ACHIEVEMENTS IN WATER INDEPENDENCE

Comprehensive Annual Financial Report

Fiscal Years Ending
June 30, 2010 and 2009
Comprehensive Annual Financial Report

Fiscal Years Ended

June 30, 2010 and 2009

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

Prepared by:
Finance Department
Scott M. Ota, Chief Financial Officer
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, 2010

<table>
<thead>
<tr>
<th>Name</th>
<th>Division</th>
<th>Title</th>
<th>Elected/Appointed</th>
<th>Current Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sergio Calderon</td>
<td>4</td>
<td>President</td>
<td>Elected</td>
<td>01/07 – 01/11</td>
</tr>
<tr>
<td>Lillian Kawasaki</td>
<td>3</td>
<td>Vice President</td>
<td>Elected</td>
<td>01/07 – 01/11</td>
</tr>
<tr>
<td>Willard H. Murray, Jr.</td>
<td>1</td>
<td>Secretary</td>
<td>Elected</td>
<td>01/07 – 01/11</td>
</tr>
<tr>
<td>Robert Katherman</td>
<td>2</td>
<td>Treasurer</td>
<td>Elected</td>
<td>01/09 - 01/13</td>
</tr>
<tr>
<td>Albert Robles</td>
<td>5</td>
<td>Director</td>
<td>Elected</td>
<td>01/09 - 01/13</td>
</tr>
</tbody>
</table>

Water Replenishment District of Southern California
Robb Whitaker, General Manager
4040 Paramount Boulevard
Lakewood, California 90712
(562) 921-5521
www.wrd.org
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Introductory Section
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November 9, 2010

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, 2010.

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

Vasquez & Company LLP, Certified Public Accountants, have issued an unqualified (“clean”) opinion on the Water Replenishment District of Southern California’s financial statements for the year ended June 30, 2010. 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 overpumping of the Basins which caused wells to go dry and seawater to intrude into the potable water aquifers. The District serves as the groundwater manager for the Basins, in accordance with the adjudications of the Basins. The District protects the Basins by replenishing the groundwater, deterring sea water intrusion and removing contaminants from the groundwater.
The District is bound by the Baldwin, Whittier, and Merced Hills to the north, the Orange County line to the east, and the Pacific Ocean to the south and west. It lies entirely within Los Angeles County and serves 43 cities, including Los Angeles, Long Beach, Downey, and Torrance. The approximately 420 square mile service area uses about 250,000 acre-feet of groundwater per year.

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

The District originally was established to oversee the replenishment of groundwater levels in the West Coast and Central groundwater basins of Los Angeles County. The need for an entity to perform this function had become clear by the 1950s. The increasing population of the Los Angeles area during the early part of 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 80,000 acre-feet of water to be added to spreading grounds, where it gradually percolates into the underlying aquifers. The District also purchases an average of 30,000 acre-feet per year of water to be injected into seawater barrier wells along the coastline. Water injected into these barrier wells forms a dam of freshwater that keeps seawater from flowing into the groundwater aquifers in areas where groundwater levels have dropped.
below sea level. Los Angeles County operates the spreading grounds and barrier wells, using the water the District provides.

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

Local Economy

The District office is located in Los Angeles County. The County covers 4,752 square miles and has a 2005 population of about 10,223,000. Forecasts show positive population growth in the Los Angeles area averaging about 0.5% to 1.0% per year over the next several years.

Recent years have been very difficult for economy of Los Angeles County but a gradual economic improvement is expected over the next several years. The major forces leading the way will be the entertainment industry, international trade and tourism; all areas which have seen sharp declines in the past several years but have experienced positive growth in 2010. However, there are still areas of concern. The non-residential real estate sector continues to struggle with high vacancies, declining lease rates and falling property values. Local governments will continue to have challenges as the decline in home values, slump in retail sales and the State’s budget problems continue to harm municipal budgets.

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

Relevant Financial Policies

Internal Control Structure

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

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

**Major Initiatives**

The activities of the Board of Directors and the District’s staff are driven by its 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.”

**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, 2009. This was the sixth consecutive year that the District submitted its CAFR for this prestigious award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. We believe that our current CAFR continues to meet the Certificate of Achievement programs requirements and we are submitting it to the GFOA to determine its eligibility for 2010.

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,

[Signature]
Robb Whitaker, P.E.
General Manager

[Signature]
Scott M. Ota, CPA/CFF, CIRA
Chief Financial Officer
Water Replenishment District of Southern California
Organizational Chart

09/10 Total Staff = 34
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, 2009

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

[Signature]
President

[Signature]
Executive Director
Financial Section
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Report of Independent Auditors

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

We have audited the accompanying financial statements of the Water Replenishment District of Southern California (the District) as of and for the years ended June 30, 2010 and 2009, which collectively comprise the District’s basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the District’s management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the State Controller’s Minimum Audit Requirements for California Special Districts, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Water Replenishment District of Southern California as of June 30, 2010 and 2009 and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated November 9, 2010, on our consideration of the District’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in assessing the results of our audit.
Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The accompanying introductory and statistical sections are presented for purposes of additional analysis and are not required parts of the basic financial statements. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on them.

Los Angeles, California
November 9, 2010
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, 2010 and 2009. We encourage readers to consider the information presented here in conjunction with the transmittal letter in the Introductory Section and with the basic financial statements and related notes, which follow this section.

Financial Highlights

- The District's net assets decreased by 5.8% or ($4,189,957) from $71,978,799 to $67,788,842 in fiscal year 2010 and increased by 13.2% or $8,396,214 from $63,582,585 to $71,978,799 in fiscal year 2009.
- The District's operating revenue increased by 15.9% or $6,266,298 in fiscal year 2010 primarily due to an increase in water replenishment assessment revenues of approximately $6.6 million. However, operating revenues remained relatively stable, increasing by 0.5% or $203,049 in fiscal year 2009.
- Since May of 2009, the Metropolitan Water District has not had any imported spreading water available for purchase. This kept 2009 operating expenses artificially low. In 2010, the District had an opportunity to purchase more expensive untreated tier 1 water to replenish the groundwater basins. Therefore, the District's operating expenses increased by 64.7% or $18,342,775 in fiscal year 2010 primarily due to the purchase of approximately $14.5 million of untreated tier 1 water. The increase in operating expenses in 2010 is also caused by increased purchase of about $2.8 million of imported injection water to replace the unavailable recycled water at the West Coast Barrier. The operating expenses increased by 15.4% or $3,786,399 in fiscal year 2009 mainly due to an increase in purchasing of more imported injection water for the West Coast and Alamitos seawater intrusion barriers.

Required Financial Statements

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

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided
in the basic financial statements. The notes to the basic financial statements can be found on pages 15 through 37.

Financial Analysis of the District

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

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

Statement of Net Assets

<table>
<thead>
<tr>
<th>June 30,</th>
<th>Change</th>
<th>June 30,</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>%</td>
<td>Amount</td>
</tr>
<tr>
<td>Current assets</td>
<td>$39,097,029</td>
<td>$42,131,763</td>
<td>($3,034,734)</td>
</tr>
<tr>
<td>Restricted assets</td>
<td>10,760,842</td>
<td>13,535,668</td>
<td>(2,774,826)</td>
</tr>
<tr>
<td>Non-current assets</td>
<td>8,603,574</td>
<td>4,448,697</td>
<td>4,154,877</td>
</tr>
<tr>
<td>Capital assets</td>
<td>56,360,117</td>
<td>56,427,805</td>
<td>(67,688)</td>
</tr>
<tr>
<td></td>
<td>114,821,562</td>
<td>116,543,933</td>
<td>(1,722,371)</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>13,512,151</td>
<td>10,426,293</td>
<td>3,085,858</td>
</tr>
<tr>
<td>Noncurrent liabilities</td>
<td>33,520,569</td>
<td>34,138,841</td>
<td>(618,272)</td>
</tr>
<tr>
<td></td>
<td>47,032,720</td>
<td>44,565,134</td>
<td>2,467,586</td>
</tr>
<tr>
<td>Net assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net investment in capital assets</td>
<td>34,945,659</td>
<td>37,305,026</td>
<td>(2,359,367)</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>32,843,183</td>
<td>34,673,773</td>
<td>(1,830,590)</td>
</tr>
<tr>
<td></td>
<td>$67,788,842</td>
<td>$71,978,799</td>
<td>($4,189,957)</td>
</tr>
</tbody>
</table>

As noted earlier, over time, changes in net assets may serve as a useful indicator of a government's financial condition. In the case of the District, assets of the District exceeded liabilities by $67,788,842 and $71,978,799 as of June 30, 2010 and 2009, respectively.

In 2010, the decrease in net assets of ($4,189,957) is due to funding loans related to the District's safe drinking water program. This program provides a means to remove contaminates and promote the cleanup of groundwater resources in the West Coast and Central Basins. Additionally, the purchase of Tier 1 untreated water increased liabilities when compared to 2009.

In 2009, the District issued its 2008 Series Revenue Certificates of Participation bonds which increased its net assets restricted for debt service from $1,447,030 in 2008 to $13,535,668 in 2009. Also in 2009, the District's cash increased due to the unavailability of imported spreading water from
the Metropolitan Water District; which accounts for the increase of $13,835,701 of unrestricted net assets. When imported spreading water is unavailable, as has been the case since 2007, the Water Replenishment District reserves the funds collected for the purchase of imported spreading water solely for purchase of water in the future. In 2010, the largest portion of the District's net assets (51.6% at June 30, 2010) reflects its investment in capital assets (net of accumulated depreciation); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; these assets are not available for future spending.

At the end of fiscal years 2010 and 2009, the District shows a positive balance in its unrestricted net assets of $67,788,842 and $71,978,799, respectively that may be utilized in future years. The Board of Directors has taken action to reserve aspects of the unrestricted net assets for specified purposes.

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

<table>
<thead>
<tr>
<th>Year Ended June 30</th>
<th>Change</th>
<th>Amount</th>
<th>%</th>
<th>Year ended June 30</th>
<th>Change</th>
<th>Amount</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating revenues</td>
<td>$45,601,400</td>
<td>$39,335,102</td>
<td>15.9</td>
<td>$39,132,053</td>
<td>0.5</td>
<td>$203,049</td>
<td>0.2</td>
</tr>
<tr>
<td>Non-operating revenues</td>
<td>812,267</td>
<td>1,195,278</td>
<td>(32.0)</td>
<td>1,331,744</td>
<td>(136,466)</td>
<td>10.2</td>
<td></td>
</tr>
<tr>
<td>Total revenues</td>
<td>46,413,667</td>
<td>40,530,380</td>
<td>14.5</td>
<td>40,463,797</td>
<td>66,583</td>
<td>0.2</td>
<td></td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating expenses</td>
<td>46,705,411</td>
<td>28,362,636</td>
<td>64.7</td>
<td>24,576,237</td>
<td>15.4</td>
<td>3,786,399</td>
<td>10.0</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>2,324,791</td>
<td>2,256,077</td>
<td>68,714</td>
<td>2,304,366</td>
<td>(48,289)</td>
<td>2.1</td>
<td></td>
</tr>
<tr>
<td>Non-operating expenses</td>
<td>1,633,999</td>
<td>1,524,737</td>
<td>109,262</td>
<td>570,547</td>
<td>954,190</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>Total expenses</td>
<td>50,664,201</td>
<td>32,143,450</td>
<td>18,520,751</td>
<td>57.6</td>
<td>27,451,150</td>
<td>4,692,300</td>
<td>17.1</td>
</tr>
<tr>
<td><strong>Net income before capital contributions</strong></td>
<td>(4,250,534)</td>
<td>8,386,930</td>
<td>(12,637,464)</td>
<td>(150.7)</td>
<td>13,012,647</td>
<td>(4,625,717)</td>
<td>(35.5)</td>
</tr>
<tr>
<td><strong>Capital contributions</strong></td>
<td>60,577</td>
<td>9,284</td>
<td>51,293</td>
<td>552.5</td>
<td>97,516</td>
<td>(88,232)</td>
<td>(90.5)</td>
</tr>
<tr>
<td><strong>Change in net assets</strong></td>
<td>(4,189,957)</td>
<td>8,396,214</td>
<td>(12,586,171)</td>
<td>(149.9)</td>
<td>13,110,163</td>
<td>(4,713,949)</td>
<td>(36.0)</td>
</tr>
<tr>
<td><strong>Net assets at beginning of year</strong></td>
<td>71,978,799</td>
<td>63,582,585</td>
<td>8,396,214</td>
<td>13.2</td>
<td>50,472,422</td>
<td>13,110,163</td>
<td>26.0</td>
</tr>
<tr>
<td><strong>Net assets at end of year</strong></td>
<td>$67,788,842</td>
<td>$71,978,799</td>
<td>$(4,189,957)</td>
<td>(5.6)</td>
<td>$63,582,585</td>
<td>$8,396,214</td>
<td>13.2</td>
</tr>
</tbody>
</table>

The Statement of Revenues, Expenses and Changes in Net Assets shows how the District's net assets changed during the fiscal year. Net assets decreased by ($4,189,957) during the fiscal year ended June, 30, 2010 and increased $8,396,214 during the fiscal year ended June 30, 2009. In 2010, net loss before capital contributions of ($4,250,534) and capital contributions of $60,577 were the two sources of the changes in the District's net assets of ($4,189,957). In 2009, net income before capital contributions of $8,386,930 and capital contributions of $9,284 were the two sources of the changes in the District's net assets of $8,396,214.

