements. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2018.

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

GASB Statement No. 86 – Certain Debt Extinguishment Issues. The requirements of this Statement will increase consistency in accounting and financial reporting for debt extinguishments by establishing uniform guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irrevocable trust for the purpose of extinguishing that debt were acquired. The requirements of this Statement also will enhance consistency in financial reporting of prepaid insurance related to debt that has been extinguished. In addition, this Statement will enhance the decision-usefulness of information in notes to financial statements regarding debt that has been defeased in substance. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2017.

GASB Statement No. 87 – Leases. This Statement will increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2019.

GASB Statement No. 88 – Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

GASB Statement No. 89 – Accounting for Interest Cost Incurred before the End of a Construction Period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

GASB Statement No. 90 –Majority Equity Interests-an amendment of GASB Statements No. 14 and No. 61. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

Required Supplementary Information

**Water Replenishment District of Southern California
Schedule of Net OPEB Liability**

| | <u>Fiscal Year Ended June 30, 2018</u> |
|--|--|
| Total OPEB Liability | |
| Service cost | \$ 363,121 |
| Interest | 638,606 |
| Change of benefit terms | - |
| Differences between expected and actual experience | 106,713 |
| Changes of assumptions | 1,026,121 |
| Benefit payments, including refunds of employee contributions | (240,933) |
| Net change in total OPEB liability | <u>1,893,628</u> |
| Total OPEB liability - beginning of year | 9,244,324 |
| Total OPEB liability - end of year (a) | <u>\$ 11,137,952</u> |
| Plan Fiduciary Net Position | |
| Contributions - employer | \$ 1,048,933 |
| Contributions - employee | - |
| Net investment income | 382,144 |
| Benefit payments, including refunds of employee contributions | (240,933) |
| Administrative expense | (2,853) |
| Other | - |
| Net change in plan fiduciary net position | <u>1,187,291</u> |
| Plan fiduciary net position - beginning of year | 5,037,591 |
| Plan fiduciary net position - end of year (b) | <u>\$ 6,224,882</u> |
| Net OPEB liability - end of year (a)-(b) | <u>\$ 4,913,070</u> |
| Plan fiduciary net position as a percentage of the total pension liability | <u>56%</u> |
| Covered - employee payroll ** | N/A |
| Net OPEB liability as percentage of covered-employee payroll | N/A |

*Fiscal year 2018 was the first year of implementation, therefore only one year is shown.

** Covered payroll not available

**Water Replenishment District of Southern California
Schedule of OPEB Contributions**

| | June 30, 2018 | June 30, 2017 |
|--|----------------------|----------------------|
| Actuarially determined contribution (1) | \$ 754,917 | \$ 627,990 |
| Contributions to the Trust | - | (808,000) |
| Pay-as-you-go payments by the District | (283,978) | (240,933) |
| Implicit rate subsidy transferred to OPEB | (9,112) | - |
| Contribution deficiency (excess) | <u>\$ 461,827</u> | <u>\$ (420,943)</u> |
| Covered-employee payroll | N/A | N/A |
| Contributions as a percentage of covered-employee payroll | N/A | N/A |

Notes to Schedule

Actuarially determined contributions are for measurement period July 1, 2016 to June 30, 2017

(1) Employers setting discount rate based on the assumption that assets will be sufficient to cover all future benefit payments under the plan are assumed to annually make contributions equal to the actuarially determined contribution (ADC). The ADC is based on actuarial valuation date of July 1, 2015.

The District did not contribute to CERBT during the fiscal year ended June 30, 2018. However, the pay-as-you-go amount of \$283,978 was paid during the year.

Water Replenishment District of Southern California
Schedule of Proportionate Share of the Net Pension Liability - CalPERS
Last 10 years*

| Measurement Date | <u>June 30, 2017</u> | <u>June 30, 2016</u> | <u>June 30, 2015</u> | <u>June 30, 2014</u> |
|---|----------------------|----------------------|----------------------|----------------------|
| Proportion of the net pension liability (asset) | 0.12625% | 0.12058% | 0.11629% | 0.04592% |
| Proportionate Share of the net pension liability (asset) | \$ 4,977,020 | \$ 4,188,699 | \$ 3,190,280 | \$ 2,857,450 |
| Covered - employee payroll ⁽¹⁾ | \$ 3,851,724 | \$ 3,642,112 | \$ 3,679,116 | \$ 3,337,269 |
| Proportionate Share of the net pension liability (asset) as a percentage of covered-employee payroll | 129.22% | 115.01% | 86.71% | 85.62% |
| Plan's Proportionate Share of the Fiduciary Net Position as a percentage of the Plan's Total Pension Liability | 77.11% | 81.25% | 81.98% | 83.03% |
| Employer Contributions ⁽²⁾ | \$ 634,344 | \$ 556,581 | \$ 185,357 | \$ 378,030 |

Notes to Schedule

¹ Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB Statement No. 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

² The Plan's proportionate share of aggregate employer contributions may not match the actual contributions made by the employer during the measurement period. The Plan's proportionate share of aggregate employer contributions is based on the Plan's proportion of fiduciary net position shown on line 5 of the table above as well as any additional side fund (or unfunded liability) contributions made by the employer during the measurement period.

* Fiscal year 2015 was the 1st year of implementation, therefore only four years are shown.

