



## **Comprehensive Annual Financial Report**

**Fiscal Years Ended**

**June 30, 2018 and 2017**

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

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

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# Our Mission Statement

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

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

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

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



**Water Replenishment District of Southern California**  
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## **Introductory Section**

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

ROBB WHITAKER, P.E., GENERAL MANAGER

December 26, 2018

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

State law requires that every general-purpose government agency publish within six months of the close of each fiscal year a complete set of audited financial statements. This report is published to fulfill that requirement for the fiscal year ended June 30, 2018.

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

Vasquez & Company LLP, Certified Public Accountants, have issued an unmodified (“clean”) opinion on the Water Replenishment District of Southern California’s financial statements for the year ended June 30, 2018. The independent auditors’ report is located at the front of the financial section of this report.

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

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

### **Profile of the District**

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

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

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

The District's stated mission is "to provide, protect and preserve high quality groundwater through innovative, cost-effective and environmentally sensitive water basin management practices for the benefit of residents and businesses of the Central and West Coast Basins." Although the District does not directly serve customers, it ensures the health of the groundwater basins so groundwater supplies are available to those with water rights to those basins, such as the cities that supply water to their residents. According to District estimates, in the past nearly 40 percent of the water consumed by the area served by the District comes from groundwater sources. Due to the drought and conservation, the percentage is now closer to 50 percent. The remaining amount comes from water imported from the Colorado River and Northern California.

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

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

By law, the District has broad authority to carry out its responsibilities, which include the purchase of water to replenish the basins, administering clean water programs and investing in projects intended to improve the reliable supply of clean water at a reasonable cost. The District annually purchases an average of 71,000 acre-feet of water to be added to spreading grounds, where it gradually percolates into the underlying aquifers. The District also purchases an average of 27,000 acre-feet per year of water to be injected into seawater barrier wells along the coastline. Water injected into these barrier wells forms a dam of freshwater that keeps seawater from flowing into the groundwater aquifers in areas where groundwater levels have dropped below sea level. Los

Angeles County operates the spreading grounds and barrier wells, using the water the District provides.

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

## **Local Economy**

The District office is located in Los Angeles County, with over 10 million residents in 88 cities spread across 4,100 square miles; Los Angeles County's population exceeds that of 43 states. If it were a country, it would be the twentieth largest economy in the world. In addition to its signature industries—entertainment, tourism and fashion—its enormous and diversified economy is home to the largest port complex in the Western Hemisphere and the largest number of manufacturing jobs of any county in the country. Other major industries include health care, education and knowledge creation and business services.

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

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

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

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

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

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

## **Relevant Financial Policies**

### *Internal Control Structure*

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

### *Investment Policy*

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

### *Replenishment Assessment*

Following several public budget workshops, the WRD Board of Directors voted to increase the 2017-2018 Replenishment Assessment to \$318.00 per acre-foot. When compared to the cost of imported water of about \$1,058 per acre-foot, groundwater represents a substantial savings. We are as proud of the very open and collaborative process we used to arrive at the result as we are of the result itself. Despite rising costs, especially for necessary legal services, we managed to stay

the course through general belt-tightening and a conscious decision to reduce purchases for increasingly expensive imported water in favor of more cost-effective local supply.

### *Fitch Ratings and Standard & Poor's affirms WRD's AA+ Debt Rating*

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

## **District Achievements**

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

### *WIN for All*

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

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

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

### *Albert Robles Center*

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

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

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

#### *Robert W. Goldsworthy Expansion Completed*

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

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

#### *Regional Brackish Water Reclamation Program*

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

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

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

#### *Basin Cleanup and WRD's Safe Drinking Water Program*

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

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

*Funding Support for WRD Projects*

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

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

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

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

### *Legislation Removes Cap on WRD Reserves*

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

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

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

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

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

### **Awards and Acknowledgements**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the District for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2017. This was the thirteenth consecutive year that the District submitted its CAFR for this prestigious award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

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



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

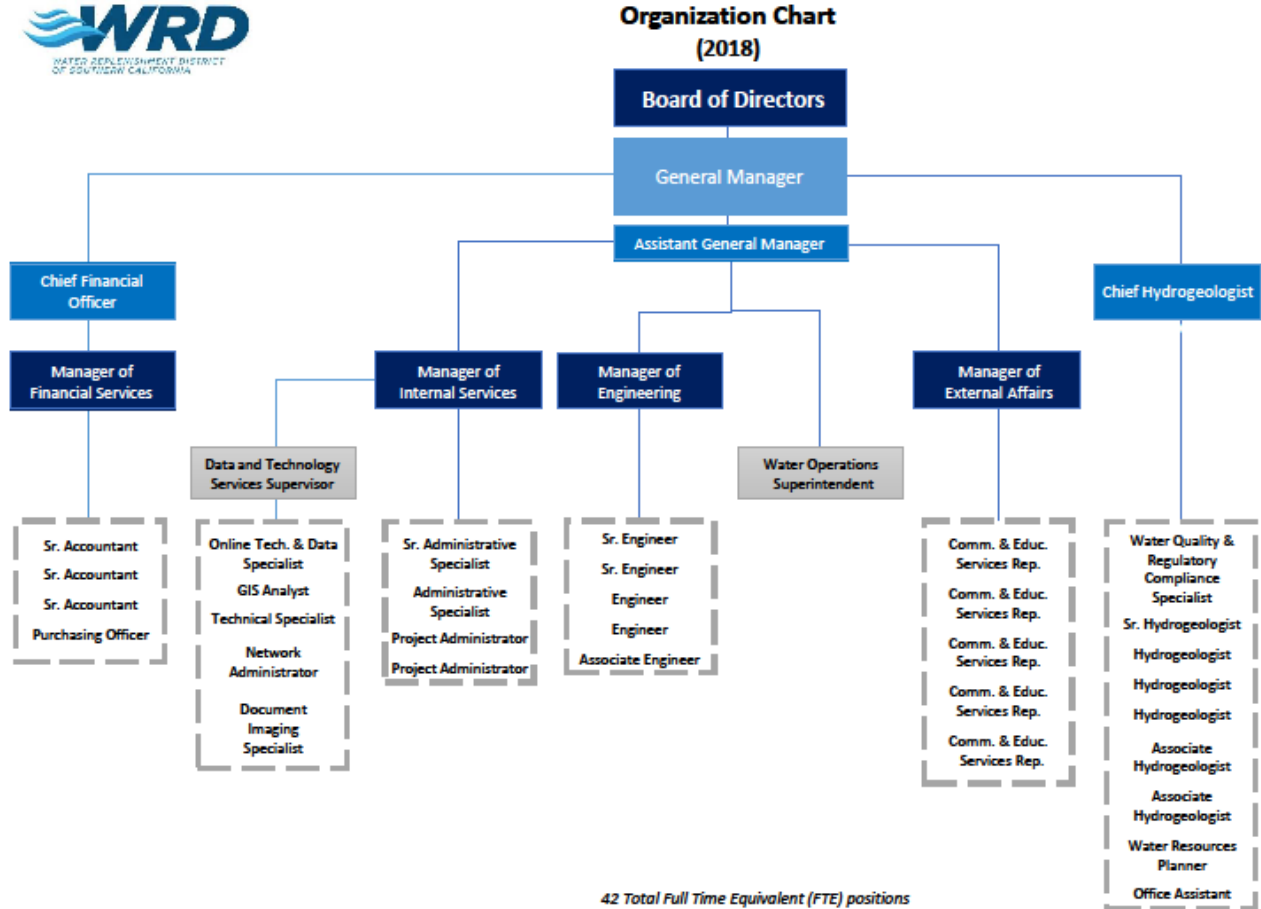
Preparation of this report was accomplished by the combined efforts of District staff. We appreciate the dedicated efforts and professionalism that our staff members bring to the District. We would also like to thank the members of the Board of Directors for their continued support in the planning and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