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

In 2010, the District's total revenues increased 5,883,287 primarily due to an increase in the replenishment assessment charged to pumpers for using groundwater. In addition, the District's total expenses increased by $18,520,751 in 2010 primarily due to the purchase of Tier 1 untreated water used for recharge and additional imported injection water purchased to replace unavailable recycled water at the West Coast Seawater Barrier Project.

In 2009, the District's total revenues remained relatively constant with a nominal increase of $66,583. The District's 2009 total expenses increased by $4,692,300 primarily due to an increase of imported water purchased for injection at the seawater barriers.
Operating Revenue

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
<th>Change</th>
<th>2008</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Revenue:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water replenishment assessment</td>
<td>$43,452,025</td>
<td>$36,877,706</td>
<td>$6,574,319</td>
<td>$36,482,271</td>
<td>$395,435</td>
</tr>
<tr>
<td>Desalter assessment</td>
<td>554,734</td>
<td>316,986</td>
<td>237,748</td>
<td>606,380</td>
<td>(289,394)</td>
</tr>
<tr>
<td>Water treatment subsidy</td>
<td>726,375</td>
<td>598,110</td>
<td>128,265</td>
<td>476,491</td>
<td>121,619</td>
</tr>
<tr>
<td>Other operating income</td>
<td>868,266</td>
<td>1,542,300</td>
<td>(674,034)</td>
<td>1,566,911</td>
<td>(24,611)</td>
</tr>
<tr>
<td><strong>Total operating revenue</strong></td>
<td>$45,601,400</td>
<td>$39,335,102</td>
<td>$6,266,298</td>
<td>$39,132,053</td>
<td>$203,049</td>
</tr>
</tbody>
</table>

In 2010, operating revenue increased $6,266,298 mainly due to an increase in the replenishment assessment over the prior year.

In 2009, operating revenue remained relatively consistent increasing by $203,049, which was primarily due to an increase in the water replenishment assessment revenues of $395,435 and a decrease of ($289,394) in revenues related to the delivery of water from the Goldsworthy Desalter Project.

Operating Expenses - Water Supply Management Expenses

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
<th>Change</th>
<th>2008</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Water supply management:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water purchases - injecting</td>
<td>$17,406,851</td>
<td>$13,623,824</td>
<td>$3,783,027</td>
<td>$10,819,502</td>
<td>$2,804,322</td>
</tr>
<tr>
<td>Water purchases - spreading</td>
<td>15,808,953</td>
<td>601,706</td>
<td>15,207,247</td>
<td>720,160</td>
<td>(118,454)</td>
</tr>
<tr>
<td>Connection fees</td>
<td>796,787</td>
<td>536,011</td>
<td>260,776</td>
<td>1,379,127</td>
<td>(843,116)</td>
</tr>
<tr>
<td><strong>Total water supply management expenses</strong></td>
<td>$34,012,591</td>
<td>$14,761,541</td>
<td>$19,251,050</td>
<td>$12,918,789</td>
<td>$1,842,752</td>
</tr>
</tbody>
</table>

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

In 2009, water supply management expenses increased by $1,842,752, due to increased injection water purchased for the West Coast and Alamitos seawater intrusion barrier projects. Additionally, the District had a decrease of ($843,116) in connection fees.

Capital Asset Administration

At the end of fiscal years 2010 and 2009, the District's investment in capital assets amounted to $56,360,117 and $56,427,805 (net of accumulated depreciation), respectively. This investment in capital assets includes land, utility plant, monitoring and injection equipment, service connections, office furniture and equipment, and construction-in-progress. Major capital asset additions during 2010 and 2009 include work on various stages of construction projects.

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

At the end of fiscal years 2010 and 2009, the District had long-term debt of $32,175,300 and $32,658,447 outstanding, respectively (See Note 7 for further details).

Changes in long-term debt in 2010 were as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Balance 2009</th>
<th>Additions</th>
<th>Deletions</th>
<th>Balance 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Certificate of participation (2004)</td>
<td>$ 14,785,000</td>
<td>-</td>
<td>$(325,000)</td>
<td>$ 14,460,000</td>
</tr>
<tr>
<td>Certificate of participation (2008)</td>
<td>18,365,000</td>
<td>-</td>
<td>(175,000)</td>
<td>18,190,000</td>
</tr>
<tr>
<td>Bond discount</td>
<td>33,150,000</td>
<td>-</td>
<td>(500,000)</td>
<td>32,650,000</td>
</tr>
<tr>
<td></td>
<td>(491,553)</td>
<td>-</td>
<td>16,853</td>
<td>(474,700)</td>
</tr>
<tr>
<td></td>
<td>$ 32,658,447</td>
<td>-</td>
<td>(483,147)</td>
<td>$ 32,175,300</td>
</tr>
</tbody>
</table>

Changes in long-term debt in 2009 were as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Balance 2008</th>
<th>Additions</th>
<th>Deletions</th>
<th>Balance 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Certificate of participation (2004)</td>
<td>$ 15,100,000</td>
<td>-</td>
<td>(315,000)</td>
<td>$ 14,785,000</td>
</tr>
<tr>
<td>Certificate of participation (2008)</td>
<td>-</td>
<td>18,365,000</td>
<td>-</td>
<td>18,365,000</td>
</tr>
<tr>
<td>Bond discount</td>
<td>15,100,000</td>
<td>(501,384)</td>
<td>9,831</td>
<td>(491,553)</td>
</tr>
<tr>
<td></td>
<td>$ 15,100,000</td>
<td>17,863,616</td>
<td>(305,169)</td>
<td>$ 32,658,447</td>
</tr>
</tbody>
</table>
Conditions Affecting Current Financial Position

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

Requests for Information

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

### Current assets

<table>
<thead>
<tr>
<th>Item</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$26,443,397</td>
<td>$32,078,752</td>
</tr>
<tr>
<td>Investments</td>
<td>2,033,325</td>
<td>1,250,000</td>
</tr>
<tr>
<td>Interest receivable</td>
<td>57,476</td>
<td>90,824</td>
</tr>
<tr>
<td>Water replenishment assessments receivable, net</td>
<td>9,941,080</td>
<td>8,356,824</td>
</tr>
<tr>
<td>Property taxes receivable</td>
<td>18,053</td>
<td>14,325</td>
</tr>
<tr>
<td>Notes receivable - current portion</td>
<td>256,293</td>
<td>264,684</td>
</tr>
<tr>
<td>Prepaid expenses and deposits</td>
<td>347,405</td>
<td>76,354</td>
</tr>
<tr>
<td><strong>Total current assets - unrestricted</strong></td>
<td><strong>39,097,029</strong></td>
<td><strong>42,131,763</strong></td>
</tr>
</tbody>
</table>

### Restricted current assets - cash and cash equivalents

<table>
<thead>
<tr>
<th>Item</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>10,760,842</td>
<td>13,535,668</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td><strong>49,857,871</strong></td>
<td><strong>55,667,431</strong></td>
</tr>
</tbody>
</table>

### Noncurrent assets

<table>
<thead>
<tr>
<th>Item</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments</td>
<td>3,999,499</td>
<td>2,304,110</td>
</tr>
<tr>
<td>Deferred charges, net</td>
<td>782,332</td>
<td>812,647</td>
</tr>
<tr>
<td>Notes receivable, net of current portion</td>
<td>3,821,743</td>
<td>1,331,940</td>
</tr>
<tr>
<td>Capital assets, net</td>
<td>56,360,117</td>
<td>56,427,805</td>
</tr>
<tr>
<td><strong>Total noncurrent assets</strong></td>
<td><strong>64,963,691</strong></td>
<td><strong>60,876,502</strong></td>
</tr>
</tbody>
</table>

**Total assets**                                         | **114,821,562**  | **116,543,933**  |

## LIABILITIES

### Current liabilities

<table>
<thead>
<tr>
<th>Item</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable and accrued expenses - water purchases</td>
<td>5,544,904</td>
<td>2,890,544</td>
</tr>
<tr>
<td>Deposits payable</td>
<td>450,000</td>
<td>5,400</td>
</tr>
<tr>
<td>Accrued wages and related payables</td>
<td>79,602</td>
<td>52,686</td>
</tr>
<tr>
<td>Compensated absences - current portion</td>
<td>101,053</td>
<td>142,041</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>6,017,235</td>
<td>6,146,578</td>
</tr>
<tr>
<td>Interest payable</td>
<td>679,357</td>
<td>689,044</td>
</tr>
<tr>
<td>Certificates of participation - current portion</td>
<td>640,000</td>
<td>500,000</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td><strong>13,512,151</strong></td>
<td><strong>10,426,293</strong></td>
</tr>
</tbody>
</table>

### Noncurrent liabilities

<table>
<thead>
<tr>
<th>Item</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compensated absences, net of current portion</td>
<td>243,469</td>
<td>179,981</td>
</tr>
<tr>
<td>Other post employment benefits</td>
<td>1,205,822</td>
<td>948,976</td>
</tr>
<tr>
<td>Deferred water in-lieu replenishment assessment</td>
<td>535,978</td>
<td>851,437</td>
</tr>
<tr>
<td>Certificates of participation - net of current portion</td>
<td>31,535,300</td>
<td>32,158,447</td>
</tr>
<tr>
<td><strong>Total noncurrent liabilities</strong></td>
<td><strong>33,520,569</strong></td>
<td><strong>34,138,841</strong></td>
</tr>
</tbody>
</table>

**Total liabilities**                                     | **47,032,720**   | **44,565,134**   |

## NET ASSETS

<table>
<thead>
<tr>
<th>Item</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment in capital assets, net of related debt</td>
<td>34,945,659</td>
<td>37,305,026</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>32,843,183</td>
<td>34,673,773</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td><strong>$67,788,842</strong></td>
<td><strong>$71,978,799</strong></td>
</tr>
</tbody>
</table>

See notes to the financial statements.
## Water Replenishment District of Southern California

### Statements of Revenues, Expenses and Changes in Net Assets

**Years ended June 30, 2010 and 2009**

See notes to the financial statements.