Water Replenishment District of Southern California
Schedule of Net Pension Liability - PARS
Last 10 years*

| Measurement Date | <u>June 30, 2018</u> | <u>June 30, 2017</u> | <u>June 30, 2016</u> | <u>June 30, 2015</u> |
|--|----------------------|----------------------|----------------------|----------------------|
| Net pension liability (asset) | \$ (34,943) | \$ (46,117) | \$ (103,340) | \$ (104,534) |
| Covered - employee payroll ⁽¹⁾ | \$ 87,336 | \$ 100,642 | \$ 88,771 | \$ 88,771 |
| Net pension liability (asset) as a percentage of covered-employee payroll | (40.01%) | (45.82%) | (116.41%) | (117.76%) |
| Fiduciary Net Position as a percentage of the Plan's Total Pension Liability | 109.12% | 112.62% | 137.16% | 141.71% |
| Employer Contributions | \$ 12,571 | \$ 25,414 | \$ 17,143 | \$ 13,748 |

Notes to Schedule

¹ Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB Statement No. 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

* Fiscal year 2015 was the 1st year of implementation, therefore only four years are shown.

Water Replenishment District of Southern California
Schedule of Contributions – CalPERS
Last 10 years*

| Reporting Date | <u>June 30, 2018</u> | <u>June 30, 2017</u> | <u>June 30, 2016</u> | <u>June 30, 2015</u> |
|--|----------------------|----------------------|----------------------|----------------------|
| Contractually required contribution (actuarially determined) | \$ 901,063 | \$ 830,116 | \$ 801,773 | \$ 904,036 |
| Contributions in relation to the actuarially determined contributions | <u>(901,063)</u> | <u>(830,116)</u> | <u>(801,773)</u> | <u>(904,036)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Covered-employee payroll | \$ 4,294,338 | \$ 3,851,724 | \$ 3,642,112 | \$ 3,679,116 |
| Contributions as a percentage of covered-employee payroll | 20.98% | 21.55% | 22.01% | 24.57% |

Notes to Schedule

| | |
|---|--|
| Valuation date | June 30, 2016 |
| Methods and assumptions used to determine contribution rates: | |
| Actuarial Cost Method | Entry Age Normal Cost Method |
| Amortization method | Level percentage of payroll, closed |
| Remaining amortization period | 15 years as of valuation date |
| Asset valuation method | 5-year smoothed market |
| Inflation | 2.75% |
| Salary increases | Varies by entry age and service |
| Investment rate of return | 7.15%, net of pension plan investment and administrative expenses: includes inflation |
| Retirement age | 57 yrs. |
| Mortality Rate Table | Derived using CalPERS' membership data for all funds |

*Fiscal year 2015 was the 1st year of implementation, therefore only four years are shown.

Water Replenishment District of Southern California
Schedule of Contributions – PARS
Last 10 years*

| Reporting Date | <u>June 30, 2018</u> | <u>June 30, 2017</u> | <u>June 30, 2016</u> | <u>June 30, 2015</u> |
|---|----------------------|----------------------|----------------------|----------------------|
| Actuarially determined contribution (actuarially determined) | \$ 13,512 | \$ 14,757 | \$ 14,757 | \$ 3,257 |
| Contributions in relation to the actuarially determined contributions | (12,571) | (13,308) | (21,266) | (17,390) |
| Contribution deficiency (excess) | <u>\$ 941</u> | <u>1,449</u> | <u>\$ (6,509)</u> | <u>\$ (14,133)</u> |
| Covered-employee payroll | \$ 87,336 | \$ 100,642 | \$ 88,771 | \$ 88,771 |
| Contributions as a percentage of covered-employee payroll | 14.39% | 13.22% | 23.96% | 19.59% |

Notes to Schedule

Valuation date June 30, 2016

Methods and assumptions used to determine contribution rates:

| | |
|-------------------------------|--|
| Actuarial Cost Method | Entry Age Normal |
| Amortization method | Level dollar, closed |
| Remaining amortization period | 8.5 years as of valuation date |
| Asset valuation method | None |
| Inflation | 3.00% |
| Salary increases | 3.00% |
| Investment rate of return | 5.50% |
| Retirement age | All TIER 1 participants assumed to retire upon attaining retirement eligibility and age 60. All TIER 2 participants: 67 years |
| Mortality Rate Table | Consistent with the Non-Industrial rates used to value the CalPERS plans. |

*Fiscal year 2015 was the 1st year of implementation, therefore only four years are shown.

**Statistical Section
(Unaudited)**

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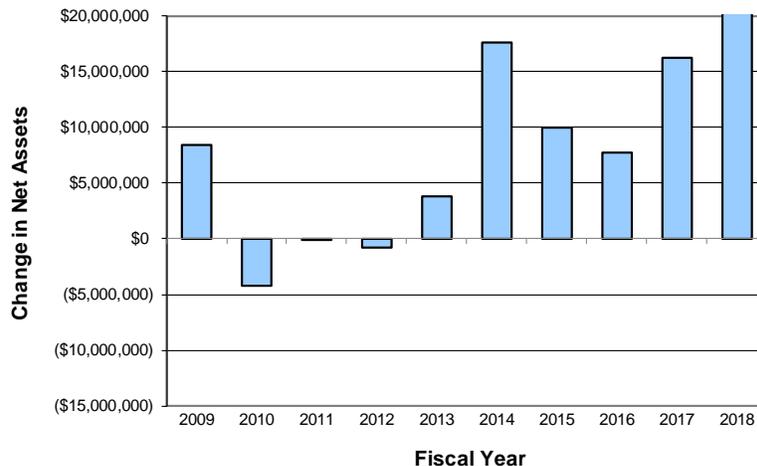
This part of the District's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the District's overall financial health.