Respectfully submitted,



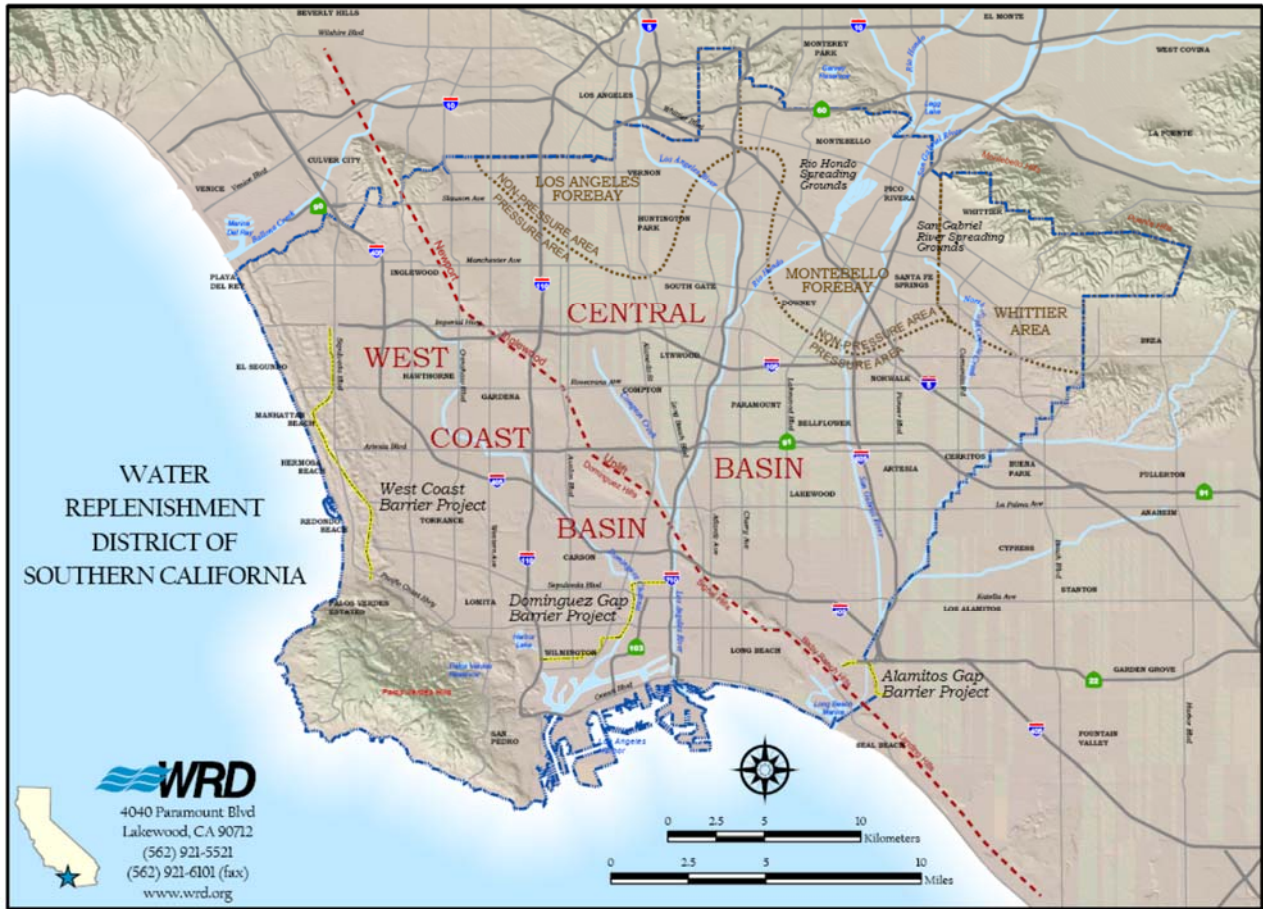
Scott M. Ota, CPA, CFF, CIRA, CGMA  
Chief Financial Officer  
Water Replenishment District of Southern California

# Water Replenishment District of Southern California Organizational Chart



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

# Water Replenishment District of Southern California Map of the District





Government Finance Officers Association

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

**Water Replenishment District  
of Southern California**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2017**

*Christopher P. Morill*

Executive Director/CEO

## **Financial Section**

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## Report of Independent Auditors

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

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

We have audited the accompanying financial statements of the Water Replenishment District of Southern California (the District), which comprise the statements of net position as of June 30, 2018 and 2017, the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements (collectively, the basic financial statements).

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

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

#### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the State Controller's Minimum Audit Requirements for California Special Districts and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2018 and 2017, and the changes in its financial position, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9, and the required supplementary information on page 50 through 55, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

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

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

### *Implementation of New Accounting Standards*

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





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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 26, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Vaqueria & Company LLP*

**Glendale, California  
December 26, 2018**

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Water Replenishment District of Southern California (District) provides an introduction to the financial statements of the District for the fiscal years ended June 30, 2018 and 2017. We encourage readers to consider the information presented here in conjunction with the transmittal letter in the Introductory Section and with the basic financial statements and related notes, which follow this section.

### **Financial Highlights**

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

### **Required Financial Statements**

This annual report includes the basic financial statements. The Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and Statement of Cash Flows provide information about the activities and performance of the District.

The Statement of Net Position includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate fiscal

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stability and credit worthiness.

The final required financial statement is the Statement of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operations, investing, noncapital financing, and capital and related financing activities.

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

**Financial Analysis of the District**

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

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

**Statement of Net Position**

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

As noted earlier, over time, changes in net position may serve as a useful indicator of a government's financial condition. In the case of the District, assets and deferred outflows of resources of the District

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

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

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

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

At the end of fiscal years 2018 and 2017, the District shows a positive balance in unrestricted net position of \$59,381,399 and \$42,137,874, respectively, which will primarily be used for the future purchase of replenishment water.

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

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

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

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

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

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

**Operating Revenues**

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

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

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

**Operating Expenses - Water Supply Management Expenses**

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

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

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**Capital Assets Administration**

At June 30, 2018 and 2017, the District's investment in capital assets amounted to \$250,985,807 and \$195,214,183 (net of accumulated depreciation), respectively. This investment in capital assets includes land, utility plant, monitoring and injection equipment, service connections, office furniture and equipment, and construction-in-process. Major capital asset additions during fiscal year 2018 and 2017 include expenses related to the Leo J. Vander Lans Advanced Water Treatment Facility Expansion Project, Goldsworthy Desalter, the Regional Groundwater Monitoring Program and the Groundwater Reliability Improvement Program (GRIP).