### Operating revenues

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water replenishment assessments</td>
<td>$43,452,025</td>
<td>$36,877,706</td>
</tr>
<tr>
<td>Desalter assessments</td>
<td>554,734</td>
<td>316,986</td>
</tr>
<tr>
<td>Water treatment subsidies</td>
<td>726,375</td>
<td>598,110</td>
</tr>
<tr>
<td>Other operating income</td>
<td>868,266</td>
<td>1,542,300</td>
</tr>
<tr>
<td><strong>Total operating revenues</strong></td>
<td><strong>45,601,400</strong></td>
<td><strong>39,335,102</strong></td>
</tr>
</tbody>
</table>

### Operating expenses

<table>
<thead>
<tr>
<th>Water supply management:</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water purchases - injecting</td>
<td>17,406,851</td>
<td>13,623,824</td>
</tr>
<tr>
<td>Water purchases - spreading</td>
<td>15,808,953</td>
<td>601,706</td>
</tr>
<tr>
<td>Connection fees</td>
<td>796,787</td>
<td>536,011</td>
</tr>
<tr>
<td>General and administrative</td>
<td>12,692,820</td>
<td>13,601,095</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td><strong>46,705,411</strong></td>
<td><strong>28,362,636</strong></td>
</tr>
</tbody>
</table>

**Operating income (loss) before depreciation and amortization**

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1,104,011)</td>
<td>10,972,466</td>
<td></td>
</tr>
</tbody>
</table>

**Depreciation and amortization**

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>(2,324,791)</td>
<td>(2,256,077)</td>
<td></td>
</tr>
</tbody>
</table>

**Operating income (loss)**

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>(3,428,802)</td>
<td>8,716,389</td>
<td></td>
</tr>
</tbody>
</table>

### Nonoperating revenue(expense)

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property taxes</td>
<td>446,160</td>
<td>493,625</td>
</tr>
<tr>
<td>Interest and investment earnings</td>
<td>234,908</td>
<td>521,171</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(1,183,999)</td>
<td>(1,013,099)</td>
</tr>
<tr>
<td>Election costs</td>
<td>(450,000)</td>
<td>(511,638)</td>
</tr>
<tr>
<td>Other, net</td>
<td>131,199</td>
<td>180,482</td>
</tr>
<tr>
<td><strong>Net nonoperating revenue (expense)</strong></td>
<td><strong>(821,732)</strong></td>
<td><strong>(329,459)</strong></td>
</tr>
</tbody>
</table>

**Income before capital contributions**

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>(4,250,534)</td>
<td>8,386,930</td>
<td></td>
</tr>
</tbody>
</table>

**Capital contributions - state capital grants**

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>60,577</td>
<td>9,284</td>
<td></td>
</tr>
</tbody>
</table>

**Total capital contributions**

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>60,577</td>
<td>9,284</td>
<td></td>
</tr>
</tbody>
</table>

### Change in net assets

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>(4,189,957)</td>
<td>8,396,214</td>
<td></td>
</tr>
</tbody>
</table>

**Total net assets - beginning**

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>71,978,799</td>
<td>63,582,585</td>
<td></td>
</tr>
</tbody>
</table>

**Total net assets - ending**

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>$67,788,842</td>
<td>$71,978,799</td>
<td></td>
</tr>
</tbody>
</table>
## Water Replenishment District of Southern California

### Statements of Cash Flows

**Years ended June 30, 2010 and 2009**

**See notes to the financial statements.**

<table>
<thead>
<tr>
<th>Cash flows from operating activities</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash receipts from water assessments and subsidies</td>
<td>$43,832,884</td>
<td>$38,242,414</td>
</tr>
<tr>
<td>Cash paid to vendors and suppliers for materials and services</td>
<td>(40,967,657)</td>
<td>(27,799,239)</td>
</tr>
<tr>
<td>Cash paid to employees for salaries and wages</td>
<td>(3,053,583)</td>
<td>(2,465,203)</td>
</tr>
<tr>
<td><strong>Net cash provided by (used in) operating activities</strong></td>
<td>(188,356)</td>
<td>7,977,972</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash flows from capital and related financing activities</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition and construction of capital assets</td>
<td>(1,761,541)</td>
<td>(2,081,285)</td>
</tr>
<tr>
<td>Proceeds from long-term debt</td>
<td>-</td>
<td>17,508,598</td>
</tr>
<tr>
<td>Payment of long-term debt</td>
<td>(500,000)</td>
<td>(315,000)</td>
</tr>
<tr>
<td>Proceeds from capital grants</td>
<td>60,577</td>
<td>9,284</td>
</tr>
<tr>
<td>Deferred capital project</td>
<td>(129,343)</td>
<td>(144,851)</td>
</tr>
<tr>
<td>Interest paid on long-term debt</td>
<td>(1,642,080)</td>
<td>(764,409)</td>
</tr>
<tr>
<td><strong>Net cash provided by (used in) capital and related financing activities</strong></td>
<td>(3,972,387)</td>
<td>14,212,337</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash flows from non-capital financing activities</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from property taxes</td>
<td>442,432</td>
<td>495,274</td>
</tr>
<tr>
<td><strong>Net cash provided by (used in) non-capital financing activities</strong></td>
<td>442,432</td>
<td>495,274</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash flows from investing activities</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from sale and maturities of investments</td>
<td>1,251,026</td>
<td>10,425,569</td>
</tr>
<tr>
<td>Purchases of investments</td>
<td>(3,729,740)</td>
<td>(5,784,779)</td>
</tr>
<tr>
<td>Principal received from (issuance of) notes receivable</td>
<td>(2,481,412)</td>
<td>251,022</td>
</tr>
<tr>
<td>Proceeds from interest and investment earnings</td>
<td>268,256</td>
<td>473,400</td>
</tr>
<tr>
<td><strong>Net cash provided by (used in) investing activities</strong></td>
<td>(4,691,870)</td>
<td>5,365,212</td>
</tr>
</tbody>
</table>

| Change in cash and cash equivalents | (8,410,181) | 28,050,795 |

| Beginning cash and cash equivalents | 45,614,420 | 17,563,625 |
| **Ending cash and cash equivalents** | $37,204,239 | $45,614,420 |

### Reconciliation of cash and cash equivalents to statement of financial position

<table>
<thead>
<tr>
<th>Cash and cash equivalents</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$26,443,397</td>
<td>32,078,752</td>
</tr>
<tr>
<td>Restricted assets - cash and cash equivalents</td>
<td>10,760,842</td>
<td>13,535,668</td>
</tr>
<tr>
<td><strong>Total cash and cash equivalents</strong></td>
<td>$37,204,239</td>
<td>$45,614,420</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Noncash, investing, capital and financing activities</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in fair value of investments</td>
<td>$ (30,026)</td>
<td>$ 54,354</td>
</tr>
<tr>
<td>Capitalized interest</td>
<td>$ 465,247</td>
<td>$ 180,526</td>
</tr>
</tbody>
</table>

**See notes to the financial statements.**

13
### Reconciliation of operating income(loss) to net cash provided by (used in) operating activities:

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating income (loss)</td>
<td>(3,428,802)</td>
<td>8,716,389</td>
</tr>
</tbody>
</table>

### Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation</td>
<td>2,294,476</td>
<td>2,231,489</td>
</tr>
<tr>
<td>Amortization</td>
<td>30,315</td>
<td>24,588</td>
</tr>
<tr>
<td>Election costs</td>
<td>(450,000)</td>
<td>(511,638)</td>
</tr>
<tr>
<td>Other non-operating revenues( expenses), net</td>
<td>131,199</td>
<td>180,482</td>
</tr>
</tbody>
</table>

### Changes in assets and liabilities:

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water replenishment assessments receivable, net</td>
<td>(1,584,256)</td>
<td>(1,273,170)</td>
</tr>
<tr>
<td>Prepaid expenses and deposits</td>
<td>(271,051)</td>
<td>130,756</td>
</tr>
<tr>
<td>Increase (decrease) in liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued expenses - water purchases</td>
<td>2,654,360</td>
<td>(1,602,691)</td>
</tr>
<tr>
<td>Accounts payable and accrued expenses - other</td>
<td>444,600</td>
<td>(425,000)</td>
</tr>
<tr>
<td>Deferred water in-lieu replenishment assessments</td>
<td>(315,459)</td>
<td>(70,375)</td>
</tr>
<tr>
<td>Accrued wages and related payables</td>
<td>26,916</td>
<td>493,051</td>
</tr>
<tr>
<td>Accrued OPEB cost</td>
<td>256,846</td>
<td>84,091</td>
</tr>
<tr>
<td>Compensated absences</td>
<td>22,500</td>
<td>84,091</td>
</tr>
</tbody>
</table>

Total adjustments | 3,240,446 | (738,417) |

Net cash provided by (used in) operating activities | (188,356) | 7,977,972 |
NOTE 1  REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organizations 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 Statements No. 14 and 39 (an amendment of No. 14). The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization's governing body and: 1) It is able to impose its will on that organization, or 2) There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

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

Basis of Accounting and Measurement Focus

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs of managing the groundwater basins on a continuing basis be financed or recovered primarily through user charges (water replenishment assessments), capital grants and similar funding. Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place.
NOTE 1 REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

Assets, Liabilities and Net Assets
Use of Estimates - The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in net assets during the reporting period. Actual results could differ from those estimates.
NOTE 1 REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Investments - The District has adopted an investment policy directing the District's Chief Financial Officer to deposit funds in financial institutions. Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

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

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

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

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

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

Prepaid Expenses - Certain payments to vendors reflect costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.
NOTE 1 REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

- Net Investment in Capital Assets - This component of net assets consists of capital assets, net of accumulated depreciation and reduced by any debt outstanding against the acquisition, construction or improvement of those capital assets.
- Restricted Net Assets - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Assets - This component of net assets consists of net assets that do not meet the definition of restricted or net investment in capital assets.

Water Replenishment Assessments - Water replenishment assessments are billed on a monthly basis.
NOTE 1  REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

NOTE 2  CASH AND INVESTMENTS

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

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$26,443,397</td>
<td>$32,078,752</td>
</tr>
<tr>
<td>Restricted cash and cash equivalents</td>
<td>$10,760,842</td>
<td>$13,535,668</td>
</tr>
<tr>
<td>Investments</td>
<td>$6,032,824</td>
<td>$3,554,110</td>
</tr>
<tr>
<td><strong>Total cash and investments</strong></td>
<td><strong>$43,237,063</strong></td>
<td><strong>$49,168,530</strong></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposit with financial institutions</td>
<td>$4,192,625</td>
<td>$451,567</td>
</tr>
<tr>
<td>Investments</td>
<td>$39,044,438</td>
<td>$48,716,963</td>
</tr>
<tr>
<td><strong>Total cash and investments</strong></td>
<td><strong>$43,237,063</strong></td>
<td><strong>$49,168,530</strong></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Reserve Fund</td>
<td>$8,401,547</td>
<td>$9,086,991</td>
</tr>
<tr>
<td>Reserved or Encumbered:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water Purchase Fund</td>
<td>$11,344,130</td>
<td>13,620,000</td>
</tr>
<tr>
<td>Restricted for Capital Projects</td>
<td>$13,968,329</td>
<td>17,065,985</td>
</tr>
<tr>
<td>Debt Service Reserve Fund</td>
<td>$2,300,000</td>
<td>2,300,000</td>
</tr>
<tr>
<td>Cal Trans Trust Fund</td>
<td>$6,017,235</td>
<td>6,146,578</td>
</tr>
<tr>
<td>Other Post Employment Benefit Obligation</td>
<td>$1,205,822</td>
<td>948,976</td>
</tr>
<tr>
<td><strong>Total Cash and Investments</strong></td>
<td><strong>$43,237,063</strong></td>
<td><strong>$49,168,530</strong></td>
</tr>
</tbody>
</table>
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 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.

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

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.

<table>
<thead>
<tr>
<th>Authorized Investment Type</th>
<th>Maximum Maturity</th>
<th>Maximum Percentage of Portfolio</th>
<th>Maximum Investment in One Issuer</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Treasury Obligations</td>
<td>None</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>U.S. Agency Securities</td>
<td>None</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Banker's Acceptances</td>
<td>180 days</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Commercial Paper</td>
<td>270 days</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Money Market Mutual Funds</td>
<td>N/A</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Investment Contracts</td>
<td>30 years</td>
<td>None</td>
<td>None</td>
</tr>
</tbody>
</table>
NOTE 2  CASH AND INVESTMENTS (CONTINUED)

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, 2010, 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, 2010, were as follows:

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>Total Investment</th>
<th>Remaining Maturity (in Months)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>12 Months</td>
</tr>
<tr>
<td>U.S. Treasury Obligations</td>
<td>$ 503,790</td>
<td>$ 503,790</td>
</tr>
<tr>
<td>Medium-term Corporate Notes</td>
<td>1,529,535</td>
<td>1,529,535</td>
</tr>
<tr>
<td>Certificates of Deposits</td>
<td>3,999,499</td>
<td>3,999,499</td>
</tr>
<tr>
<td>Money market deposit account</td>
<td>7,027,501</td>
<td>7,027,501</td>
</tr>
<tr>
<td>Money Market Mutual Funds</td>
<td>967,415</td>
<td>967,415</td>
</tr>
<tr>
<td>Local Agency Investment Fund</td>
<td>14,255,856</td>
<td>14,255,856</td>
</tr>
<tr>
<td>Cash with fiscal agent: Money Market Mutual Funds</td>
<td>10,760,842</td>
<td>10,760,842</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$ 39,044,438</td>
<td>$ 39,044,438</td>
</tr>
</tbody>
</table>

Maturities of investments at June 30, 2009, were as follows:

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>Total Investment</th>
<th>Remaining Maturity (in Months)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>12 Months</td>
</tr>
<tr>
<td>U.S. Treasury Obligations</td>
<td>$ 519,610</td>
<td>-</td>
</tr>
<tr>
<td>Repurchase agreement</td>
<td>12,379,777</td>
<td>12,379,777</td>
</tr>
<tr>
<td>Medium-term Corporate Notes</td>
<td>1,543,740</td>
<td>-</td>
</tr>
<tr>
<td>Certificates of Deposits</td>
<td>1,490,749</td>
<td>1,490,749</td>
</tr>
<tr>
<td>Money market deposit account</td>
<td>4,491,277</td>
<td>4,491,277</td>
</tr>
<tr>
<td>Money Market Mutual Funds</td>
<td>626,692</td>
<td>626,692</td>
</tr>
<tr>
<td>Local Agency Investment Fund</td>
<td>14,129,450</td>
<td>14,129,450</td>
</tr>
<tr>
<td>Cash with fiscal agent:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Money Market Mutual Funds</td>
<td>13,535,668</td>
<td>13,535,668</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$ 48,716,963</td>
<td>$ 46,653,613</td>
</tr>
</tbody>
</table>

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.
NOTE 2  CASH AND INVESTMENTS (CONTINUED)

Credit ratings of investments as of June 30, 2010, were as follows:

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>Total Investment</th>
<th>Minimum Legal Rating</th>
<th>Exempt From Disclosure</th>
<th>Ratings as of Year End</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Treasury Obligations</td>
<td>$503,790</td>
<td>N/A</td>
<td>$503,790</td>
<td>AAA</td>
</tr>
<tr>
<td>Medium-term Corporate Notes</td>
<td>1,529,535</td>
<td>N/A</td>
<td>1,529,535</td>
<td>AA-</td>
</tr>
<tr>
<td>Certificates of Deposits</td>
<td>3,999,499</td>
<td>A</td>
<td>3,999,499</td>
<td>BBB+</td>
</tr>
<tr>
<td>Money market deposit account</td>
<td>7,027,501</td>
<td>N/A</td>
<td>7,027,501</td>
<td>-</td>
</tr>
<tr>
<td>Money Market Mutual Funds</td>
<td>967,415</td>
<td>N/A</td>
<td>967,415</td>
<td>-</td>
</tr>
<tr>
<td>Local Agency Investment Fund</td>
<td>14,255,856</td>
<td>N/A</td>
<td>14,255,856</td>
<td>-</td>
</tr>
<tr>
<td>Cash with fiscal agent: Money Market Mutual Funds</td>
<td>$10,760,842</td>
<td>$10,760,842</td>
<td>$10,760,842</td>
<td>$10,760,842</td>
</tr>
<tr>
<td>Total</td>
<td>$39,044,438</td>
<td>$37,514,903</td>
<td>$1,529,535</td>
<td>-</td>
</tr>
</tbody>
</table>

The repurchase agreement was collateralized by federal agency securities.

Credit ratings of investments as of June 30, 2009, were as follows:

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>Total Investment</th>
<th>Minimum Legal Rating</th>
<th>Exempt From Disclosure</th>
<th>Ratings as of Year End</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Treasury Obligations</td>
<td>$519,610</td>
<td>N/A</td>
<td>$519,610</td>
<td>AAA</td>
</tr>
<tr>
<td>Repurchase agreement</td>
<td>12,379,777</td>
<td>N/A</td>
<td>12,379,777</td>
<td>AA-</td>
</tr>
<tr>
<td>Certificates of Deposits</td>
<td>1,543,740</td>
<td>A</td>
<td>1,543,740</td>
<td>BBB+</td>
</tr>
<tr>
<td>Money market deposit account</td>
<td>4,491,277</td>
<td>N/A</td>
<td>4,491,277</td>
<td>-</td>
</tr>
<tr>
<td>Money Market Mutual Funds</td>
<td>626,692</td>
<td>N/A</td>
<td>626,692</td>
<td>-</td>
</tr>
<tr>
<td>Local Agency Investment Fund</td>
<td>14,129,450</td>
<td>N/A</td>
<td>14,129,450</td>
<td>-</td>
</tr>
<tr>
<td>Cash with fiscal agent: Money Market Mutual Funds</td>
<td>$13,535,668</td>
<td>$13,535,668</td>
<td>$13,535,668</td>
<td>$13,535,668</td>
</tr>
<tr>
<td>Total</td>
<td>$48,716,963</td>
<td>$47,173,223</td>
<td>$1,543,740</td>
<td>-</td>
</tr>
</tbody>
</table>

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. 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 are as follows:

<table>
<thead>
<tr>
<th>Issuer</th>
<th>Investment Type</th>
<th>Reported Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>J.P. Morgan</td>
<td>Corporate Medium-Term Notes</td>
<td>$1,529,535</td>
</tr>
</tbody>
</table>

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
NOTE 2  
CASH AND INVESTMENTS (CONTINUED)

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, 2010 and 2009, $5,290,808 and $875,509, respectively, of the District's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts. As of June 30, 2010 and 2009, District investments in the following investment types were held by the same broker-dealer (counterparty) that was used by the District to buy the securities:

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Treasury Obligations</td>
<td>$503,790</td>
<td>$519,610</td>
</tr>
<tr>
<td>Certificates of Deposits</td>
<td>-</td>
<td>1,250,000</td>
</tr>
<tr>
<td>Corporate Medium-Term Notes</td>
<td>1,529,535</td>
<td>1,543,740</td>
</tr>
<tr>
<td>Money Market Mutual Funds</td>
<td>967,415</td>
<td>626,692</td>
</tr>
</tbody>
</table>

Investment in State Investment Pool
The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is $14.2 million at June 30, 2010 and is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio) of $69 billion. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

NOTE 3  
NOTES RECEIVABLE

Notes receivable consist of the following:

<table>
<thead>
<tr>
<th>Notes receivable – current portion</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$256,293</td>
<td>$264,684</td>
</tr>
<tr>
<td>Notes receivable – noncurrent portion</td>
<td>3,821,743</td>
<td>1,331,940</td>
</tr>
<tr>
<td></td>
<td>$4,078,036</td>
<td>$1,596,624</td>
</tr>
</tbody>
</table>

City of Signal Hill
The District has entered into a loan agreement with the City of Signal Hill for the purpose of funding the remediation of secondary level contamination of two groundwater wells owned and operated by the City. The loan is unsecured and non-interest bearing. Repayment is due in equal annual payments of $75,595 through June 30, 2012. The balances at June 30, 2010 and 2009 are $226,785 and $274,402, respectively.
NOTE 3  NOTES RECEIVABLE (CONTINUED)

City of Paramount
The District entered into a loan agreement with the City of Paramount in fiscal year 2006 for the amount of $1,700,000. The loan is payable annually over a 10 year period. The loan is unsecured and non-interest bearing. The District received the first payment of $188,889 for the year ended June 30, 2008. The balances at June 30, 2010 and 2009 are $1,133,133 and $1,322,222, respectively.

City of Lakewood
On November 24, 2008, the District entered into a loan agreement with the City of Lakewood for a maximum loan amount of $2,200,000 to finance the design, installation and construction of a wellhead treatment system at the City’s groundwater well. The loan is payable annually over a 10 year period. The loan is unsecured and non-interest bearing. As of June 30, 2010, the project has not yet been completed. The City has drawn down a total of $1,875,840 as of June 30, 2010. Annual payment of the loan in the amount of $220,000 will start upon completion of the project and full disbursement of the loan to the City.

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. As of June 30, 2010, the project has not yet been completed. The water company has drawn down a total of $859,079 as of June 30, 2010. Annual payment of the loan in the amount of $90,000 will start upon completion of the project and full disbursement of the loan to the Water Company.

NOTE 4  CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2010 were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Balance 2009</th>
<th>Additions/ Transfers</th>
<th>Deletions/ Transfers</th>
<th>Balance 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-depreciable assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>$2,644,753</td>
<td>-</td>
<td>$-</td>
<td>$2,644,753</td>
</tr>
<tr>
<td>Construction-in-progress</td>
<td>5,254,573</td>
<td>2,226,787</td>
<td>(1,485,980)</td>
<td>5,995,380</td>
</tr>
<tr>
<td>Total non-depreciable assets</td>
<td>7,899,326</td>
<td>2,226,787</td>
<td>(1,485,980)</td>
<td>8,640,133</td>
</tr>
<tr>
<td>Depreciable assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Building and improvements</td>
<td>10,048,325</td>
<td>171,839</td>
<td>-</td>
<td>10,220,164</td>
</tr>
<tr>
<td>Utility plant and equipment</td>
<td>38,074,348</td>
<td>-</td>
<td>-</td>
<td>38,074,348</td>
</tr>
<tr>
<td>Capacity rights</td>
<td>2,439,604</td>
<td>-</td>
<td>-</td>
<td>2,439,604</td>
</tr>
<tr>
<td>Monitoring and injection equipment</td>
<td>11,244,276</td>
<td>1,314,141</td>
<td>-</td>
<td>12,558,417</td>
</tr>
<tr>
<td>Service connections</td>
<td>101,420</td>
<td>-</td>
<td>-</td>
<td>101,420</td>
</tr>
<tr>
<td>Total depreciable assets</td>
<td>61,907,973</td>
<td>1,485,980</td>
<td>-</td>
<td>63,393,953</td>
</tr>
<tr>
<td>Accumulated depreciation and amortization</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Building and improvements</td>
<td>(518,489)</td>
<td>(269,504)</td>
<td>-</td>
<td>(787,993)</td>
</tr>
<tr>
<td>Utility plant and equipment</td>
<td>(7,508,525)</td>
<td>(1,269,145)</td>
<td>-</td>
<td>(8,777,670)</td>
</tr>
<tr>
<td>Capacity rights</td>
<td>(250,730)</td>
<td>(61,309)</td>
<td>-</td>
<td>(332,039)</td>
</tr>
<tr>
<td>Monitoring and injection equipment</td>
<td>(6,027,123)</td>
<td>(672,489)</td>
<td>-</td>
<td>(6,699,612)</td>
</tr>
<tr>
<td>Service connections</td>
<td>(74,627)</td>
<td>(2,028)</td>
<td>-</td>
<td>(76,655)</td>
</tr>
<tr>
<td>Total accumulated depreciation and amortization</td>
<td>(13,379,494)</td>
<td>(2,294,475)</td>
<td>-</td>
<td>(15,673,969)</td>
</tr>
<tr>
<td>Total depreciable assets, net</td>
<td>46,528,479</td>
<td>(808,495)</td>
<td>-</td>
<td>47,719,984</td>
</tr>
<tr>
<td>Total capital assets, net</td>
<td>$55,427,855</td>
<td>$1,416,292</td>
<td>($1,485,980)</td>
<td>$56,360,117</td>
</tr>
</tbody>
</table>
NOTE 4 CAPITAL ASSETS (CONTINUED)

Changes in capital assets for the year ended June 30, 2009 were as follows:

<table>
<thead>
<tr>
<th>Non-depreciable assets</th>
<th>Balance 2008</th>
<th>Additions/Transfers</th>
<th>Deletions/Transfers</th>
<th>Balance 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$2,644,753</td>
<td>-</td>
<td>$-</td>
<td>$2,644,753</td>
</tr>
<tr>
<td>Construction-in-progress</td>
<td>4,014,652</td>
<td>2,261,811</td>
<td>(1,021,890)</td>
<td>5,254,573</td>
</tr>
<tr>
<td>Total non-depreciable assets</td>
<td>6,659,405</td>
<td>2,261,811</td>
<td>(1,021,890)</td>
<td>7,899,326</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Depreciable assets</th>
<th>Balance 2008</th>
<th>Additions/Transfers</th>
<th>Deletions/Transfers</th>
<th>Balance 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building and improvements</td>
<td>9,026,435</td>
<td>1,021,890</td>
<td>-</td>
<td>10,048,325</td>
</tr>
<tr>
<td>Utility plant and equipment</td>
<td>38,074,348</td>
<td>-</td>
<td>-</td>
<td>38,074,348</td>
</tr>
<tr>
<td>Capacity rights</td>
<td>2,439,604</td>
<td>-</td>
<td>-</td>
<td>2,439,604</td>
</tr>
<tr>
<td>Monitoring and injection equipment</td>
<td>11,244,276</td>
<td>-</td>
<td>-</td>
<td>11,244,276</td>
</tr>
<tr>
<td>Service connections</td>
<td>101,420</td>
<td>-</td>
<td>-</td>
<td>101,420</td>
</tr>
<tr>
<td>Total depreciable assets</td>
<td>60,886,083</td>
<td>1,021,890</td>
<td>-</td>
<td>61,907,973</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Accumulated depreciation and amortization</th>
<th>Balance 2008</th>
<th>Additions/Transfers</th>
<th>Deletions/Transfers</th>
<th>Balance 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building and improvements</td>
<td>(276,036)</td>
<td>(242,453)</td>
<td>-</td>
<td>(518,489)</td>
</tr>
<tr>
<td>Utility plant and equipment</td>
<td>(6,239,380)</td>
<td>(1,269,145)</td>
<td>-</td>
<td>(7,508,525)</td>
</tr>
<tr>
<td>Capacity rights</td>
<td>(169,421)</td>
<td>(81,309)</td>
<td>-</td>
<td>(250,730)</td>
</tr>
<tr>
<td>Monitoring and injection equipment</td>
<td>(4,390,569)</td>
<td>(636,554)</td>
<td>-</td>
<td>(5,027,123)</td>
</tr>
<tr>
<td>Service connections</td>
<td>(72,599)</td>
<td>(2,028)</td>
<td>-</td>
<td>(74,627)</td>
</tr>
<tr>
<td>Total accumulated depreciation and amortization</td>
<td>(11,148,005)</td>
<td>(2,231,489)</td>
<td>-</td>
<td>(13,379,494)</td>
</tr>
<tr>
<td>Total depreciable assets, net</td>
<td>49,738,078</td>
<td>(1,209,599)</td>
<td>-</td>
<td>48,528,479</td>
</tr>
<tr>
<td>Total capital assets, net</td>
<td>$56,397,483</td>
<td>$1,052,212</td>
<td>$1,021,890</td>
<td>$56,427,805</td>
</tr>
</tbody>
</table>

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

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

<table>
<thead>
<tr>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>LJVWTF expansion</td>
<td>$351,713</td>
</tr>
<tr>
<td>Dominguez gap recycled water project</td>
<td>804,698</td>
</tr>
<tr>
<td>Safe drinking water program</td>
<td>574,179</td>
</tr>
<tr>
<td>Alamitos physical barrier project</td>
<td>549,377</td>
</tr>
<tr>
<td>Regional groundwater monitoring program</td>
<td>1,508,792</td>
</tr>
<tr>
<td>Caltrans pipeline</td>
<td>911,427</td>
</tr>
<tr>
<td>Replenishment operations</td>
<td>300,000</td>
</tr>
<tr>
<td>Groundwater Replenishment Improvement Project (GRIP)</td>
<td>529,947</td>
</tr>
<tr>
<td>Bond interest for capital projects</td>
<td>465,247</td>
</tr>
<tr>
<td>Total construction-in-progress</td>
<td>$5,995,380</td>
</tr>
</tbody>
</table>

Capitalized Interest
Interest is capitalized in connection with the construction of major facilities. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset’s estimated useful life. Interest costs of $465,247 and $180,526 were capitalized during 2010 and 2009, respectively.
NOTE 5  DEFERRED CHARGES

Deferred charges relate to the issuance costs of the 2008 and 2004 Certificates of Participation and are being amortized over thirty years. The net balances at June 30 are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bond issuance cost</td>
<td>$ 901,868</td>
<td>$ 901,868</td>
</tr>
<tr>
<td>Accumulated amortization</td>
<td>(119,536)</td>
<td>(89,220)</td>
</tr>
<tr>
<td><strong>Net</strong></td>
<td><strong>$ 782,332</strong></td>
<td><strong>$ 812,647</strong></td>
</tr>
</tbody>
</table>

NOTE 6  COMPENSATED ABSENCES

Changes in compensated absences were as follows:

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at beginning of year</td>
<td>$ 322,022</td>
<td>$ 237,931</td>
</tr>
<tr>
<td>Earned by employees</td>
<td>136,810</td>
<td>164,463</td>
</tr>
<tr>
<td>Payments to employees</td>
<td>(114,310)</td>
<td>(80,372)</td>
</tr>
<tr>
<td><strong>Balance at end of year</strong></td>
<td><strong>344,522</strong></td>
<td><strong>322,022</strong></td>
</tr>
<tr>
<td>Less current portion</td>
<td>(101,053)</td>
<td>(142,041)</td>
</tr>
<tr>
<td><strong>Long-term portion</strong></td>
<td><strong>$ 243,469</strong></td>
<td><strong>$ 179,981</strong></td>
</tr>
</tbody>
</table>

NOTE 7  LONG-TERM DEBT

Changes in long-term debt for the year ended June 30, 2010 were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Balance 2009</th>
<th>Additions</th>
<th>Deletions</th>
<th>Balance 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Certificate of participation (2004)</td>
<td>$ 14,785,000</td>
<td>-</td>
<td>(325,000)</td>
<td>$ 14,460,000</td>
</tr>
<tr>
<td>Certificate of participation (2008)</td>
<td>18,365,000</td>
<td>-</td>
<td>(175,000)</td>
<td>18,190,000</td>
</tr>
<tr>
<td>Bond discount</td>
<td>33,150,000</td>
<td>-</td>
<td>(500,000)</td>
<td>32,650,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$ 32,658,447</td>
<td>-</td>
<td>(483,147)</td>
<td>$ 32,175,300</td>
</tr>
</tbody>
</table>

Changes in long-term debt for the year ended June 30, 2009 were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Balance 2008</th>
<th>Additions</th>
<th>Deletions</th>
<th>Balance 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Certificate of participation (2004)</td>
<td>$ 15,100,000</td>
<td>-</td>
<td>(315,000)</td>
<td>$ 14,785,000</td>
</tr>
<tr>
<td>Certificate of participation (2008)</td>
<td>18,365,000</td>
<td>18,365,000</td>
<td>-</td>
<td>18,365,000</td>
</tr>
<tr>
<td>Bond discount</td>
<td>33,150,000</td>
<td>(501,384)</td>
<td>9,831</td>
<td>32,658,447</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$ 15,100,000</td>
<td>17,863,616</td>
<td>(305,169)</td>
<td>$ 32,658,447</td>
</tr>
</tbody>
</table>
NOTE 7  LONG-TERM DEBT (CONTINUED)

Certificates of Participation
On November 9, 2004, the District executed and issued certificates of participation in the amount of $15,410,000 to provide funds for the acquisition, construction and installation of certain clean water and replenishment projects and the purchase of a building which serves as the District’s headquarters. In addition, a portion of the funds were used to pay certain costs incurred in connection with the execution and delivery of the Certificates and to fund a reserve fund for the outstanding Certificates. Interest is payable semiannually on August 1st and February 1st of each year while principal payments are made on August 1st each year, commencing August 1, 2007, with interest rates ranging from 2.5% to 5%. The revenue certificates of participation are collateralized by a pledge of District revenues. At June 30, 2010, the principal outstanding was $14,460,000.

On December 1, 2008, the District issued Certificates of Participation amounting to $18,365,000, payable in annual installments from August 1, 2009 through August 1, 2038. Interest rates range from 3.75% to 5.25%, payable beginning February 1, 2009. The agreement is between the District and the Southern California Water Replenishment Financing Corporation, with the US Bank as trustee. Amounts on deposit shall be applied to finance the acquisition, construction and installation of certain clean water and replenishment projects and the purchase of a building which serves as the District’s headquarters. The revenue certificates of participation are collateralized by a pledge of District revenues. At June 30, 2010, the principal outstanding was $18,190,000.

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

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

Annual debt service payments are as follows:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Principal</th>
<th>Interest</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>$640,000</td>
<td>$1,616,331</td>
<td>$2,256,331</td>
</tr>
<tr>
<td>2012</td>
<td>695,000</td>
<td>1,588,725</td>
<td>2,283,725</td>
</tr>
<tr>
<td>2013</td>
<td>675,000</td>
<td>1,562,119</td>
<td>2,237,119</td>
</tr>
<tr>
<td>2014</td>
<td>735,000</td>
<td>1,534,731</td>
<td>2,269,731</td>
</tr>
<tr>
<td>2015</td>
<td>750,000</td>
<td>1,505,469</td>
<td>2,255,469</td>
</tr>
<tr>
<td>2016-2020</td>
<td>4,210,000</td>
<td>7,044,301</td>
<td>11,254,301</td>
</tr>
<tr>
<td>2021-2025</td>
<td>5,225,000</td>
<td>5,991,866</td>
<td>11,216,866</td>
</tr>
<tr>
<td>2026-2030</td>
<td>6,640,000</td>
<td>4,527,988</td>
<td>11,167,988</td>
</tr>
<tr>
<td>2031-2035</td>
<td>8,566,000</td>
<td>2,540,313</td>
<td>11,105,313</td>
</tr>
<tr>
<td>2036-2038</td>
<td>4,515,000</td>
<td>561,750</td>
<td>5,076,750</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$32,650,000</td>
<td>$28,473,592</td>
<td>$61,123,592</td>
</tr>
<tr>
<td><strong>Less current portion</strong></td>
<td>(640,000)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total non-current</strong></td>
<td>$32,010,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
NOTE 8  DEFERRED WATER IN-LIEU REPLENISHMENT ASSESSMENT

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

NOTE 9  DEFERRED REVENUE

In April 2004, the District and the California Department of Transportation (Caltrans) entered into an agreement relating to groundwater in the vicinity of the I-105 freeway. The agreement calls for $8.0 million to be paid by Caltrans to the District to be used to pay the costs of the proposed pipeline project described in the agreement, and to pay the replenishment assessment levied against the Caltrans groundwater extractions from beneath the I-105 freeway section. Caltrans has advanced the $8.0 million to the District to fund the proposed pipeline project. As of June 30, 2010 and 2009, the District has spent $1,982,765 and $1,853,422 on the project, leaving an unexpended balance of $6,017,235 and $6,146,578, respectively.

NOTE 10  NET INVESTMENT IN CAPITAL ASSETS

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

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital assets, net</td>
<td>$56,360,117</td>
<td>$56,427,805</td>
</tr>
<tr>
<td>Certificates of participation:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current portion</td>
<td>(640,000)</td>
<td>(500,000)</td>
</tr>
<tr>
<td>Noncurrent portion</td>
<td>(31,535,300)</td>
<td>(32,158,447)</td>
</tr>
<tr>
<td>Unspent debt proceeds</td>
<td>10,760,842</td>
<td>13,535,668</td>
</tr>
<tr>
<td>Net investment in capital assets</td>
<td>$34,945,659</td>
<td>$37,305,026</td>
</tr>
</tbody>
</table>

NOTE 11  DEFERRED COMPENSATION SAVINGS PLAN

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

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. The District is in compliance with this legislation. These assets are not the legal property of the District, and are not subject to claims of the District's general creditors. Market value of all plan assets held in trust at June 30, 2010 and 2009 was $4,236,078 and $3,270,642, respectively.
NOTE 11  DEFERRED COMPENSATION SAVINGS PLAN (CONTINUED)

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

NOTE 12  DEFINED BENEFIT PENSION PLAN

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

Funding Policy
The contribution rate for plan members in the CalPERS 3.0% at 60 Risk Pool Retirement Plan is 8% of their annual covered salary. The District makes these contributions required of District employees on their behalf and for their account. Also, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The required employer contribution rates for fiscal years 2010 and 2009 were 17.523% and 16.976%, respectively. The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS.

Annual Pension Cost
For the year ended June 30, 2010, the District’s annual pension cost of $562,472 was equal to its required and actual contribution. The required contribution for the fiscal year ended June 30, 2010 was determined as part of the June 30, 2007 actuarial valuation.

