



Securing Your Water Supply



COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2012

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Western Municipal Water District
of Riverside County, California

Comprehensive Annual Financial Report

For the Fiscal Year Ended
June 30, 2012

Prepared by:

The Western Municipal Water District Finance Department

14205 Meridian Parkway, Riverside, California 92518
951.571.7100 www.wmwd.com

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Western Municipal Water District
Comprehensive Annual Financial Report
 For the Fiscal Year Ended June 30, 2012

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INTRODUCTORY SECTION



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John V. Rossi
General Manager

Charles D. Field
Division 1

Thomas P. Evans
Division 2

Brenda A. Dennstedt
Division 3

Donald D. Galleano
Division 4

S.R. Al Lopez
Division 5

January 25, 2013

To the Board of Directors and customers served by the Western Municipal Water District of Riverside County:

We are pleased to present the Western Municipal Water District's (the District or Western) Comprehensive Annual Financial Report for the year ended June 30, 2012.

The report was prepared by the District's Finance Department following guidelines recommended by the Governmental Accounting Standards Board (GASB) and generally accepted accounting principles (GAAP). Responsibility for both the accuracy of the data presented and the completeness and fairness of the presentation, including disclosures, rests with the District. We believe the data, as presented, is accurate in all material respects and that it is presented in a manner that provides a fair representation of the financial position and results of operations of the District. Included are all disclosures we believe necessary to enhance your understanding of the financial condition of the District.

GAAP requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). The letter of transmittal is designed to complement Management's Discussion and Analysis and should be read in conjunction with it. The District's MD&A can be found immediately following the report of the independent audit firm.

The District's financial statements have been audited by Rogers, Anderson, Malody & Scott, LLP, a firm of licensed certified public accountants. The goal of the independent audit is to provide reasonable assurance that the financial statements of the District for the fiscal year ended June 30, 2012, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the District's financial statements for the fiscal year ended June 30, 2012, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

Reporting Entity and Its Services

District's Service Area

The District's service area consists of a 527-square mile area of western Riverside County that lies west of the I-215 Freeway. Within the District's boundaries are the cities and communities of Jurupa, Rubidoux, Riverside, Norco, Corona, Lake Elsinore, Canyon Lake, Murrieta and Temecula. The District provides imported water to its service area as a supplement to the region's local water supply.

The assessed valuation of the District's service area has grown from less than \$150 million when formed in 1954 to approximately \$76 billion in this past fiscal year. Riverside County's population has remained flat over the past year at 2.2 million, of which the District serves approximately 888,600 (40%).

District's Authority

The District was formed by voters on January 19, 1954 under the Municipal Water District Act of 1911 for the purpose of distributing supplemental water purchased from the Metropolitan Water District of Southern California (MWD) to a growing western Riverside County. Prior to the District's creation, the local water supply was primarily groundwater wells.

The District is authorized to acquire, control, distribute, store, treat, reclaim, recapture and salvage any water (including sewage) for the beneficial use of the District, its inhabitants or the owners of rights to water in the District.

The Municipal Water District Act of 1911 also authorizes the District to exercise the power of eminent domain; to levy and collect taxes; to fix, revise and collect rates or other charges for the delivery of water, use of facilities or property or provision for service; and to fix in each fiscal year a water standby or availability charge and a sewage and wastewater service standby or availability charge on land within the boundaries of the District to which water and sewage and wastewater services, respectively, are made available by the District. The District may also issue bonds, borrow money and incur indebtedness.

Governance

The District is a quasi-governmental agency (Special District) of the State of California. It is not regulated by the Public Utilities Commission, but instead is governed by a Board of five directors who are publicly elected for a four-year term from comparably sized districts (Divisions) based on population.

Since the year of its inception, the District has been a member of MWD, which is a cooperative organization of 26 cities and water agencies that are responsible for providing imported water to arid southern California. The District is currently entitled to

have one District representative on the MWD Board. Assessed value of property in the service area of the member agency determines how many directors each agency is allowed.

The District currently employs a staff of 120 under the direction of the Board-appointed General Manager. The District's General Manager is a court-appointed Watermaster with responsibilities for reporting compliance with water quality and quantity provisions of court orders regarding water rights issues in the Santa Ana River watershed.

Water Services

The District serves more than 23,000 retail accounts and eight wholesale customers with water from both the Colorado River and the State Water Project purchased from MWD, from the City of Riverside, and from well water. In fiscal year 2012, the District delivered approximately 91,000 acre-feet of water. This is equal to about 30 billion gallons. Approximately 72% of the water Western delivered was treated; the balance was untreated or raw water. About 16% of deliveries were for agricultural uses, and the balance was for domestic purposes. 71% of deliveries were to wholesale customers, and the rest were to retail users.

Wholesale customers that buy water from the District and in turn sell the water to their



Filter basins at MWD's Henry J. Mills Treatment Plant

own customers are: Box Springs Mutual Water Company, City of Corona, City of Norco, City of Riverside, Eagle Valley Mutual Water Company, Elsinore Valley Municipal Water District, Lee Lake Water District, and Rancho California Water District (RCWD).

The only water treatment facility owned by the District is the Arlington Desalter. The Arlington Desalter is a \$32 million, 6.7 million gallons per day (MGD) reverse osmosis water treatment plant that provides approximately 4,900 acre-feet of high quality potable water to the City of Norco by removing millions of pounds of salts from brackish groundwater in the Arlington Basin.