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

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

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

**Long-term Debt**

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

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

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

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

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

**Requests for Information**

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

## **Basic Financial Statements**



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

	June 30,	
	2018	2017
<b>ASSETS</b>		(Restated)
<b>Current assets</b>		
Cash and cash equivalents	\$ 47,951,465	\$ 47,307,938
Water replenishment assessments receivable, net	41,186,111	20,481,843
Grants receivable	1,469	-
Notes receivable - current portion	308,421	505,940
Prepaid expenses and other deposits	136,941	216,236
Total current assets - unrestricted	<b>89,584,407</b>	<b>68,511,957</b>
<b>Restricted current assets - cash and cash equivalents</b>		
Cash and cash equivalents	23,362,227	33,015,303
Total current assets	<b>112,946,634</b>	<b>101,527,260</b>
<b>Noncurrent assets</b>		
Notes receivable - net of current portion	308,460	616,881
Net pension asset	34,943	46,117
Capital assets, net	250,985,807	195,214,183
Total noncurrent assets	<b>251,329,210</b>	<b>195,877,181</b>
<b>Total assets</b>	<b>364,275,844</b>	<b>297,404,441</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred amount on debt refunding	6,433,209	9,485,875
Deferred outflows related to pensions	2,707,779	2,451,630
Deferred outflows related to OPEB	1,008,661	1,048,933
<b>Total deferred outflows of resources</b>	<b>10,149,649</b>	<b>12,986,438</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued expenses	15,334,052	8,965,483
Accrued wages and related payables	279,064	190,998
Compensated absences - current portion	162,491	184,190
Advances from Caltrans	5,132,802	5,198,850
Interest payable	2,854,458	2,893,625
Long-term debt - current portion	5,258,553	3,139,514
Total current liabilities	<b>29,021,420</b>	<b>20,572,660</b>
<b>Noncurrent liabilities</b>		
Net pension liability	4,977,020	4,188,699
Compensated absences - net of current portion	391,746	245,177
Net OPEB liability	4,913,070	4,206,733
Long-term debt - net of current portion	210,627,379	175,763,984
Total noncurrent liabilities	<b>220,909,215</b>	<b>184,404,593</b>
<b>Total liabilities</b>	<b>249,930,635</b>	<b>204,977,253</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows of resources - replenishment assessments	-	4,154,665
Deferred inflows related to pensions	204,978	309,224
Deferred inflows related to OPEB	13,170	-
<b>Total deferred inflows of resources</b>	<b>218,148</b>	<b>4,463,889</b>
<b>NET POSITION</b>		
<b>Net position</b>		
Net investment in capital assets	64,895,311	58,811,863
Unrestricted	59,381,399	42,137,874
<b>Total net position \$</b>	<b>124,276,710</b>	<b>\$ 100,949,737</b>

*See notes to the financial statements.*

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

	<b>Years ended June 30,</b>	
	<b>2018</b>	<b>2017</b>
		(Restated)
<b>Operating revenues</b>		
Water replenishment assessments	\$ 73,687,699	\$ 73,822,097
Desalter assessments	334,381	-
Water treatment subsidies	171,759	355,914
Other operating income	95,800	395,322
<b>Total operating revenues</b>	<b>74,289,639</b>	<b>74,573,333</b>
<b>Operating expenses</b>		
Water supply management:		
Water purchases - injecting	26,328,547	21,344,615
Water purchases - spreading	10,707,564	22,333,722
Connection fees	1,970,372	4,010,063
General and administrative	18,066,111	14,658,774
<b>Total operating expenses</b>	<b>57,072,594</b>	<b>62,347,174</b>
Operating income before depreciation and amortization	17,217,045	12,226,159
Depreciation and amortization	(4,112,063)	(4,014,947)
<b>Operating income</b>	<b>13,104,982</b>	<b>8,211,212</b>
<b>Nonoperating revenue (expense)</b>		
Property taxes	658,530	613,015
Interest and investment earnings	1,027,074	864,242
Interest expense	(6,174,350)	(2,875,746)
Election costs	(1,100,000)	(1,374,823)
Other, net	4,209,797	3,270,421
Net nonoperating revenue (expense)	(1,378,949)	497,109
<b>Income before capital contributions</b>	<b>11,726,033</b>	<b>8,708,321</b>
Capital contributions - capital grants	11,600,940	7,550,656
Total capital contributions	<b>11,600,940</b>	<b>7,550,656</b>
<b>Change in net position</b>	<b>23,326,973</b>	<b>16,258,977</b>
<b>Total net position - beginning of year before restatement</b>	<b>100,949,737</b>	87,722,701
<b>Prior period adjustment</b>	-	(3,031,941)
<b>Net position - beginning of year as restated</b>	<b>100,949,737</b>	<b>84,690,760</b>
<b>Total net position - end of year</b>	<b>\$ 124,276,710</b>	<b>\$ 100,949,737</b>

*See notes to the financial statements.*

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

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

*See notes to the financial statements.*

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

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

*See notes to the financial statements.*

**NOTE 1      REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization and Operations of the Reporting Entity**

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

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

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

**Basis of Accounting and Measurement Focus**

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

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

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

**Financial Reporting**

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

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

**Implementation of New Accounting Pronouncements**

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

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

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

**Pension**

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

**Postemployment Benefits Other than Pensions (OPEB)**

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

**Assets, Liabilities and Net Position**

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

Cash and Cash Equivalents - Whenever possible, the District's cash is invested in interest bearing accounts. However, the safety and liquidity of the District's cash always takes priority over yield. The District considers all highly liquid investments with a maturity of 12 months or less to be cash equivalents.

Water Replenishment Assessments Receivable - The District extends credit to customers in the normal course of operations. Management closely monitors outstanding balances and, based on collection experience, has determined an allowance for doubtful accounts of \$0 at June 30, 2018 and 2017.

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

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



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

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

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

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

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

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

- Utility plant and equipment and capacity rights - 30 years
- Monitoring and injection equipment - 3 to 20 years
- Service connections - 50 years
- Office furniture and equipment - 5 to 10 years
- Building and improvements - 30 to 40 years

In accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, the District has evaluated prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Management asserted that there were no impairments of capital assets as of June 30, 2018 and 2017.

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

Compensated Absences - The District's policy is to permit employees to accumulate a limited amount of earned vacation and sick leave. Normally, an employee cannot accrue more than thirty days of vacation. Sick leave is payable when an employee is unable to work because of illness. Upon termination, an employee will be paid for any unused sick leave. Accumulated vacation time is accrued at year-end to account for the District's obligation to the employees for the amount owed.

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

It is management's belief that the majority of the obligation will be utilized during the course of the next fiscal year. Vacation pay is payable to employees at the time a vacation is taken or upon termination of employment.

Deferred Outflows and Inflows of Resources

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

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

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

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

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

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

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

**Other**

Budgetary Policies - The District adopts an annual non-appropriated budget for planning, control, and evaluation purposes. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period.

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

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

**Reclassifications**

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

**NOTE 2      CASH AND INVESTMENTS**

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

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

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

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

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

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

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

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

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

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

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

**Investments Authorized by Debt Agreements**

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

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

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

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

**Disclosures Relating to Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter-term and longer-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity over time as necessary to provide the cash flow and liquidity needed for operations. As of June 30, 2018 and 2017, the District's funds are placed in investments with maturities of 12 months or less.

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

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

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

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

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

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

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

**Disclosures Relating to Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

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

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

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

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

**Concentration of Credit Risk**

The District's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. As of June 30, 2018 and 2017, there were no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments.

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

**Custodial Credit Risk**

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

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

**Fair Value Measurements**

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

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

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

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

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**NOTE 3      NOTES RECEIVABLE**

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

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

**City of Lakewood**

On November 24, 2008, the District entered into a loan agreement with the City of Lakewood for a maximum loan amount of \$2,200,000 to finance the design, installation and construction of a wellhead treatment system at the City's groundwater well. The loan is payable annually over a 10-year period. The loan is unsecured and non-interest bearing. The project was completed during the fiscal year 2010-2011. Annual repayment of the loan in the amount of \$220,000 started upon completion of the project and full disbursement of the loan proceeds to the City. The balance at June 30, 2018 and 2017 was \$394,960 and \$789,921, respectively.