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

<table>
<thead>
<tr>
<th>Actuarial Cost Method</th>
<th>Entry Age Actuarial Cost Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amortization</td>
<td>Level Percent of Payroll</td>
</tr>
<tr>
<td>Average Remaining Period</td>
<td>16 Years as of the Valuation Date</td>
</tr>
<tr>
<td>Asset Valuation Method</td>
<td>15 Year Smoothed Market</td>
</tr>
<tr>
<td>Actuarial Assumptions:</td>
<td></td>
</tr>
<tr>
<td>Investment Rate of Return</td>
<td>7.75% (net of administrative expenses)</td>
</tr>
<tr>
<td>Projected Salary Increases</td>
<td>3.25% to 14.45% depending on age, service, and type of employment</td>
</tr>
<tr>
<td>Inflation</td>
<td>3.00%</td>
</tr>
<tr>
<td>Payroll Growth</td>
<td>3.25%</td>
</tr>
<tr>
<td>Individual Salary Growth</td>
<td>A merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.00% and an annual production growth of 0.25%.</td>
</tr>
</tbody>
</table>
NOTE 12 DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

### Three-Year Trend Information for PERS

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Annual Pension Cost (APC)</th>
<th>Percentage of APC Contributed</th>
<th>Net Pension Obligation</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 30, 2008</td>
<td>$420,472</td>
<td>100%</td>
<td>-</td>
</tr>
<tr>
<td>June 30, 2009</td>
<td>486,192</td>
<td>100%</td>
<td>-</td>
</tr>
<tr>
<td>June 30, 2010</td>
<td>562,472</td>
<td>100%</td>
<td>-</td>
</tr>
</tbody>
</table>

NOTE 13 PUBLIC AGENCY RETIREMENT SYSTEM (PARS) PLAN

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

The District is required to contribute the actuarially determined amounts necessary to fund the benefits for the participants. Contribution amounts are determined by an actuarial study performed every two years. The July 1, 2009 (date of latest actuarial valuation) actuarial valuation showed the following information based on assumed interest rate of 7% per annum, inflation rate of 3%, and annual salary increase of 3%:

Actuarial liability $115,127
Actuarial value of assets 153,548
Unfunded (overfunded) actuarial liability $ (38,421)

The actuarial method used was the entry age normal method. For the years ended June 30, 2010 and 2009, the District’s actual annual contributions to the PARS plan amounted to $24,871 and $20,735 respectively. These were equivalent to the annual required contribution.
NOTE 14 OTHER POST EMPLOYMENT BENEFITS

In addition to pension benefits described in Note 12, the District provides single-employer post-employment healthcare benefits to qualified employees who meet the District's Public Employees Retirement System (PERS) current plan requirements. The following requirements outline the criteria that must be met by District employees in order to be eligible for these benefits:

a. Employees hired prior to December 20, 2001 qualify for post-employment healthcare benefits if they retire with 12 or more years of service at the District.

b. Employees hired on or after December 20, 2001 qualify for post-employment benefits if they retire at age 55 or older with 12 or more years of service.

The District's contribution is currently based on a projected pay-as-you-go funding method, that is, benefits are payable when due. In 2010 and 2009, the District paid $114,121 and $92,462, respectively, in post-employment health care benefits, net of retiree contributions, and had 10 eligible employees in each year.

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

As of June 30, 2010, the District has not established a plan or equivalent that contains an irrevocable transfer of assets dedicated to providing benefits to retirees in accordance with the terms of the plan and that are legally protected from creditors. However, the District accrued the required annual contribution based on the valuation report.

Eligible participants in the plan at July 1, 2007, the date of the latest actuarial valuation are as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retirees receiving benefits</td>
<td>9</td>
</tr>
<tr>
<td>Active/full-time employees</td>
<td>30</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>39</strong></td>
</tr>
</tbody>
</table>

The funded status of the plan as of June 30, 2010 based on the plan's most recent actuarial valuation date of July 1, 2007 was:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actuarial accrued liability (AAL)</td>
<td>$3,893,964</td>
</tr>
<tr>
<td>Actuarial value of plan assets</td>
<td>-</td>
</tr>
<tr>
<td>Unfunded actuarial accrued liability (UAAL)</td>
<td>$3,893,964</td>
</tr>
<tr>
<td>Funded ratio (actuarial value of plan assets AAL)</td>
<td>-</td>
</tr>
<tr>
<td>Normal cost</td>
<td>$311,542</td>
</tr>
</tbody>
</table>
NOTE 14  OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

The actuarial method used in estimating the liability is the entry age normal actuarial cost method. Under the entry age normal actuarial cost method, the actuarial present value of projected benefits is allocated on a level basis over the earnings or service of individuals between entry age and the assumed exit age(s). The portion of the Actuarial Present Value (APV) of the post-employment benefits attributed to past service is called the Actuarial Accrued Liability (AAL). The significant assumptions in the computation include a discount rate of 4.5%, healthcare cost trend rate of 7% for July 1, 2010, 6% for July 1, 2011 and 5.5% thereafter, and an annual increase in payroll of 3.25%.

The following table shows the components of the District’s annual Other Post Employment Benefits (OPEB) cost for the year (based on 30-year amortization using the level percentage of projected payroll), the amount of benefits and/or insurance premiums actually paid and the District's Net OPEB obligation as of June 30, 2010:

<table>
<thead>
<tr>
<th>Component</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual required contribution</td>
<td>$ 533,466</td>
</tr>
<tr>
<td>Interest on net OPEB obligation</td>
<td>34,732</td>
</tr>
<tr>
<td>Adjustment to ARC</td>
<td>(197,231)</td>
</tr>
<tr>
<td>Annual OPEB cost</td>
<td>370,967</td>
</tr>
<tr>
<td>Contribution to irrevocable trust</td>
<td>-</td>
</tr>
<tr>
<td>Benefit payments</td>
<td>(114,121)</td>
</tr>
<tr>
<td>Increase in net OPEB obligation</td>
<td>256,846</td>
</tr>
<tr>
<td>Net OPEB Obligation - beginning of year</td>
<td>948,976</td>
</tr>
<tr>
<td>Net OPEB Obligation - end of year</td>
<td>$ 1,205,822</td>
</tr>
</tbody>
</table>

The Annual Required Contribution (ARC) is an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed a closed 30-year period. The amortization method used in the valuation is the level percentage of projected payroll method.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010 and 2009 was:

<table>
<thead>
<tr>
<th>Fiscal year end</th>
<th>Annual OPEB cost</th>
<th>Percentage of annual OPEB cost contributed</th>
<th>Net OPEB Obligation</th>
</tr>
</thead>
<tbody>
<tr>
<td>6/30/2009</td>
<td>$ 493,051</td>
<td>19%</td>
<td>948,976</td>
</tr>
<tr>
<td>6/30/2010</td>
<td>370,967</td>
<td>31%</td>
<td>1,205,822</td>
</tr>
</tbody>
</table>
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, 2010, the District participated in the liability and property programs of the ACWA/JPIA as follows:

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

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

- Employee dishonesty coverage up to $100,000 per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverages.

- Property loss is paid based on the replacement cost for the property on file. If the property is replaced within two years after the loss or otherwise paid on an actual cash value basis, to a combined total of $50 million per occurrence it is subject to a $2,500 deductible per occurrence.

- Boiler and machinery coverage for the replacement cost up to $50 million per occurrence, subject to various deductibles depending on the type of equipment.

- Public officials personal liability coverage up to $100,000 for each occurrence, with an annual aggregate of $100,000 per each elected/appointed official to which this coverage applies is subject to the terms, with a deductible of $1,000 per claim.

- Workers' compensation insurance provides coverage up to California statutory limits for all work related injuries/illnesses covered by California law.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the years ended June 30, 2010 and 2009. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2010 and 2009.
NOTE 16 COMMITMENTS

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

Recycled Water Agreement
In January 2004, the District entered into a twenty-year agreement with the West Basin Municipal Water District (WBMWD) to purchase certain amounts of recycled water from WBMWD on an annual basis. Until completion of WBMWD’s recycling facility expansion project, the District will purchase 7,500 AF of recycled water on an annual basis, or a lesser amount that is authorized by WBMWD’s Regional Board Permit, at $430 per AF. After the expanded facility is completed and operable, the District will purchase 12,500 AF on an annual basis at $470 per AF of recycled water. The agreement also provides for annual increases in price.

Construction Contracts
The District has a variety of agreements with private parties relating to the installation, improvement or modification of water facilities and distribution systems and other District activities. The financing of such contracts is provided primarily from the proceeds of bonds issued by the District. The District has committed to approximately $7 million of open construction contracts as of June 30, 2010.

The contracts outstanding include:

<table>
<thead>
<tr>
<th>Project Name</th>
<th>Total Approved Contract</th>
<th>Construction Cost-to-date</th>
<th>Balance to Complete</th>
</tr>
</thead>
<tbody>
<tr>
<td>LJWTF Expansion</td>
<td>$ 810,257</td>
<td>$ 305,615</td>
<td>$ 504,642</td>
</tr>
<tr>
<td>Caltrans Pipeline</td>
<td>745,698</td>
<td>745,698</td>
<td>-</td>
</tr>
<tr>
<td>Regional Groundwater Monitoring Program</td>
<td>3,982,169</td>
<td>1,431,568</td>
<td>2,550,601</td>
</tr>
<tr>
<td>Safe Drinking Water Program</td>
<td>700,000</td>
<td>557,081</td>
<td>142,919</td>
</tr>
<tr>
<td>Dominguez Gap Recycled Water Project</td>
<td>477,944</td>
<td>477,944</td>
<td>-</td>
</tr>
<tr>
<td>Interconnection Pipeline</td>
<td>3,800,000</td>
<td>300,000</td>
<td>3,500,000</td>
</tr>
<tr>
<td>Alamitos Physical Barrier Project</td>
<td>385,517</td>
<td>385,517</td>
<td>-</td>
</tr>
<tr>
<td>Groundwater Replenishment Improvement Project(Grip)</td>
<td>248,136</td>
<td>50,039</td>
<td>198,097</td>
</tr>
<tr>
<td>Total</td>
<td>$11,149,721</td>
<td>$4,253,461</td>
<td>$6,896,260</td>
</tr>
</tbody>
</table>
NOTE 17 CONTINGENCIES

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

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

NOTE 18 SUBSEQUENT EVENTS

The District has evaluated events subsequent to June 30, 2010 to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through November 9, 2010, the date the financial statements were available to be issued. Based upon this evaluation, it was determined that no subsequent events occurred that require recognition or additional disclosure in the financial statements.

NOTE 19 GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STATEMENTS ISSUED, NOT YET EFFECTIVE

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2010, that have effective dates that may impact future financial presentations.

**GASB No. 54** - GASB has issued Statement No. 54, *Fund Balance Reporting and Fund Type Definitions.* This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. This Statement also provides for additional fund classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010.

**GASB No. 55** - GASB has issued Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* The objective of this Statement is to incorporate the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the Governmental Accounting Standards Board’s (GASB) authoritative literature. The Board does not expect that this Statement will result in a change in current practice.
NOTE 19 GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STATEMENTS ISSUED, NOT YET EFFECTIVE (CONTINUED)

GASB No. 56 - GASB has issued Statement No. 56, Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards. The objective of this Statement is to incorporate into the Governmental Accounting Standards Board’s (GASB) authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants’ Statements on Auditing Standards. This Statement addresses three issues not included in the authoritative literature that establishes accounting principles—related party transactions, going concern considerations, and subsequent events. This Statement does not establish new accounting standards but rather incorporates the existing guidance (to the extent appropriate in a governmental environment) into the GASB standards.

GASB No. 58 - GASB has issued Statement No. 58, Accounting and Financial Reporting for Chapter 9 Bankruptcies. This Statement establishes accounting and financial reporting guidance for governments that have petitioned for protection from creditors filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009.
Required Supplementary Information
### Schedule of Funding Progress – CalPERS

<table>
<thead>
<tr>
<th>Valuation Date</th>
<th>Actuarial Valuation Value in '000</th>
<th>Entry Age Actuarial Asset Valuation in '000</th>
<th>Unfunded AAL [(B) – (A)] in '000</th>
<th>Funded Ratio [(A) / (B)]</th>
<th>Unfunded AAL as Percentage of Covered Payroll $[(b)-(A)]/(E)$</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 30, 2006</td>
<td>$501,707</td>
<td>$620,492</td>
<td>$118,785</td>
<td>80.86%</td>
<td>$126,049</td>
</tr>
<tr>
<td>June 30, 2007</td>
<td>576,070</td>
<td>699,664</td>
<td>123,594</td>
<td>82.34%</td>
<td>139,335</td>
</tr>
<tr>
<td>June 30, 2008</td>
<td>641,167</td>
<td>776,167</td>
<td>135,000</td>
<td>82.61%</td>
<td>155,115</td>
</tr>
</tbody>
</table>

### Schedule of Funding Progress - PARS

<table>
<thead>
<tr>
<th>Valuation Date</th>
<th>Actuarial Value of Assets in '000</th>
<th>Actuarial Accrued Liability (AAL) in '000</th>
<th>Unfunded Liability [(B) – (A)] (UAL) in '000</th>
<th>Funded Ratio [(A) / (B)]</th>
<th>Covered Payroll</th>
<th>UAL as Percentage of Covered Payroll</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/1/2003</td>
<td>$ -</td>
<td>$40,065</td>
<td>$40,065</td>
<td>0%</td>
<td>$81,600</td>
<td>49%</td>
</tr>
<tr>
<td>6/30/2006</td>
<td>84,487</td>
<td>104,899</td>
<td>20,412</td>
<td>81%</td>
<td>102,889</td>
<td>20%</td>
</tr>
<tr>
<td>7/1/2009</td>
<td>153,548</td>
<td>115,127</td>
<td>(38,421)</td>
<td>133%</td>
<td>106,121</td>
<td>-36%</td>
</tr>
</tbody>
</table>
Statistical Section
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This part of the District's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the District's overall financial health.