Table of Contents

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| Financial Trends These schedules contain information to help the reader understand how the District's financial performance and financial condition have changed over time. | 57 |
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**Water Replenishment District of Southern California
Financial Trends - Changes in Net Position by Component (Unaudited)
Last Ten Fiscal Years**

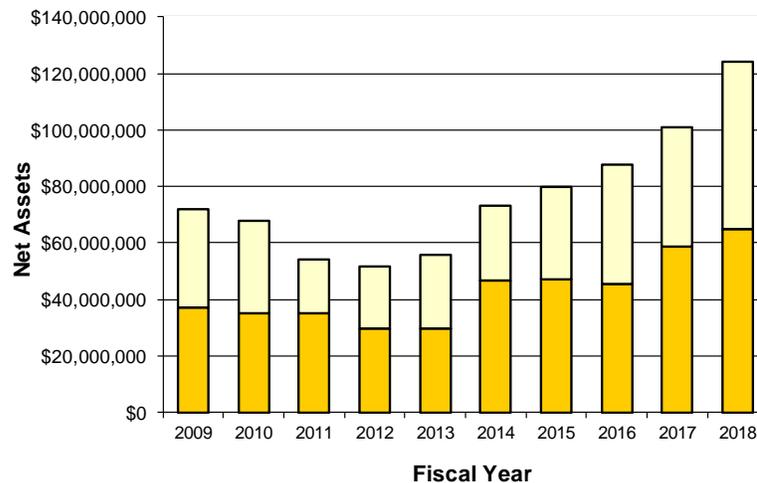
| | Fiscal Year | | | |
|---|----------------------|--------------------|-------------------|--------------------|
| | 2009 | 2010 | 2011 | 2012 |
| Changes in net assets: | | | | |
| Operating revenues (see Schedule 2) | \$ 39,335,102 | 45,601,400 | 56,284,385 | 48,121,854 |
| Operating expenses (see Schedule 3) | (28,362,636) | (46,705,411) | (52,788,111) | (44,170,360) |
| Overhead absorption | - | - | - | - |
| Depreciation and amortization | (2,256,077) | (2,324,791) | (2,394,968) | (2,446,962) |
| Operating income(loss) | 8,716,389 | (3,428,802) | 1,101,306 | 1,504,532 |
| Non-operating revenues(expenses) | | | | |
| Property taxes, net of collection expenses | 493,625 | 446,160 | 481,874 | 476,937 |
| Investment income/(loss) | 521,171 | 234,908 | 128,575 | 121,351 |
| Interest expense | (1,013,099) | (1,183,999) | (1,170,199) | (3,802,841) |
| Election costs | (511,638) | (450,000) | (1,008,030) | - |
| Gain/(loss) on sale/disposition of assets | - | - | - | - |
| Other revenue/(expense), net | 180,482 | 131,199 | 100,761 | 144,530 |
| Net non-operating revenues (expenses) | (329,459) | (821,732) | (1,467,019) | (3,060,023) |
| Net income before capital contributions | 8,386,930 | (4,250,534) | (365,713) | (1,555,491) |
| Capital contributions | 9,284 | 60,577 | 348,943 | 752,468 |
| Changes in net assets | \$ 8,396,214 | (4,189,957) | (16,770) | (803,023) |
| Prior Period Adjustment | - | - | - | - |
| Adjusted Changes in net assets | 8,396,214 | (4,189,957) | (16,770) | (803,023) |
| Net assets by component: | | | | |
| Invested in capital assets, net of related debt | \$ 37,305,026 | 34,945,659 | 35,110,097 | 29,781,357 |
| Restricted | - | - | - | - |
| Unrestricted | 34,673,773 | 32,843,183 | 18,952,155 | 21,979,302 |
| Total net assets | \$ 71,978,799 | 67,788,842 | 54,062,252 | 51,760,659 |



Source: Water Replenishment District Accounting Department

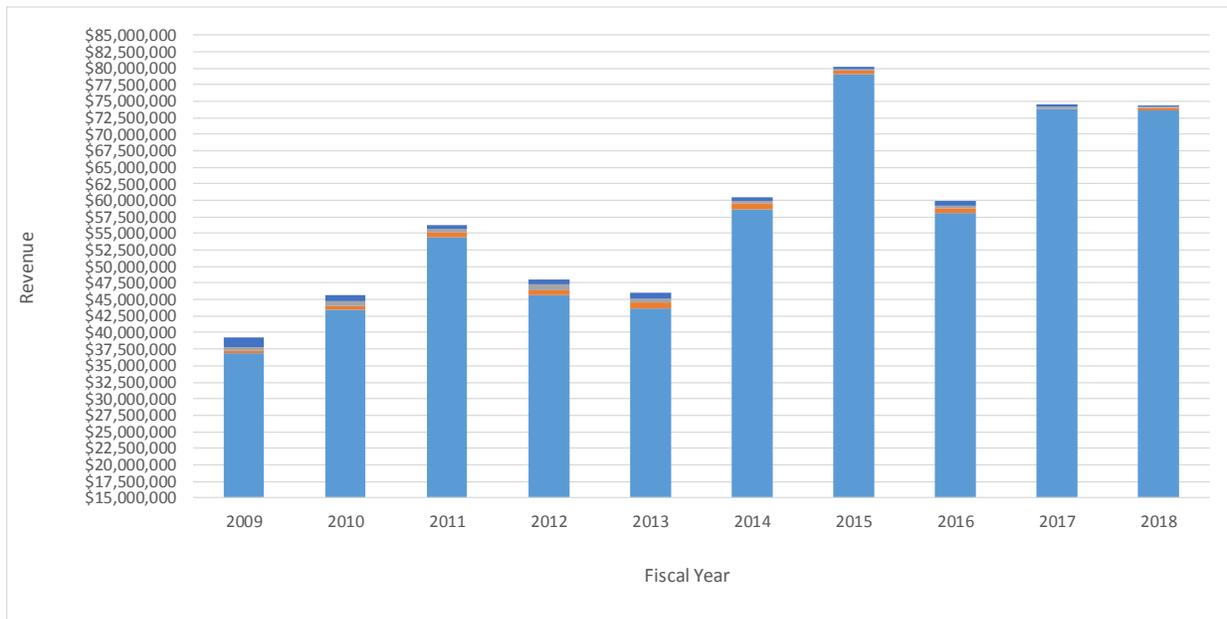
**Water Replenishment District of Southern California
Financial Trends - Changes in Net Position by Component (Unaudited)
Last Ten Fiscal Years**