**City of Maywood**

On June 19, 2009, the District entered into a loan agreement with the Maywood Mutual Water Company Number 2 (Water Company) for a maximum loan amount of \$900,000, to finance the design, installation and construction of a wellhead treatment system at the Water Company's groundwater well. The loan is payable annually over a 10-year period. The loan is unsecured and non-interest bearing. The Water Company has drawn down a total of \$1,109,801 as of June 30, 2018. Annual repayment of the loan in the amount of \$110,000 started in the fiscal year 2010-2011 when the project was completed. The outstanding balance at June 30, 2018 and 2017 was \$221,921 and \$332,900, respectively.

Future scheduled repayments of notes receivable are as follows:

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



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

**NOTE 4 CAPITAL ASSETS**

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

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

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

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

**Water Replenishment District of Southern California**  
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**NOTE 4 CAPITAL ASSETS (CONTINUED)**

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

The District engaged in various construction projects throughout the year. The balances of the various construction projects that comprise the construction-in-progress balances at as of June 30 are as follows:

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

**Capitalized Interest**

Interest is capitalized in connection with the construction of major facilities. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. Interest cost of \$3,736,849 and \$5,198,150 was capitalized during the years ended June 30, 2018 and 2017, respectively.

**Water Replenishment District of Southern California**  
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**NOTE 5      COMPENSATED ABSENCES**

Changes in compensated absences were as follows:

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

**NOTE 6      LONG-TERM DEBT**

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

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

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

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

**Replenishment Assessment Revenue Bonds**

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

**Water Replenishment District of Southern California**  
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**NOTE 6 LONG-TERM DEBT (CONTINUED)**

**Clean Water State Revolving Fund Loan**

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

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

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

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

**NOTE 7 UNEARNED REVENUE**

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

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

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**NOTE 8            ADVANCES FROM CALTRANS**

In April 2004, the District and the California Department of Transportation (Caltrans) entered into an agreement relating to groundwater in the vicinity of the I-105 freeway. The agreement calls for \$8.0 million to be paid by Caltrans to the District to be used to pay the costs of the proposed pipeline project described in the agreement, and to pay the replenishment assessment levied against the Caltrans groundwater extractions from beneath the I-105 freeway section. Caltrans advanced the \$8.0 million to the District to fund the proposed pipeline project. As of June 30, 2018 and 2017, the District has spent \$2,867,199 and \$2,801,150 on the project, leaving an unexpended balance on the advance of \$5,132,801 and \$5,198,850, respectively.

**NOTE 9            DEFERRED INFLOWS OF RESOURCES**

In accordance with GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, for rate-regulated activities the District defers the recognition of revenues until the related costs or charges associated with the rates assessed are incurred. The balance of Deferred Revenue – Replenishment Assessments of \$0 million and \$4.2 million as of June 30, 2018 and 2017, respectively, pertains to assessments that were deferred until the related costs of water supply management are incurred. Pursuant to GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, these amounts are reported as deferred inflows of resources in the Statement of Net Position.

**NOTE 10          NET POSITION - NET INVESTMENT IN CAPITAL ASSETS**

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

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

**NOTE 11          DEFERRED COMPENSATION SAVINGS PLAN**

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

**NOTE 11      DEFERRED COMPENSATION SAVINGS PLAN (CONTINUED)**

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. The District is in compliance with this legislation. These assets are not the legal property of the District, and are not subject to claims of the District's general creditors. Unaudited market value of all plan assets held in trust at June 30, 2018 and 2017 was \$4,087,015 and \$4,013,560, respectively.

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

**NOTE 12      DEFINED BENEFIT PENSION PLAN**

**Plan Description**

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

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

**Funding Policy**

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

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

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

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

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

	<b>2018</b>	2017
Proportionate share of net pension liability	<b>\$ 4,977,020</b>	\$ 4,188,699
Total net pension liability	<b>\$ <u>4,977,020</u></b>	<u>\$ 4,188,699</u>

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

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

**Water Replenishment District of Southern California**  
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**NOTE 12      DEFINED BENEFIT PENSION PLAN (CONTINUED)**

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

	<b>2018</b>
Total pension liability and other pension amounts	0.0013575
Plan fiduciary net position	0.0013885

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

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

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



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

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

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

**Actuarial Assumptions**

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

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

Actuarial Assumptions

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

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

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

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

**Discount Rate**

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

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

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

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

**Water Replenishment District of Southern California**  
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**NOTE 12      DEFINED BENEFIT PENSION PLAN (CONTINUED)**

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

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

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

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

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

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

**Pension Plan Fiduciary Net Position**

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

**Payable to the Pension Plan**

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

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

**Plan Description**

The District provides retirement benefits to its elected directors who do not participate in CalPERS through a single-employer defined benefit plan administered as part of the Public Agency Retirement System (PARS). Directors who retire at age 50 with 5 years of service with the District are eligible to receive pension benefits under the plan. The plan provides a benefit equal to the “3% at 60” plan factor of final average compensation for all years of service. The plan provides a benefit equal to “2% at 62” for Board members of the District hired after December 31, 2012 and are not participating in the CalPERS plan.

**Funding Policy**

The District is required to contribute the actuarially determined amounts necessary to fund the benefits for the participants. Contribution amounts are determined by an actuarial study performed every two years.

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

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

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

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

**Water Replenishment District of Southern California**  
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**NOTE 13 PUBLIC AGENCY RETIREMENT SYSTEM (PARS) PLAN (CONTINUED)**

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

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

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

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

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

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

**Actuarial Assumptions**

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

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

Actuarial Assumptions

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

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

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

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

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

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

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

Long-term expected rate of return	5.50%
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**NOTE 13 PUBLIC AGENCY RETIREMENT SYSTEM (PARS) PLAN (CONTINUED)**

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

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

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

**Pension Plan Fiduciary Net Position**

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

**Payable to the Pension Plan**

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

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

**Plan Description**

Employees hired prior to December 20, 2001 qualify for postemployment healthcare benefits if they retire with 12 or more years of service at the District; however, they receive no benefits until age 55. Retirees, spouses and surviving spouses receive a benefit equal to the entire medical and dental premium cost. In addition, retirees participate in a Medical Reimbursement Program and Vision Reimbursement Program.

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

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

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

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

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

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

**Employees covered by benefit terms**

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

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

**Net OPEB Liability**

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



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

**Actuarial Assumptions**

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

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

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

**Long-term Expected Rate of Return**

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

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

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

**Discount rate**

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

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

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

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

**Change in the Net OPEB Liability**

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

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

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

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

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

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

	<b>Trend 1% lower</b>	<b>Valuation Trend</b>	<b>Trend 1% higher</b>
Net OPEB liability	\$ 3,325,475	\$ 4,913,070	\$ 6,902,475

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

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

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

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

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

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

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

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

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

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

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

**NOTE 15 RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California water agencies. The purpose of the ACWA/JPIA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2018 and 2017, the District participated in the liability and property programs of the ACWA/JPIA as follows:

- General and auto liability, public officials and employees' errors and omissions: Total risk financing self-insurance limits of \$5,000,000, combined single limit at \$5,000,000 per occurrence. The District purchased additional excess coverage layers: \$55 million for general, auto and public officials liability, which increases the limits on the insurance coverage noted above.