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**Financial Trends**

These schedules contain information to help the reader understand how the District's financial performance and financial condition have changed over time.

**Revenue Capacity**

These schedules contain information to help the reader assess the District's most significant own-source revenue, water sales.

**Debt Capacity**

These schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt.

**Demographic Information**

This schedule offers demographic indicators to help the reader understand the environment within which the District's financial activities take place.

**Operating Information**

This schedule contains service and infrastructure data to help the reader understand how the information in the District's financial report relates to the service the District provides.
### Changes in net assets:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating revenues (see Schedule 2)</td>
<td>$27,657,445</td>
<td>$28,515,924</td>
<td>$29,902,027</td>
<td>$29,507,634</td>
</tr>
<tr>
<td>Operating expenses (see Schedule 3)</td>
<td>(30,878,820)</td>
<td>(36,539,725)</td>
<td>(29,199,234)</td>
<td>(27,696,168)</td>
</tr>
<tr>
<td>Overhead absorption</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,705,618</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>(380,320)</td>
<td>(585,241)</td>
<td>(974,132)</td>
<td>(1,772,637)</td>
</tr>
<tr>
<td><strong>Operating income(loss)</strong></td>
<td>(3,601,695)</td>
<td>(8,609,042)</td>
<td>(271,339)</td>
<td>1,744,447</td>
</tr>
<tr>
<td>Non-operating revenues/(expenses)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property taxes, net of collection expenses</td>
<td>286,940</td>
<td>326,020</td>
<td>306,927</td>
<td>345,034</td>
</tr>
<tr>
<td>Investment income/(loss)</td>
<td>2,844,701</td>
<td>1,079,883</td>
<td>389,008</td>
<td>89,974</td>
</tr>
<tr>
<td>Interest Expense</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Election costs</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Gain/(Loss) on sale/disposition of assets</td>
<td>-</td>
<td>-</td>
<td>(2,323)</td>
<td>-</td>
</tr>
<tr>
<td>Other revenue/(expense), net</td>
<td>781,881</td>
<td>-</td>
<td>-</td>
<td>31,039</td>
</tr>
<tr>
<td><strong>Net non-operating revenues (expenses)</strong></td>
<td>3,913,522</td>
<td>1,405,903</td>
<td>693,612</td>
<td>466,047</td>
</tr>
<tr>
<td><strong>Net income before capital contributions</strong></td>
<td>311,827</td>
<td>(7,203,139)</td>
<td>422,273</td>
<td>2,210,494</td>
</tr>
<tr>
<td>Capital contributions</td>
<td>255,831</td>
<td>1,583,021</td>
<td>2,181,340</td>
<td>184,242</td>
</tr>
<tr>
<td><strong>Changes in net assets</strong></td>
<td><strong>567,658</strong></td>
<td><strong>(5,620,118)</strong></td>
<td><strong>2,603,613</strong></td>
<td><strong>2,394,736</strong></td>
</tr>
<tr>
<td><strong>Net assets by component:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Invested in capital assets, net of related debt</td>
<td><strong>$27,489,015</strong></td>
<td>$30,895,240</td>
<td>$41,697,911</td>
<td>$42,789,292</td>
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<tr>
<td>Restricted</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Unrestricted</td>
<td><strong>30,769,940</strong></td>
<td><strong>18,108,475</strong></td>
<td>9,909,417</td>
<td>11,212,772</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td><strong>$58,258,955</strong></td>
<td><strong>49,003,715</strong></td>
<td><strong>51,607,328</strong></td>
<td><strong>(1)</strong></td>
</tr>
</tbody>
</table>

### Notes:

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

### Source:

Water Replenishment District Accounting Department
<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Assets</td>
<td>31,411,938</td>
<td>32,861,119</td>
<td>34,541,889</td>
<td>39,132,053</td>
<td>39,335,102</td>
<td>45,601,400</td>
</tr>
<tr>
<td>Net Assets by Component</td>
<td>1,479,030</td>
<td>854,305</td>
<td>958,150</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Net Assets by Component</td>
<td>(1,641,524)</td>
<td>(1,800,675)</td>
<td>(1,846,275)</td>
<td>(2,304,366)</td>
<td>(2,256,077)</td>
<td>(2,324,791)</td>
</tr>
<tr>
<td>Net Assets by Component</td>
<td>2,616,546</td>
<td>(1,878,440)</td>
<td>(6,163,337)</td>
<td>12,251,450</td>
<td>8,716,389</td>
<td>(3,428,802)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Assets by Component</td>
<td>64,099</td>
<td>131,978</td>
<td>450,001</td>
<td>456,702</td>
<td>493,625</td>
<td>446,160</td>
</tr>
<tr>
<td>Net Assets by Component</td>
<td>285,643</td>
<td>479,332</td>
<td>1,126,993</td>
<td>692,431</td>
<td>521,171</td>
<td>234,908</td>
</tr>
<tr>
<td>Net Assets by Component</td>
<td>(729,911)</td>
<td>-</td>
<td>(1,094,665)</td>
<td>(570,547)</td>
<td>(511,638)</td>
<td>(450,000)</td>
</tr>
<tr>
<td>Net Assets by Component</td>
<td>106,840</td>
<td>11,883</td>
<td>58,679</td>
<td>182,611</td>
<td>180,482</td>
<td>131,199</td>
</tr>
<tr>
<td>Net Assets by Component</td>
<td>(273,329)</td>
<td>623,193</td>
<td>541,008</td>
<td>761,197</td>
<td>(329,459)</td>
<td>(821,732)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Assets by Component</td>
<td>2,343,217</td>
<td>(1,255,247)</td>
<td>(5,622,329)</td>
<td>13,012,647</td>
<td>8,386,930</td>
<td>(4,250,534)</td>
</tr>
<tr>
<td>Net Assets by Component</td>
<td>357,726</td>
<td>498,414</td>
<td>148,577</td>
<td>97,516</td>
<td>9,284</td>
<td>60,577</td>
</tr>
<tr>
<td>Net Assets by Component</td>
<td>2,700,943</td>
<td>(756,833)</td>
<td>(5,473,752)</td>
<td>13,110,163</td>
<td>8,396,214</td>
<td>(4,189,957)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Assets by Component</td>
<td>39,808,795</td>
<td>40,601,432</td>
<td>41,938,718</td>
<td>41,757,258</td>
<td>37,305,026</td>
<td>34,945,659</td>
</tr>
<tr>
<td>Net Assets by Component</td>
<td>1,058,377</td>
<td>986,555</td>
<td>989,332</td>
<td>1,447,030</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Net Assets by Component</td>
<td>15,835,835</td>
<td>14,358,187</td>
<td>7,544,372</td>
<td>20,378,297</td>
<td>34,673,773</td>
<td>32,843,183</td>
</tr>
<tr>
<td>Net Assets by Component</td>
<td>56,703,007</td>
<td>55,946,174</td>
<td>50,472,422</td>
<td>63,582,585</td>
<td>71,978,799</td>
<td>67,788,842</td>
</tr>
</tbody>
</table>
## Water Replenishment District of Southern California
### Operating Revenues by Source
#### Last Ten Fiscal Years

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Water Replenishment Assessment</th>
<th>Desalter Assessments</th>
<th>Water Treatment Subsidy</th>
<th>Water Injection Subsidy</th>
<th>Other Operating Revenue</th>
<th>Total Operating Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>27,657,445</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>27,657,445</td>
</tr>
<tr>
<td>2002</td>
<td>28,515,924</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>28,515,924</td>
</tr>
<tr>
<td>2003</td>
<td>29,902,027</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>29,902,027</td>
</tr>
<tr>
<td>2004</td>
<td>27,763,886</td>
<td>964,600</td>
<td>616,344</td>
<td>162,804</td>
<td>-</td>
<td>29,507,634</td>
</tr>
<tr>
<td>2005</td>
<td>30,022,445</td>
<td>868,968</td>
<td>520,525</td>
<td>-</td>
<td>-</td>
<td>31,411,938</td>
</tr>
<tr>
<td>2006</td>
<td>30,131,602</td>
<td>772,067</td>
<td>681,026</td>
<td>-</td>
<td>1,276,424</td>
<td>32,861,119</td>
</tr>
<tr>
<td>2007</td>
<td>31,613,924</td>
<td>904,186</td>
<td>562,977</td>
<td>-</td>
<td>1,460,802</td>
<td>34,541,899</td>
</tr>
<tr>
<td>2008</td>
<td>36,482,271</td>
<td>606,380</td>
<td>476,491</td>
<td>-</td>
<td>1,566,911</td>
<td>39,132,053</td>
</tr>
<tr>
<td>2009</td>
<td>36,877,706</td>
<td>316,986</td>
<td>598,110</td>
<td>-</td>
<td>1,542,300</td>
<td>39,335,102</td>
</tr>
<tr>
<td>2010</td>
<td>43,452,025</td>
<td>554,734</td>
<td>726,375</td>
<td>-</td>
<td>868,266</td>
<td>45,601,400</td>
</tr>
</tbody>
</table>

**Source:** Water Replenishment District Accounting Department
## Water Replenishment District of Southern California
### Operating Expenses by Activity
#### Last Ten Fiscal Years

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Water Purchases Injecting</th>
<th>Water Purchases Spreading</th>
<th>Connection Fees</th>
<th>In-lieu Replenishment</th>
<th>General and Administrative</th>
<th>Total Operating Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>14,651,309</td>
<td>6,464,126</td>
<td>330,000</td>
<td>3,591,894</td>
<td>5,841,491</td>
<td>30,878,820</td>
</tr>
<tr>
<td>2002</td>
<td>14,424,039</td>
<td>11,348,820</td>
<td>330,000</td>
<td>3,857,680</td>
<td>6,579,186</td>
<td>36,539,725</td>
</tr>
<tr>
<td>2003</td>
<td>13,850,361</td>
<td>5,595,180</td>
<td>298,395</td>
<td>1,872,539</td>
<td>7,582,759</td>
<td>29,199,234</td>
</tr>
<tr>
<td>2004</td>
<td>13,106,639</td>
<td>5,235,003</td>
<td>366,132</td>
<td>-</td>
<td>8,988,394</td>
<td>27,696,168</td>
</tr>
<tr>
<td>2005</td>
<td>9,173,618</td>
<td>9,143,822</td>
<td>386,788</td>
<td>475,272</td>
<td>9,453,398</td>
<td>28,632,898</td>
</tr>
<tr>
<td>2006</td>
<td>12,521,505</td>
<td>7,559,361</td>
<td>520,595</td>
<td>1,830,941</td>
<td>11,360,787</td>
<td>33,793,189</td>
</tr>
<tr>
<td>2007</td>
<td>11,514,199</td>
<td>13,022,679</td>
<td>1,437,392</td>
<td>1,421,149</td>
<td>12,421,682</td>
<td>39,817,101</td>
</tr>
<tr>
<td>2009</td>
<td>13,623,824</td>
<td>601,706</td>
<td>536,011</td>
<td>-</td>
<td>13,601,095</td>
<td>28,362,636</td>
</tr>
<tr>
<td>2010</td>
<td>17,406,851</td>
<td>15,808,953</td>
<td>796,787</td>
<td>-</td>
<td>12,692,820</td>
<td>46,705,411</td>
</tr>
</tbody>
</table>