| Fiscal Year | | | | | |
|--------------------|--------------------|-------------------|-------------------|--------------------|--------------------|
| 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| 46,003,068 | 60,386,705 | 80,154,123 | 59,852,856 | 74,573,333 | 74,289,639 |
| (38,868,302) | (44,086,875) | (69,991,319) | (51,786,834) | (62,347,174) | (57,072,594) |
| - | - | - | - | - | - |
| (2,495,964) | (2,537,023) | (2,629,444) | (4,003,734) | (4,014,947) | (4,112,063) |
| <u>4,638,802</u> | <u>13,762,807</u> | <u>7,533,360</u> | <u>4,062,288</u> | <u>8,211,212</u> | <u>13,104,982</u> |
| 606,562 | 544,319 | 581,180 | 585,957 | 613,015 | 658,530 |
| 259,644 | 244,961 | 163,704 | 562,438 | 864,242 | 1,027,074 |
| (3,935,225) | (3,130,364) | (2,144,351) | (2,148,520) | (2,875,746) | (6,174,350) |
| - | - | (1,397,597) | - | (1,374,823) | (1,100,000) |
| - | - | - | - | - | - |
| <u>170,406</u> | <u>45,682</u> | <u>4,102,881</u> | <u>4,192,116</u> | <u>3,270,421</u> | <u>4,209,797</u> |
| <u>(2,898,613)</u> | <u>(2,295,401)</u> | <u>1,305,817</u> | <u>3,191,991</u> | <u>497,109</u> | <u>(1,378,949)</u> |
| 1,740,189 | 11,467,406 | 8,839,177 | 7,254,279 | 8,708,321 | 11,726,033 |
| <u>2,107,865</u> | <u>6,207,226</u> | <u>1,109,714</u> | <u>450,878</u> | <u>7,550,656</u> | <u>11,600,940</u> |
| 3,848,054 | 17,674,632 | 9,948,891 | 7,705,157 | 16,258,977 | 23,326,973 |
| - | - | - | - | (3,031,941) | - |
| <u>3,848,054</u> | <u>17,674,632</u> | <u>9,948,891</u> | <u>7,705,157</u> | <u>13,227,036</u> | <u>23,326,973</u> |
| 29,824,873 | 46,797,969 | 47,030,300 | 45,393,945 | 58,811,863 | 64,895,311 |
| - | - | - | - | - | - |
| <u>25,783,840</u> | <u>26,485,376</u> | <u>32,987,244</u> | <u>42,328,756</u> | <u>42,137,874</u> | <u>59,381,399</u> |
| <u>55,608,713</u> | <u>73,283,345</u> | <u>80,017,544</u> | <u>87,722,701</u> | <u>100,949,737</u> | <u>124,276,710</u> |



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

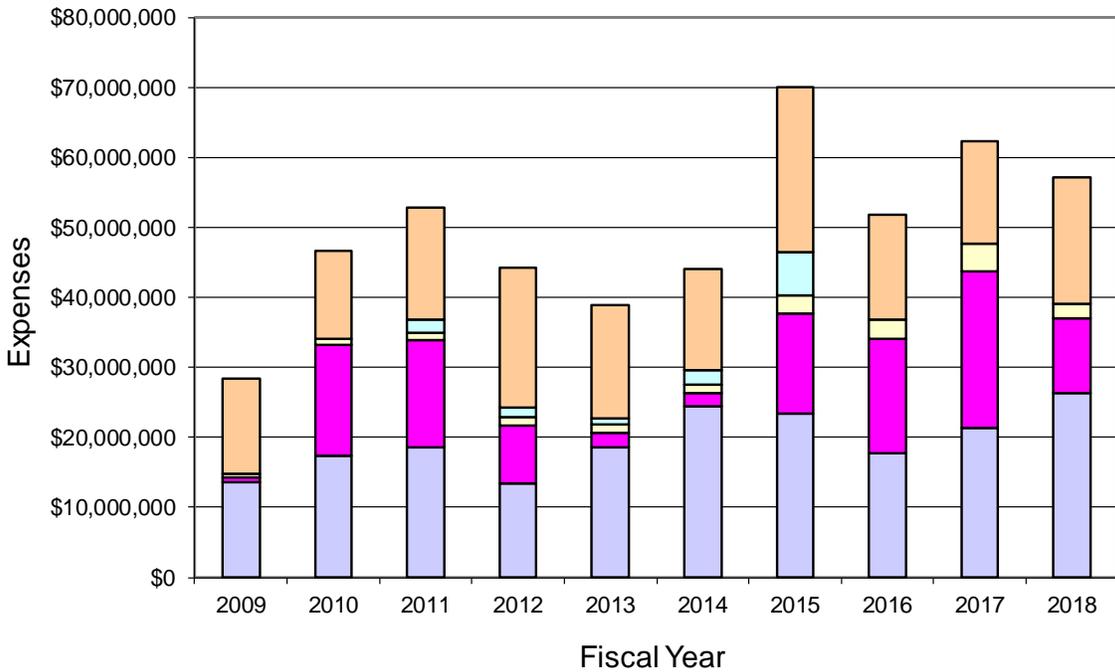
| Fiscal Year | Water Replenishment Assessment | Desalter Assessments | Water Treatment Subsidies | Other Operating Revenue | Total Operating Revenue |
|-------------|--------------------------------|----------------------|---------------------------|-------------------------|-------------------------|
| 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 | 60,386,704 |
| 2015 | 79,085,428 | 517,963 | 182,649 | 368,083 | 80,154,123 |
| 2016 | 58,128,626 | 619,806 | 412,706 | 691,718 | 59,852,856 |
| 2017 | 73,822,097 | - | 355,914 | 395,322 | 74,573,333 |
| 2018 | 73,687,699 | 334,381 | 171,759 | 95,800 | 74,289,639 |