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

- Employee dishonesty coverage up to \$100,000 per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverages. The District purchased additional coverage of \$1,000,000, which increases the limit on the insurance coverage noted above.
- Property loss is paid based on the replacement cost for the property on file. If the property is replaced within two years after the loss or otherwise paid on an actual cash value basis, to a combined total of \$150 million per occurrence it is subject to a \$1,000 deductible per occurrence. The District has a total insurable value of \$73,054,752.
- Boiler and machinery coverage for the replacement cost up to \$150 million per occurrence, subject to various deductibles depending on the type of equipment.

**NOTE 15      RISK MANAGEMENT (CONTINUED)**

- Public officials' personal liability coverage up to \$100,000 for each occurrence, with an annual aggregate of \$100,000 per each elected/appointed official to which this coverage applies is subject to the terms, with a deductible of \$1,000 per claim.
- Workers' compensation insurance provides coverage up to California statutory limits for all work related injuries/illnesses covered by California law.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the years ended June 30, 2018 and 2017. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR).

**NOTE 16      COMMITMENTS**

**Recycled Water Agreement**

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

**Basin Improvement Project Funding Agreement**

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

**Construction Contracts**

The District has a variety of agreements with private parties relating to the installation, improvement or modification of water facilities and distribution systems and other District activities. The financing of such contracts is provided primarily from the proceeds of bonds issued by the District. The District has committed to approximately \$50 million of open construction contracts as of June 30, 2018.

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

**NOTE 16      COMMITMENTS (CONTINUED)**

The contracts outstanding include:

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

**Operating Leases**

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

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

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

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

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

The District is currently defending a case in Los Angeles Superior Court based on claims that it failed to comply with the requirements under Prop 218 when imposing its annual replenishment assessments (RAs). This case seeks refund of the RAs paid. The District denies that Prop 218 is applicable to its adoption of an annual RA and intends to vigorously defend against this case. A brief description of the status of the case is as follows:

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

**NOTE 18      CONTINGENCIES**

**Litigation**

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

**Grant Awards**

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

**NOTE 19      RESTATEMENT OF FISCAL YEAR 2017 FINANCIAL STATEMENTS**

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

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

**NOTE 20      SUBSEQUENT EVENTS**

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

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

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2018, that have effective dates that may impact future financial presentations. Management has not yet determined any impact the implementation of the following statements may have on the financial statements of the District.

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

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

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



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

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

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

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

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

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

## **Required Supplementary Information**

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

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

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

\*\* Covered payroll not available

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

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

**Notes to Schedule**

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

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

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

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

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

**Notes to Schedule**

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

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

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

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

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

**Notes to Schedule**

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

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

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

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

**Notes to Schedule**

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

\*Fiscal year 2015 was the 1<sup>st</sup> year of implementation, therefore only four years are shown.

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

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

**Notes to Schedule**

Valuation date June 30, 2016

Methods and assumptions used to determine contribution rates:

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

\*Fiscal year 2015 was the 1<sup>st</sup> year of implementation, therefore only four years are shown.



**Statistical Section  
(Unaudited)**

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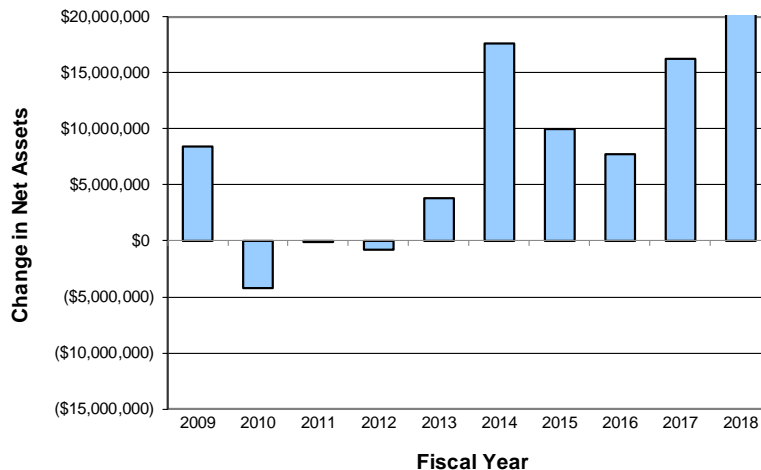
This part of the District's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the District's overall financial health.

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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.	65
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**Water Replenishment District of Southern California**  
**Financial Trends - Changes in Net Position by Component (Unaudited)**  
**Last Ten Fiscal Years**

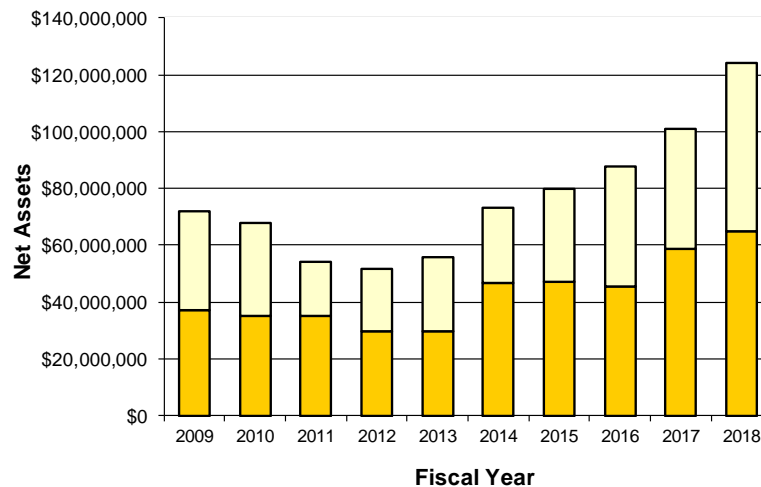
	Fiscal Year			
	2009	2010	2011	2012
Changes in net assets:				
Operating revenues (see Schedule 2)	\$ 39,335,102	45,601,400	56,284,385	48,121,854
Operating expenses (see Schedule 3)	(28,362,636)	(46,705,411)	(52,788,111)	(44,170,360)
Overhead absorption	-	-	-	-
Depreciation and amortization	(2,256,077)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