---

**Diagram:**
- **Y-axis:** Expenses (in millions of dollars)
  - $0
  - $5,000,000
  - $10,000,000
  - $15,000,000
  - $20,000,000
  - $25,000,000
  - $30,000,000
  - $35,000,000
  - $40,000,000
  - $45,000,000
- **X-axis:** Fiscal Year
  - 2001
  - 2002
  - 2003
  - 2004
  - 2005
  - 2006
  - 2007
  - 2008
  - 2009
  - 2010
<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Water Pumped (Acre Feet)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>248,383</td>
</tr>
<tr>
<td>2002</td>
<td>249,434</td>
</tr>
<tr>
<td>2003</td>
<td>248,899</td>
</tr>
<tr>
<td>2004</td>
<td>245,386</td>
</tr>
<tr>
<td>2005</td>
<td>236,855</td>
</tr>
<tr>
<td>2006</td>
<td>223,626</td>
</tr>
<tr>
<td>2007</td>
<td>232,518</td>
</tr>
<tr>
<td>2008</td>
<td>249,873</td>
</tr>
<tr>
<td>2009</td>
<td>243,251</td>
</tr>
<tr>
<td>2010</td>
<td>241,198</td>
</tr>
</tbody>
</table>

**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 Rates
Last Ten Fiscal Years

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Rate per AF</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>112.00</td>
</tr>
<tr>
<td>2002</td>
<td>117.60</td>
</tr>
<tr>
<td>2003</td>
<td>115.00</td>
</tr>
<tr>
<td>2004</td>
<td>128.25</td>
</tr>
<tr>
<td>2005</td>
<td>134.66</td>
</tr>
<tr>
<td>2006</td>
<td>138.00</td>
</tr>
<tr>
<td>2007</td>
<td>149.00</td>
</tr>
<tr>
<td>2008</td>
<td>153.00</td>
</tr>
<tr>
<td>2009</td>
<td>181.85</td>
</tr>
<tr>
<td>2010</td>
<td>205.00</td>
</tr>
</tbody>
</table>

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

Source: Water Replenishment District Accounting Department
## Water Replenishment District of Southern California

### Customers by Type

#### Last Ten Fiscal Years

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Number of Pumpers</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>112</td>
</tr>
<tr>
<td>2002</td>
<td>111</td>
</tr>
<tr>
<td>2003</td>
<td>108</td>
</tr>
<tr>
<td>2004</td>
<td>107</td>
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<tr>
<td>2005</td>
<td>106</td>
</tr>
<tr>
<td>2006</td>
<td>103</td>
</tr>
<tr>
<td>2007</td>
<td>104</td>
</tr>
<tr>
<td>2008</td>
<td>104</td>
</tr>
<tr>
<td>2009</td>
<td>126</td>
</tr>
<tr>
<td>2010</td>
<td>114</td>
</tr>
</tbody>
</table>

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

**Source:** Water Replenishment District Accounting Department
## Water Replenishment District of Southern California
### Principal Customers
#### Current Fiscal Year and Nine Years Ago

<table>
<thead>
<tr>
<th>Customer</th>
<th>2010 Water Pumped (AF)</th>
<th>2010 Percentage of Total</th>
<th>2001 Water Pumped (AF)</th>
<th>2001 Percentage of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Golden State Water Company</td>
<td>36,174</td>
<td>15%</td>
<td>30,741</td>
<td>12.38%</td>
</tr>
<tr>
<td>Long Beach, City of</td>
<td>33,818</td>
<td>14%</td>
<td>25,342</td>
<td>10.20%</td>
</tr>
<tr>
<td>City of Downey</td>
<td>16,209</td>
<td>7%</td>
<td>17,648</td>
<td>7.11%</td>
</tr>
<tr>
<td>California Water Service</td>
<td>15,301</td>
<td>6%</td>
<td>18,593</td>
<td>7.49%</td>
</tr>
<tr>
<td>Los Angeles DPW</td>
<td>11,766</td>
<td>5%</td>
<td>11,893</td>
<td>4.79%</td>
</tr>
<tr>
<td>City of Cerritos</td>
<td>9,307</td>
<td>4%</td>
<td>9,759</td>
<td>3.93%</td>
</tr>
<tr>
<td>City of Lakewood</td>
<td>9,108</td>
<td>4%</td>
<td>8,758</td>
<td>3.53%</td>
</tr>
<tr>
<td>City of South Gate</td>
<td>9,082</td>
<td>4%</td>
<td>11,076</td>
<td>4.46%</td>
</tr>
<tr>
<td>City of Vernon</td>
<td>7,282</td>
<td>3%</td>
<td>8,690</td>
<td>3.50%</td>
</tr>
<tr>
<td>City of Compton</td>
<td>6,326</td>
<td>3%</td>
<td>5,892</td>
<td>0.00%</td>
</tr>
<tr>
<td>Total</td>
<td>154,373</td>
<td>64.00%</td>
<td>148,392</td>
<td>57.37%</td>
</tr>
<tr>
<td>Total Water Consumed (Acre Feet)</td>
<td>241,198</td>
<td>100%</td>
<td>248,383</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

**Source:** Water Replenishment District Accounting Department
## Water Replenishment District of Southern California
### Ratio of Outstanding Debt
#### Last Ten Fiscal Years

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Notes Payable</th>
<th>Certificates of Participation</th>
<th>Debt</th>
<th>Per Capita</th>
<th>As a Share of Personal Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.000000%</td>
</tr>
<tr>
<td>2002</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.000000%</td>
</tr>
<tr>
<td>2003</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.000000%</td>
</tr>
<tr>
<td>2004</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.000000%</td>
</tr>
<tr>
<td>2005</td>
<td>-</td>
<td>15,410,000</td>
<td>15,410,000</td>
<td>1.52</td>
<td>4.314187%</td>
</tr>
<tr>
<td>2006</td>
<td>-</td>
<td>15,410,000</td>
<td>15,410,000</td>
<td>1.51</td>
<td>3.994995%</td>
</tr>
<tr>
<td>2007</td>
<td>-</td>
<td>15,410,000</td>
<td>15,410,000</td>
<td>1.51</td>
<td>3.832307%</td>
</tr>
<tr>
<td>2008</td>
<td>-</td>
<td>15,100,000</td>
<td>15,100,000</td>
<td>1.47</td>
<td>3.653374%</td>
</tr>
<tr>
<td>2009</td>
<td>-</td>
<td>32,658,447</td>
<td>32,658,447</td>
<td>3.15</td>
<td>N/A</td>
</tr>
<tr>
<td>2010</td>
<td>-</td>
<td>32,175,300</td>
<td>32,175,300</td>
<td>3.08</td>
<td>N/A</td>
</tr>
</tbody>
</table>

N/A - Data not available

**Source:** Water Replenishment District Accounting Department
# Water Replenishment District of Southern California

## Debt Coverage

### Last Ten Fiscal Years

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Net Revenues</th>
<th>Operating Expenses</th>
<th>Net Available Revenues</th>
<th>Debt Service</th>
<th>Coverage Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(1)</td>
<td></td>
<td></td>
<td>Principal</td>
<td>Interest</td>
</tr>
<tr>
<td>2001</td>
<td>27,969,272</td>
<td>(30,878,820)</td>
<td>(2,909,548)</td>
<td>64,682</td>
<td>-</td>
</tr>
<tr>
<td>2002</td>
<td>21,312,785</td>
<td>(36,539,725)</td>
<td>(15,226,940)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2003</td>
<td>30,324,300</td>
<td>(29,199,234)</td>
<td>1,125,066</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2004</td>
<td>31,718,128</td>
<td>(27,696,168)</td>
<td>4,021,960</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2006</td>
<td>31,605,872</td>
<td>(33,793,189)</td>
<td>(2,187,317)</td>
<td>-</td>
<td>653,314</td>
</tr>
<tr>
<td>2007</td>
<td>28,919,560</td>
<td>(39,817,101)</td>
<td>(10,897,541)</td>
<td>-</td>
<td>654,931</td>
</tr>
<tr>
<td>2008</td>
<td>52,144,700</td>
<td>(24,576,237)</td>
<td>27,568,463</td>
<td>310,000</td>
<td>647,827</td>
</tr>
<tr>
<td>2009</td>
<td>47,722,032</td>
<td>(28,362,636)</td>
<td>19,359,396</td>
<td>315,000</td>
<td>764,408</td>
</tr>
<tr>
<td>2010</td>
<td>41,350,866</td>
<td>(46,705,411)</td>
<td>(5,354,545)</td>
<td>500,000</td>
<td>1,642,081</td>
</tr>
</tbody>
</table>

**Notes:**

(1) Operating expenses exclude depreciation expense

**Source:** Water Replenishment District Accounting Department
### Water Replenishment District of Southern California
#### Demographics and Economic Statistics – County of Los Angeles
#### Last Ten Fiscal Years

<table>
<thead>
<tr>
<th>Year</th>
<th>Unemployment Rate (1)</th>
<th>Population (thousands of dollars)</th>
<th>Personal Income per Capita (2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>5.7%</td>
<td>9,656,270</td>
<td>303,445,287</td>
</tr>
<tr>
<td>2002</td>
<td>6.8%</td>
<td>9,814,410</td>
<td>311,367,020</td>
</tr>
<tr>
<td>2003</td>
<td>7.0%</td>
<td>9,957,471</td>
<td>322,272,131</td>
</tr>
<tr>
<td>2004</td>
<td>6.5%</td>
<td>10,071,440</td>
<td>338,209,805</td>
</tr>
<tr>
<td>2005</td>
<td>5.3%</td>
<td>10,153,479</td>
<td>357,193,633</td>
</tr>
<tr>
<td>2006</td>
<td>4.7%</td>
<td>10,202,094</td>
<td>385,732,651</td>
</tr>
<tr>
<td>2007</td>
<td>5.0%</td>
<td>10,231,000</td>
<td>402,107,608</td>
</tr>
<tr>
<td>2008</td>
<td>7.3%</td>
<td>10,285,296</td>
<td>413,316,582</td>
</tr>
<tr>
<td>2009</td>
<td>11.3%</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>2010</td>
<td>12.2%</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

N/A - Data not available

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

Sources: California Department of Finance and CaliforniaLaborMarketInfo

(2) Per capital personal income was computed using Census Bureau midyear population estimates. The personal income level shown for the United States is derived as the sum of the county estimates. It differs from the estimate of personal income in the national income and product accounts (NiPAs) because of differences in coverage, in the methodologies used to prepare the estimates, and in the timing of the availability of source data.

Sources: Regional Economic Information System, Bureau of Economic Analysis, U.S. Department of Commerce, & last updated: Monday, August 09, 2010
### Employees

<table>
<thead>
<tr>
<th>Department</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
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<tbody>
<tr>
<td>Administration</td>
<td>6</td>
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<td>5</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>4</td>
<td>4</td>
<td>4</td>
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<tr>
<td>Finance</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Engineering</td>
<td>9</td>
<td>8</td>
<td>8</td>
<td>12</td>
<td>9</td>
<td>9</td>
<td>9</td>
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<tr>
<td>Hydrogeology</td>
<td>5</td>
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<td>5</td>
<td>6</td>
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<td>6</td>
<td>6</td>
<td>6</td>
<td>8</td>
<td>8</td>
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<tr>
<td>External Affairs</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>25</td>
<td>23</td>
<td>24</td>
<td>30</td>
<td>28</td>
<td>28</td>
<td>28</td>
<td>28</td>
<td>31</td>
<td>33</td>
</tr>
</tbody>
</table>

### Other Operating and Capacity Indicators

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Groundwater Pumps</th>
<th>Acre Feet Injected</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>613</td>
<td>28,459</td>
</tr>
<tr>
<td>2002</td>
<td>608</td>
<td>29,420</td>
</tr>
<tr>
<td>2003</td>
<td>612</td>
<td>28,112</td>
</tr>
<tr>
<td>2004</td>
<td>597</td>
<td>22,938</td>
</tr>
<tr>
<td>2005</td>
<td>594</td>
<td>19,895</td>
</tr>
<tr>
<td>2006</td>
<td>580</td>
<td>20,918</td>
</tr>
<tr>
<td>2007</td>
<td>580</td>
<td>24,363</td>
</tr>
<tr>
<td>2008</td>
<td>581</td>
<td>26,287</td>
</tr>
<tr>
<td>2009</td>
<td>559</td>
<td>25,996</td>
</tr>
<tr>
<td>2010</td>
<td>565</td>
<td>28,400</td>
</tr>
</tbody>
</table>

Sources: Water Replenishment District Engineering and Accounting Departments
Report of Independent Auditors on Internal Controls and Compliance
Report of Independent Auditors on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

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

We have audited the basic financial statements of the Water Replenishment District of Southern California (the District) as of and for the year ended June 30, 2010, and have issued our report thereon dated November 9, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District’s internal control over financial reporting.

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

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

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

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

Los Angeles, California
November 9, 2010