Source: Water Replenishment District Accounting Department

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

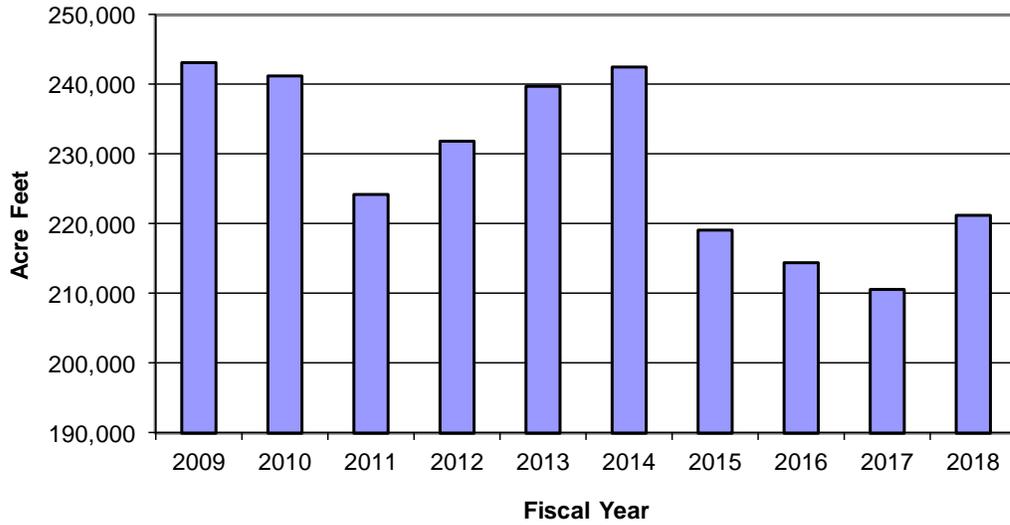
| Fiscal Year | Water Purchases Injecting | Water Purchases Spreading | Connection Fees | In-lieu Replenishment | General and Administrative | Total Operating Expenses |
|-------------|---------------------------|---------------------------|-----------------|-----------------------|----------------------------|--------------------------|
| 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 | 1,780,435 | 1,285,550 | 2,028,005 | 14,496,122 | 44,086,874 |
| 2015 | 23,385,697 | 14,325,715 | 2,586,820 | 6,241,887 | 23,451,200 | 69,991,319 |
| 2016 | 17,798,133 | 16,290,901 | 2,824,490 | - | 14,873,310 | 51,786,834 |
| 2017 | 21,344,615 | 22,333,722 | 4,010,063 | - | 14,658,774 | 62,347,174 |
| 2018 | 26,328,547 | 10,707,564 | 1,970,372 | - | 18,066,111 | 57,072,595 |



Source: Water Replenishment District Accounting Department

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

| <u>Fiscal Year</u> | <u>Water Pumped (Acre Feet)</u> |
|--------------------|---------------------------------|
| 2009 | 243,260 |
| 2010 | 241,198 |
| 2011 | 224,158 |
| 2012 | 231,815 |
| 2013 | 239,691 |
| 2014 | 242,545 |
| 2015 | 219,068 |
| 2016 | 214,489 |
| 2017 | 210,530 |
| 2018 | 221,304 |