Source: Water Replenishment District Accounting Department

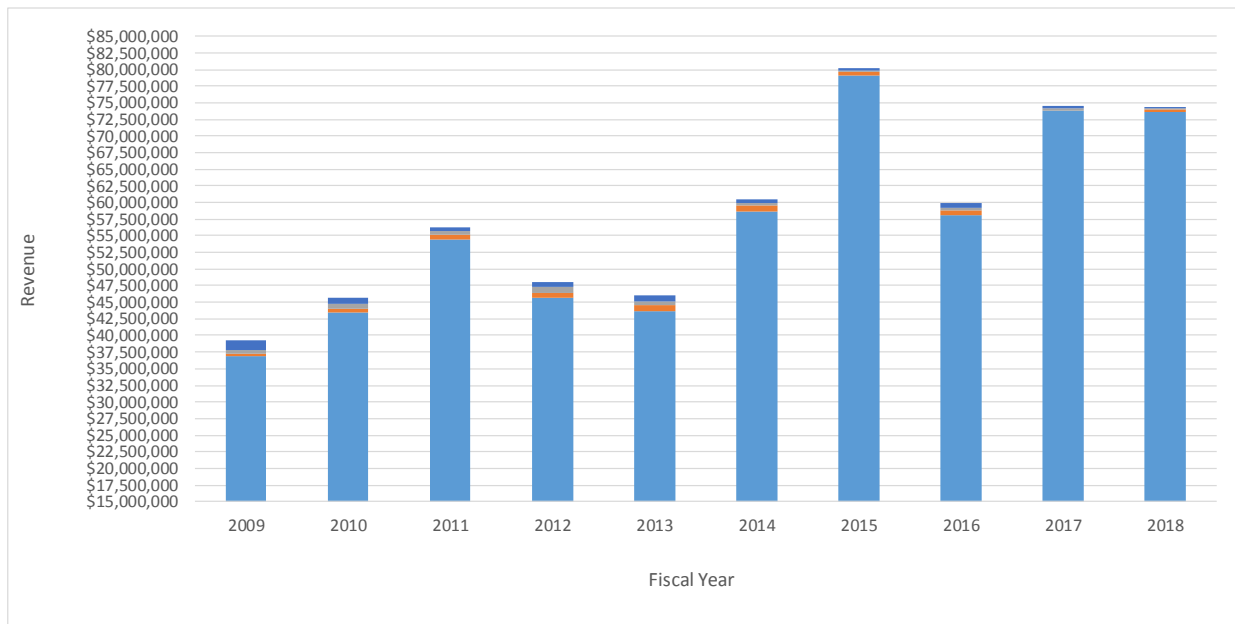
**Water Replenishment District of Southern California  
Financial Trends - Changes in Net Position by Component (Unaudited)  
Last Ten Fiscal Years**

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



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

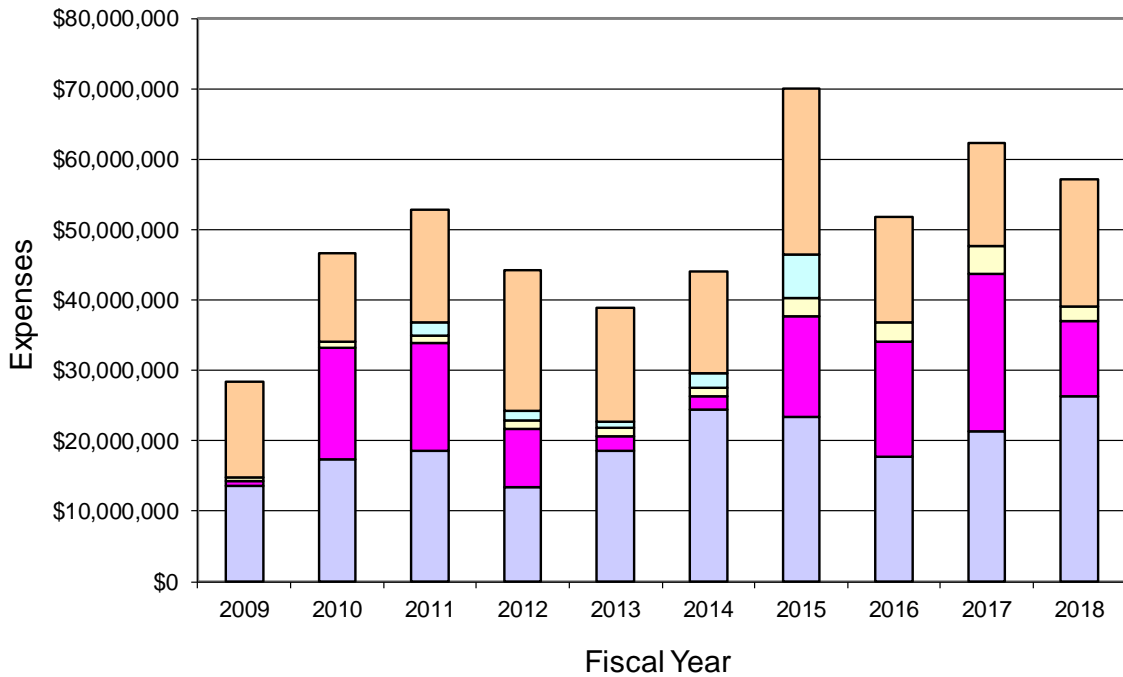
Fiscal Year	Water Replenishment Assessment	Desalter Assessments	Water Treatment Subsidies	Other Operating Revenue	Total Operating Revenue
2009	36,877,706	316,986	598,110	1,542,300	39,335,102
2010	43,452,025	554,734	726,375	868,266	45,601,400
2011	54,470,197	621,099	695,293	497,796	56,284,385
2012	45,571,109	913,204	894,411	743,130	48,121,854
2013	43,710,697	868,531	591,292	832,548	46,003,068
2014	58,665,579	840,559	377,650	502,917	60,386,704
2015	79,085,428	517,963	182,649	368,083	80,154,123
2016	58,128,626	619,806	412,706	691,718	59,852,856
2017	73,822,097	-	355,914	395,322	74,573,333
2018	73,687,699	334,381	171,759	95,800	74,289,639



Source: Water Replenishment District Accounting Department

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

Fiscal Year	Water Purchases Injecting	Water Purchases Spreading	Connection Fees	In-lieu Replenishment	General and Administrative	Total Operating Expenses
2009	13,623,824	601,706	536,011	-	13,601,095	28,362,636
2010	17,406,851	15,808,953	796,787	-	12,692,820	46,705,411
2011	18,552,696	15,405,518	911,745	1,937,484	15,980,668	52,788,111
2012	13,466,495	8,285,830	1,146,511	1,314,384	19,957,140	44,170,360
2013	18,599,786	2,021,060	1,187,540	888,692	16,171,224	38,868,302
2014	24,496,761	1,780,435	1,285,550	2,028,005	14,496,122	44,086,874
2015	23,385,697	14,325,715	2,586,820	6,241,887	23,451,200	69,991,319
2016	17,798,133	16,290,901	2,824,490	-	14,873,310	51,786,834
2017	21,344,615	22,333,722	4,010,063	-	14,658,774	62,347,174
2018	26,328,547	10,707,564	1,970,372	-	18,066,111	57,072,595

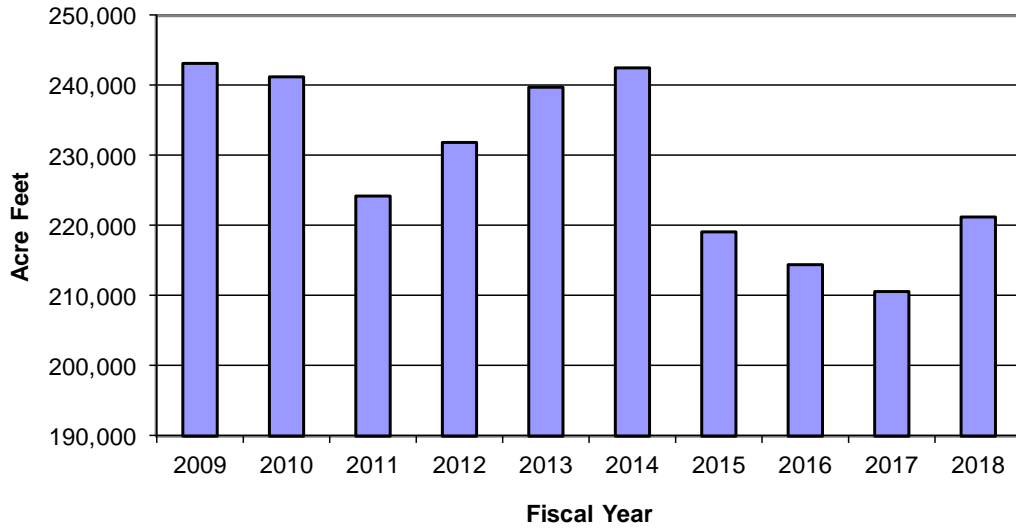


Source: Water Replenishment District Accounting Department

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

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



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

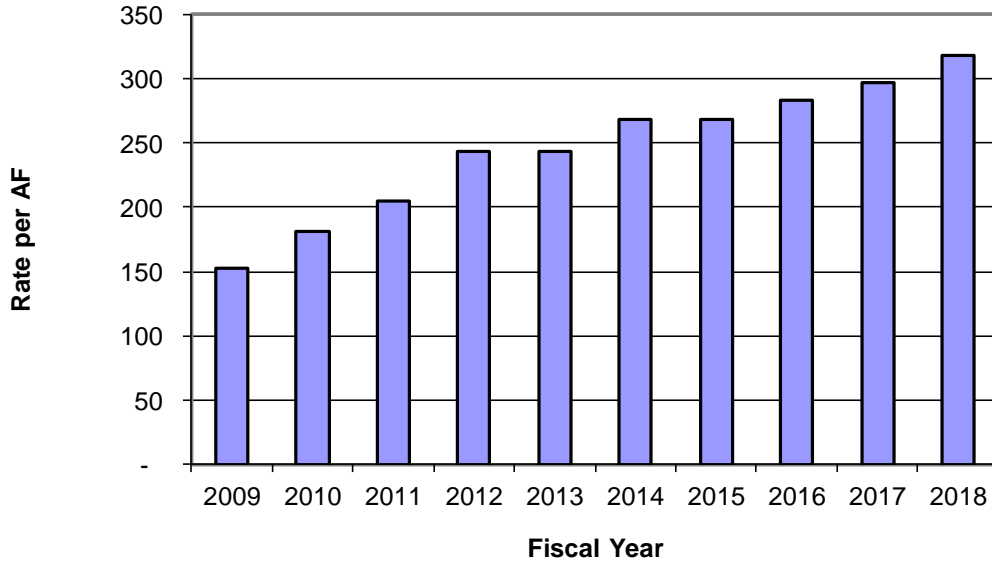
**Source:** Water Replenishment District Accounting Department



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

---

<u>Fiscal Year</u>	<u>Rate per AF</u>
2009	153
2010	182
2011	205
2012	244
2013	244
2014	268
2015	268
2016	283
2017	297
2018	318



**Notes:**

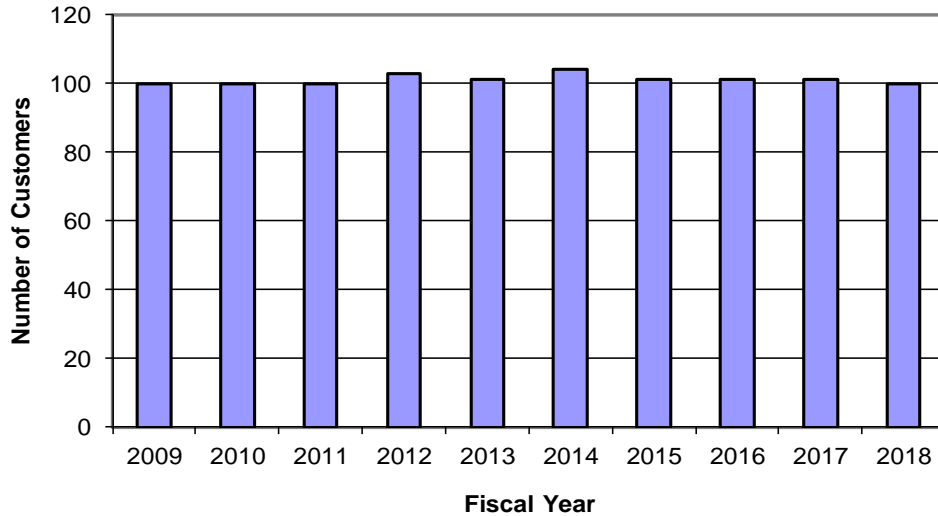
Rates as of June 30 of each fiscal year.

**Source:** Water Replenishment District Accounting Department

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

---

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



**Source:** Water Replenishment District Accounting Department

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

**Number of Customers**

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

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

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

A revised summary of this count is provided above.

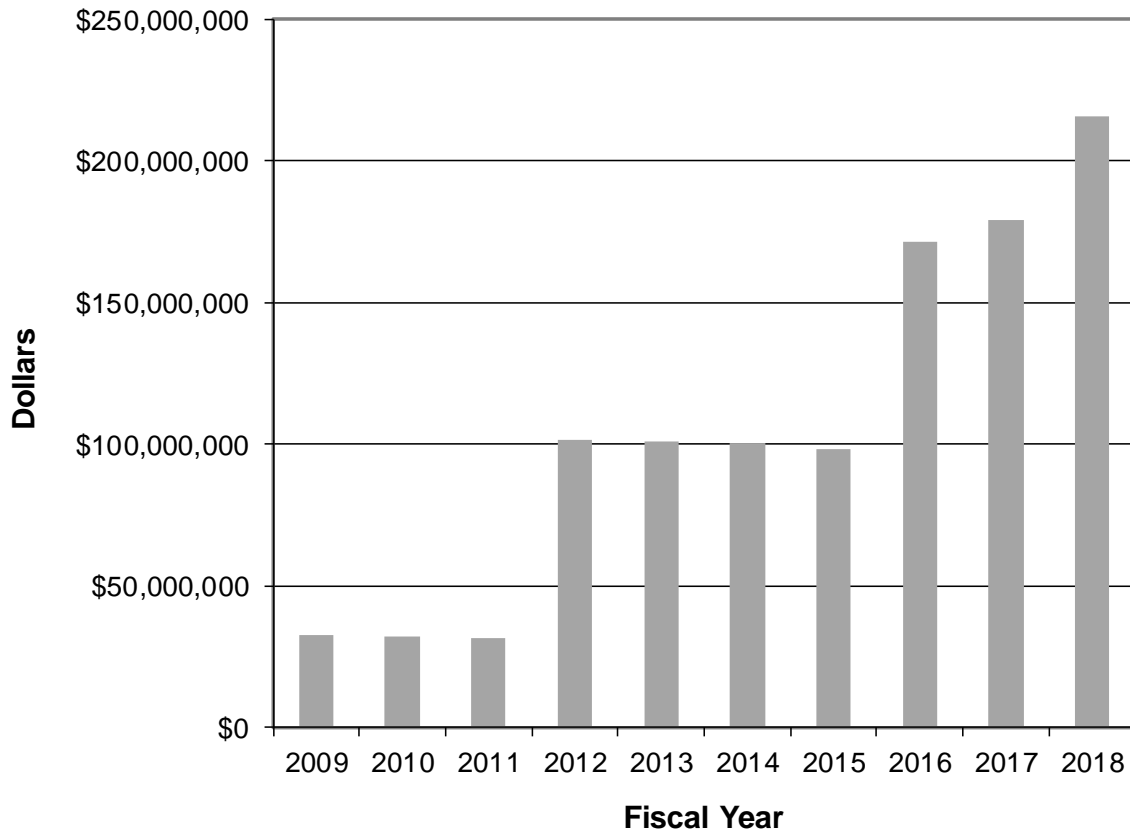
**Water Replenishment District of Southern California  
Revenue Capacity - Principal Customers (Unaudited)  
Current Fiscal Year and Ten Years Ago**