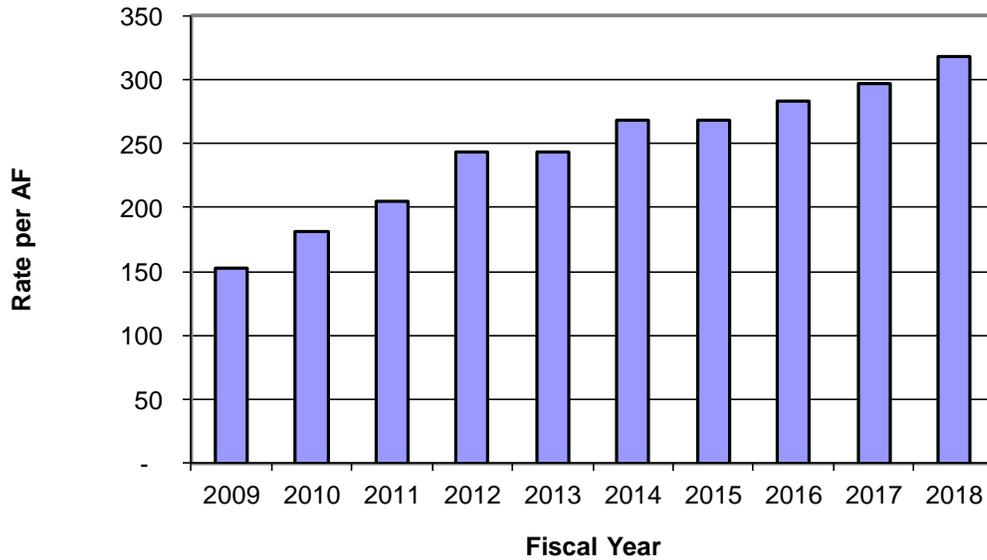


Note: See Schedule 2 "Operating Revenue by Source" for information regarding water revenues.

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 |
|----------------|----------------|
| 2009 | 153 |
| 2010 | 182 |
| 2011 | 205 |
| 2012 | 244 |
| 2013 | 244 |
| 2014 | 268 |
| 2015 | 268 |
| 2016 | 283 |
| 2017 | 297 |
| 2018 | 318 |



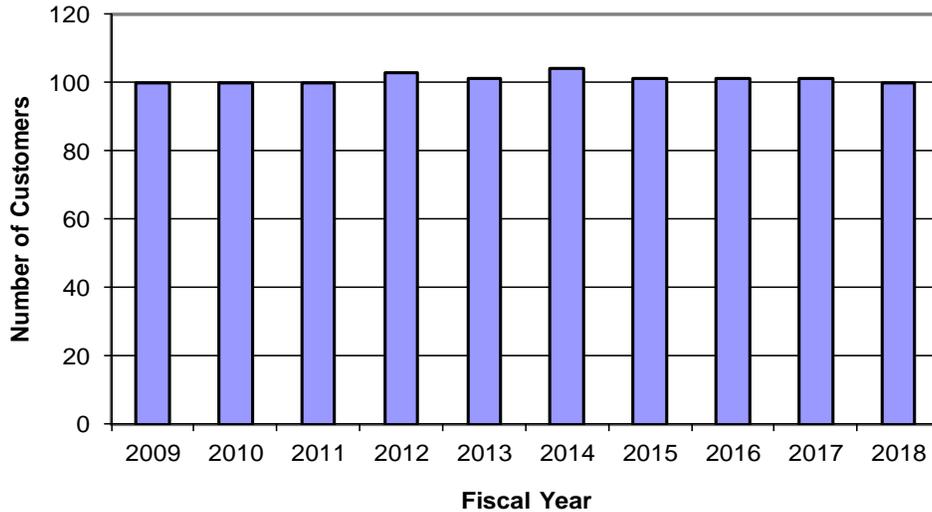
Notes:

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**

| <u>Fiscal Year</u> | <u>Number of Pumpers</u> |
|--------------------|--------------------------|
| 2009 | 100 |
| 2010 | 100 |
| 2011 | 100 |
| 2012 | 103 |
| 2013 | 101 |
| 2014 | 104 |
| 2015 | 101 |
| 2016 | 101 |
| 2017 | 101 |
| 2018 | 100 |



Source: Water Replenishment District Accounting Department

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

Number of Customers

In previous years, the reported number of customers varied based on different methods of counting individual pumpers and/or water rights holders.

For example, in some years, California Water Service Company was counted only once, while in other years, they were counted multiple times for each of their divisions in the Central and West Coast Basins

In order to eliminate the variability in the number of customers and provide a more consistent count, we performed a review of our historical pumping table and identified all unique account numbers (aka Alpha Numbers) that had production greater than zero during each Fiscal Year.

A revised summary of this count is provided above.

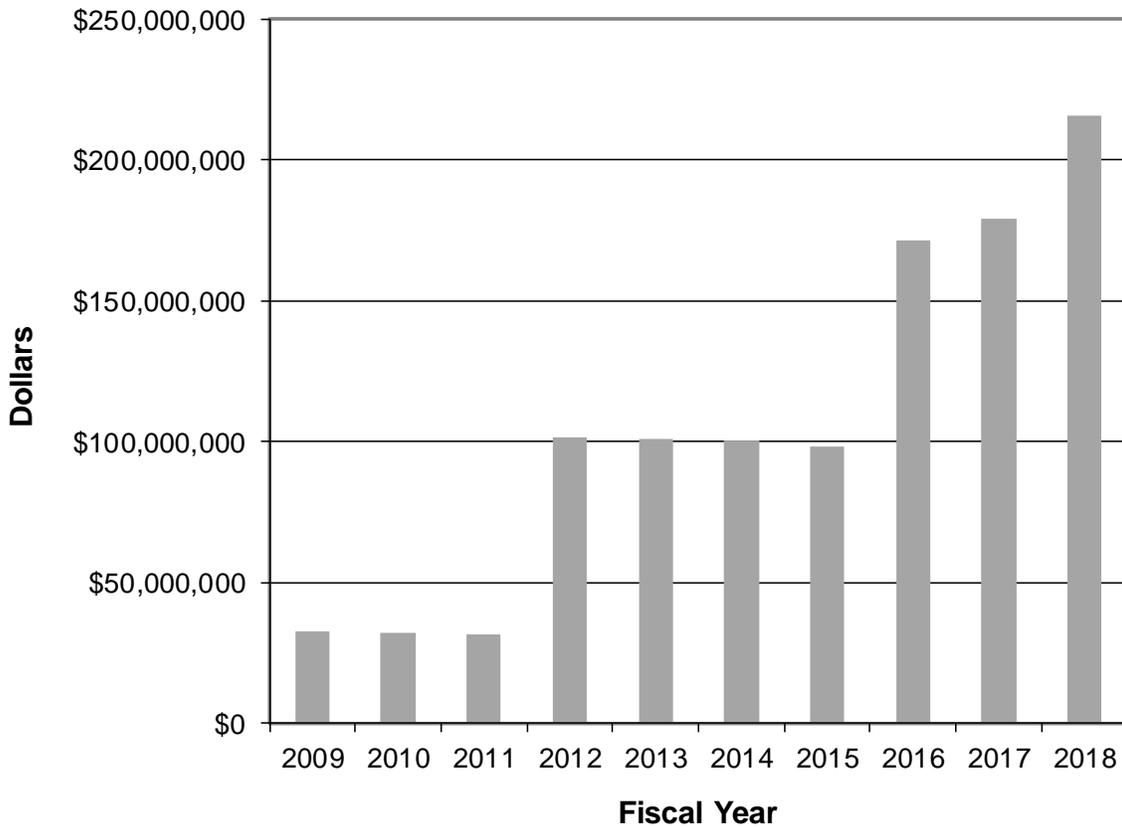
**Water Replenishment District of Southern California
Revenue Capacity - Principal Customers (Unaudited)
Current Fiscal Year and Ten Years Ago**