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

**Source:** Water Replenishment District Accounting Department

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

Fiscal Year	Certificates of Participation	Total		
		Debt	Per Capita	As a Share of Personal Income
2009	32,658,447	32,658,447	3.33	0.008319%
2010	32,175,300	32,175,300	3.27	0.007981%
2011	31,552,153	31,552,153	3.19	0.007496%
2012	101,632,500	101,632,500	10.20	0.023458%
2013	100,920,284	100,920,284	10.13	0.022784%
2014	100,148,068	100,148,068	10.00	0.021954%
2015	98,300,852	98,300,852	9.66	0.019656%
2016	171,569,874	171,569,874	16.70	0.033312%
2017	178,903,498	178,903,498	17.26	0.033798%
2018	215,885,932	215,885,932	20.64	0.039675%



Source: Water Replenishment District Accounting Department

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

Fiscal Year	Net Revenues <sup>(2)</sup>	Operating Expenses <sup>(1)</sup>	Net Available Revenues	Debt Service			Coverage Ratio
				Principal	Interest	Total	
2009	39,014,927	(28,362,636)	10,652,291	315,000	764,408	1,079,408	9.87
2010	44,840,245	(46,705,411)	(1,865,166)	500,000	1,642,081	2,142,081	(0.87)
2011	55,166,309	(52,788,111)	2,378,198	640,000	1,616,331	2,256,331	1.05
2012	45,814,299	(44,170,360)	1,643,939	695,000	3,648,519	4,343,519	0.38
2013	45,212,320	(38,868,302)	6,344,018	675,000	4,815,932	5,490,932	1.16
2014	64,298,529	(44,086,875)	20,211,654	735,000	4,788,544	5,523,544	3.66
2015	82,569,654	(69,991,319)	12,578,335	1,810,000	4,743,381	6,553,381	1.92
2016	63,495,725	(51,786,834)	11,708,891	1,655,000	4,118,895	5,773,895	2.03
2017	82,621,098	(62,347,174)	20,273,924	2,350,000	6,897,700	9,247,700	2.19
2018	84,511,630	(57,072,594)	27,439,036	2,445,000	6,801,800	9,246,800	2.97

**Notes:**

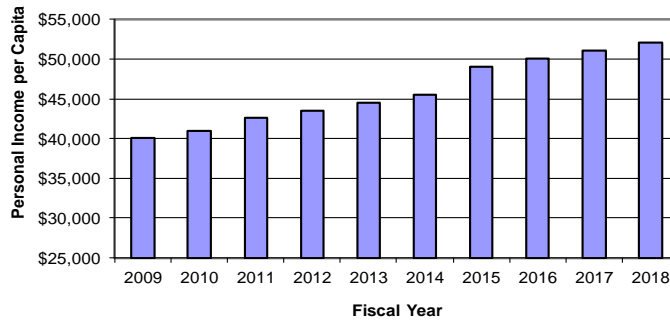
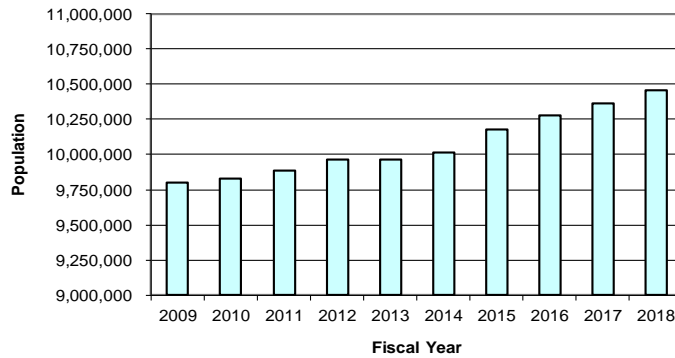
(1) Operating expenses exclude depreciation expense

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

**Source:** Water Replenishment District Accounting Department

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

Year	Unemployment Rate (1)	Population (2)	Personal Income (thousands of dollars) (2)	Personal Income per Capita (2)
2009	11.7%	9,797,400	\$ 392,579,855	\$ 40,111
2010	12.4%	9,826,773	\$ 403,144,483	\$ 41,025
2011	12.5%	9,889,056	\$ 420,913,463	\$ 42,564
2012	11.1%	9,962,563	\$ 433,261,902	\$ 43,489
2013	9.6%	9,962,789	\$ 442,935,636	\$ 44,459
2014	8.2%	10,017,068	\$ 456,177,277	\$ 45,540
2015	7.3%	10,181,140	\$ 500,117,959	\$ 49,122
2016	4.9%	10,274,040	\$ 515,037,625	\$ 50,130
2017	4.4%	10,365,720	\$ 529,335,857	\$ 51,066
2018	4.4%	10,457,330	\$ 544,136,709	\$ 52,034



**Notes:**

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

**Sources:** California Department of Finance and California Labor Market Info, Los Angeles Business Journal, FRED Economic Data - St. Louis Fed

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

All state and local area dollar estimates are in current dollars (not adjusted for inflation).

**Sources:** Regional Economic Information System, Bureau of Economic Analysis, U.S. Department of Commerce, CalGov.com/Los Angeles County Economic Forecast

**Water Replenishment District of Southern California**  
**Demographics and Economic Statistics – Largest Employers - County of Los Angeles**  
**(Unaudited)**  
**2018 June 30, 2018**

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**Largest Public Companies (1)**

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

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

**Largest Private Companies (2)**

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

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

**Largest Employers (3)**

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

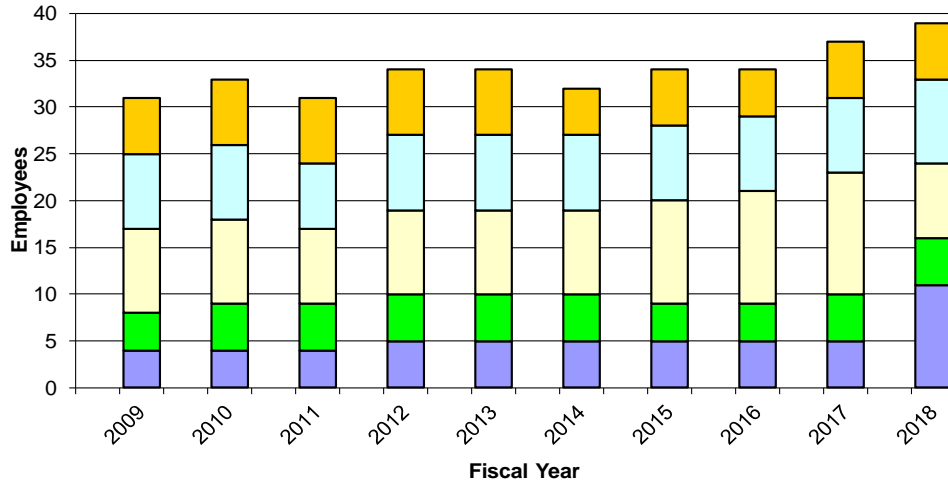
(3) Ranked by 2017 number of employees in Los Angeles County

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

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

**Employees**

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



**Other Operating and Capacity Indicators**

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

**Sources:** Water Replenishment District Engineering and Accounting Departments

Note:

**Number of Wells**

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

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



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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Water Replenishment District of Southern California (the District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 26, 2018.

**Internal Control Over Financial Reporting**

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

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

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



## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

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

**Glendale, California  
December 26, 2018**





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