| Customer | 2018 | | 2009 | |
|---|--------------------------|----------------------------|--------------------------|----------------------------|
| | Water Pumped (AF) | Percentage of Total | Water Pumped (AF) | Percentage of Total |
| Long Beach, City of | 30,022 | 14% | 35,335 | 15% |
| Golden State Water Company | 29,268 | 13% | 35,712 | 15% |
| California Water Service Company | 17,658 | 8% | 14,994 | 6% |
| Downey, City of | 14,796 | 7% | 16,721 | 7% |
| Lakewood, City of | 9,136 | 4% | 8,679 | 4% |
| Cerritos, City of | 8,434 | 4% | 10,021 | 4% |
| South Gate, City of | 7,981 | 4% | 9,616 | 4% |
| Compton, City of | 7,517 | 3% | 6,865 | 3% |
| Paramount, City of | 6,031 | 3% | 4,933 | 2% |
| Vernon, City of | 6,405 | 3% | 8,208 | 3% |
| Total | 137,248 | 62% | 151,084 | 62% |
| Total Water Consumed (Acre Feet) | 221,304 | 100% | 243,260 | 100% |

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 |
| 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% |
| 2015 | 98,300,852 | 98,300,852 | 9.66 | 0.019656% |
| 2016 | 171,569,874 | 171,569,874 | 16.70 | 0.033312% |
| 2017 | 178,903,498 | 178,903,498 | 17.26 | 0.033798% |
| 2018 | 215,885,932 | 215,885,932 | 20.64 | 0.039675% |



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 | |
| 2009 | 39,014,927 | (28,362,636) | 10,652,291 | 315,000 | 764,408 | 1,079,408 | 9.87 |
| 2010 | 44,840,245 | (46,705,411) | (1,865,166) | 500,000 | 1,642,081 | 2,142,081 | (0.87) |
| 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 |
| 2015 | 82,569,654 | (69,991,319) | 12,578,335 | 1,810,000 | 4,743,381 | 6,553,381 | 1.92 |
| 2016 | 63,495,725 | (51,786,834) | 11,708,891 | 1,655,000 | 4,118,895 | 5,773,895 | 2.03 |
| 2017 | 82,621,098 | (62,347,174) | 20,273,924 | 2,350,000 | 6,897,700 | 9,247,700 | 2.19 |
| 2018 | 84,511,630 | (57,072,594) | 27,439,036 | 2,445,000 | 6,801,800 | 9,246,800 | 2.97 |

Notes:

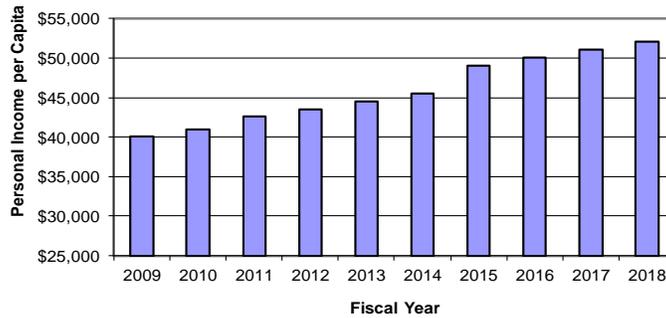
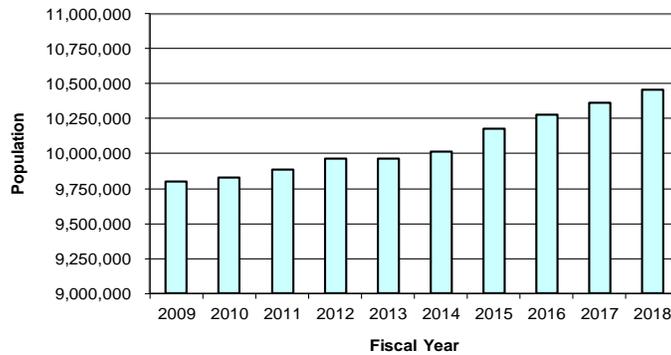
(1) Operating expenses exclude depreciation expense

(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) |
|------|-----------------------|----------------|--|--------------------------------|
| 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 |
| 2015 | 7.3% | 10,181,140 | \$ 500,117,959 | \$ 49,122 |
| 2016 | 4.9% | 10,274,040 | \$ 515,037,625 | \$ 50,130 |
| 2017 | 4.4% | 10,365,720 | \$ 529,335,857 | \$ 51,066 |
| 2018 | 4.4% | 10,457,330 | \$ 544,136,709 | \$ 52,034 |



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)
2018 June 30, 2018

Largest Public Companies (1)

The Walt Disney Company
Molina Healthcare, Inc
AECOM Technology Corp.
CBRE Group, Inc
Edison International
Farmers Insurance Exchange
Live Nation Entertainment, Inc.
Reliance Steel & Aluminum Company
Activision Blizzard Inc.
A-Mark Precious Metals, Inc.

(1) Ranked by 2017 sales volume
Source: Los Angeles Almanac

Largest Private Companies (2)

Capital Group of Companies, Inc.
Consolidated Electrical Distributors, Inc.
Forever 21 Inc.
Parsons Corporation
The Wonderful Company
Panda Restaurant Group
Newegg, Inc.
Guitar Center, Inc.

(2) Ranked by 2016 sales volume
Source: Los Angeles Almanac

Largest Employers (3)

County of Los Angeles
Los Angeles Unified School District
University of California, Los Angeles
City of Los Angeles (Including DWP)
Federal Government (non-Defense Dept.)
Kaiser Permanente
State of California (non-education)
University of Southern California
Northrop Grumman Corp.
Providence Health & Services
Target Corp.
Kroger Co. (Ralphs, Food 4 Less)
Los Angeles Community College District
Albertsons/Vons/Pavilions
The Walt Disney Company

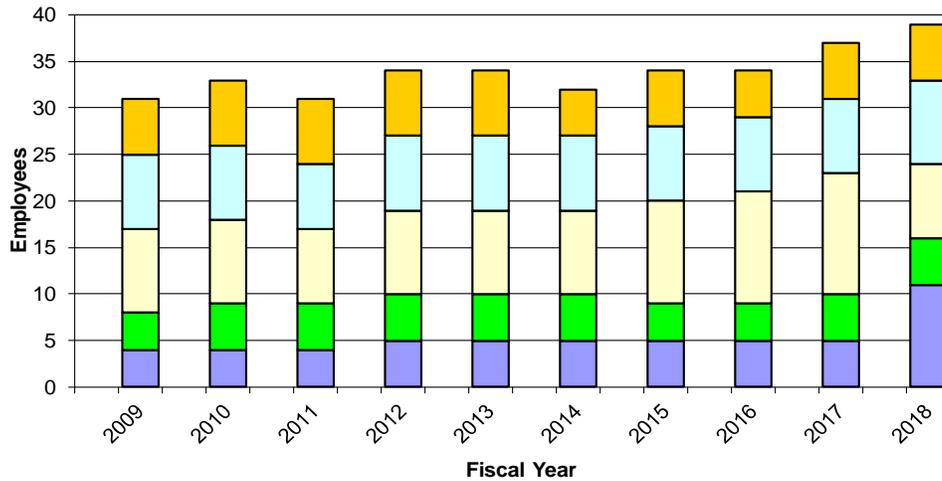
(3) Ranked by 2017 number of employees in Los Angeles County

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

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

Employees

| Department | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|-------------------------|------|------|------|------|------|------|------|------|------|------|
| Admin/Internal Services | 4 | 4 | 4 | 5 | 5 | 5 | 5 | 5 | 5 | 11 |
| Finance | 4 | 5 | 5 | 5 | 5 | 5 | 4 | 4 | 5 | 5 |
| Engineering | 9 | 9 | 8 | 9 | 9 | 9 | 11 | 12 | 13 | 8 |
| Hydrogeology | 8 | 8 | 7 | 8 | 8 | 8 | 8 | 8 | 8 | 9 |
| External Affairs | 6 | 7 | 7 | 7 | 7 | 5 | 6 | 5 | 6 | 6 |
| Total | 31 | 33 | 31 | 34 | 34 | 32 | 34 | 34 | 37 | 39 |



Other Operating and Capacity Indicators

| Fiscal Year | Number of Groundwater Pumps | Acre Feet Injected |
|-------------|-----------------------------|--------------------|
| 2009 | 370 | 25,996 |
| 2010 | 366 | 28,400 |
| 2011 | 372 | 27,408 |
| 2012 | 373 | 19,023 |
| 2013 | 361 | 23,277 |
| 2014 | 365 | 30,075 |
| 2015 | 353 | 28,881 |
| 2016 | 357 | 25,667 |
| 2017 | 360 | 25,906 |
| 2018 | 380 | 26,953 |

Sources: Water Replenishment District Engineering and Accounting Departments

Note:

Number of Wells

In previous years, the count of the number of production wells was based on wells labeled as "Active" in our wells database table, regardless of whether they had production in the current Fiscal Year.

In order to provide a more accurate summary of active wells, we performed a review of the historical pumping table and identified all wells that had production greater than zero during each Fiscal Year. A summary of this count is provided above.

**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, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 26, 2018.

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 results of that testing, and not to provide an opinion on the effectiveness of the entity'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.

A handwritten signature in black ink that reads "Vagueney & Company LLP". The signature is written in a cursive, flowing style.

**Glendale, California
December 26, 2018**



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