The Woodcrest community within the Riverside service area

Retail Water Services

Western supplies water directly to about 23,000 agricultural and domestic users in the areas of El Sobrante, Eagle Valley, Temescal Creek, Woodcrest, Lake Mathews, March Air Reserve Base, Rainbow Canyon, and portions of the City of Riverside. In addition, Western provides water to approximately 2,500 customers within a 6.5 square mile area in and around historic downtown Murrieta. The Murrieta service area, unlike most of Western's retail service areas, has local groundwater that supplements imported water supplies.

Sewer Services

Western Water Recycling Facility

The District owns and operates the Western Water Recycling Facility, providing wastewater collection and treatment for the March Air Reserve Base and other residential and commercial customers located southeast of the City of Riverside.

Western Riverside County Regional Wastewater Authority (WRCRWA) Wastewater Treatment Plant

WRCRWA was formed in 1992 as a Joint Exercise of Powers Agency to construct, maintain, operate and manage facilities for the collection, transmission, treatment and disposal of wastewater, the reclamation of wastewater and the use of reclaimed wastewater for any beneficial purpose. The District is one of the five member agencies comprising WRCRWA. Since 1998, the District has been the contract operator of the WRCRWA wastewater treatment plant located near the Santa Ana River west of the City of Norco. The operations contract with WRCRWA is ongoing, yet can be cancelled by either party with a 60-day notice. The treatment plant has a total capacity of 8.0 MGD, and currently processes an average of 6.0 MGD from residential and commercial wastewater customers, some of which are in the District's retail service area. Of the total plant capacity of 8.0 MGD, the District owns capacity rights of 1.93 MGD. Wastewater flows from District customers total approximately 0.78 MGD, or 40% of the District's capacity right.

Murrieta Service Area

The Murrieta service area provides wastewater collection and transmission services to approximately 2,100 customers surrounding the historic downtown area of the City of Murrieta. Treatment of approximately 580,000 gallons per day of wastewater from the Murrieta area is provided under contract by RCWD. Eastern Municipal Water District (EMWD) provides treatment services to 71 Murrieta commercial customers. RCWD and EMWD invoice the District monthly for services. The District passes through these charges, plus an administrative and maintenance charge, to its customers.

Inland Empire Brine Line

The Inland Empire Brine Line, formerly known as the Santa Ana Regional Interceptor (SARI), is an industrial wastewater disposal system owned by the Santa Ana Watershed Project Authority (SAWPA). The Brine Line is designed to convey 30 MGD of non-reclaimable wastewater from the upper Santa Ana River basin area to the ocean for disposal after treatment by the Orange County Sanitation District. The non-reclaimable wastewater consists of desalter brine concentrate and industrial wastewater. The District is a member agency of SAWPA and is contracted by SAWPA for administration, operation and maintenance of the Brine Line for approximately 80% of the 73-mile pipeline system. The District operates a trucked wastewater disposal station located at the City of Corona's Wastewater Treatment Plant #1, which has a connection to the Brine Line.

Economic Conditions and Outlook

As with all industries, the water industry is affected by a wide variety of economic factors, including legislative action, regulatory requirements, labor force skill and availability, etc. Three major factors that particularly affect the District are: (1) the availability and cost of imported water, (2) energy costs, and (3) the economic downturn.

While the current drought may have ended, the goal of water use efficiency still remains. As stewards of this natural resource, it is incumbent upon us to help communicate the value of this resource and assist our customers in using it wisely. In October 2011, the District implemented a revenue neutral water budget rate structure for retail treated water customers. This structure provides a site-specific efficient water budget to meet each individual customer's indoor and outdoor water needs. This structure is not intended to change lifestyles, but rather to assist in using water resources efficiently. Customers that are inefficient in their water use pay progressively higher rates to recover the cost of additional water supplies to meet the demand.

Other than limited groundwater sources in the Murrieta service area, the District relies exclusively on MWD and the City of Riverside for treated water for its retail customers. MWD continues to experience increases in the cost of acquiring water and delivering that water to member agencies, such as Western. As a result, MWD's Tier 1 rate for full

service treated water will increase from \$794 per acre-foot to \$847 per acre-foot on January 1, 2013. Western is limited to 20,457 acre-feet of water that can be purchased at the Tier 1 rate for its retail customers, and each additional acre-foot of water is charged at the Tier 2 rate, which is \$150 higher than the Tier 1 rate.



View from the shore of Lake Mathews, terminus of the Colorado River Aqueduct. Western's 10 million gallon La Sierra tank is at the base of the opposing shore, and the 1.3 million gallon Old Lake tank is on top of the hill.

The energy price and supply volatility experienced by the District (and indeed all of southern California) in the early-to-mid 2000s has abated somewhat. This can be attributed to a number of supply side and demand side factors. Although the regional electric grid still can be challenged during the hottest summer months, rolling brown-outs or black-outs have not been experienced in recent years. Absent large-scale natural disasters, both electricity and natural gas supplies are expected to remain stable in the near future with prices closely tracking the nominal inflation rate. However, as the AB 32 program matures, it may impact both energy prices and availability; the scope and extent of these potential impacts are unknown. Finally, the State of California's mandate that 33% of power companies' supply portfolio come from renewable sources by 2020 will have an unknown impact on future price increases.

Because of the historically strong growth in property tax revenue, the District has relied on property tax revenue to buffer the increases in operating expenses related to delivering water to retail customers, and to provide a source of capital for investment in regional water infrastructure. Until December 2007, the District maintained this policy and had not raised rates for treated water since 1998, and not since 1995 for agricultural water. As a result of the shift of property tax revenue to the State during its budget crisis in fiscal years 2005 and 2006, property tax revenue was significantly reduced in those years. Although the potential for the State to take similar action in the future has abated, the District has begun to reduce its dependence on property taxes. During 2010 the Board of

Directors of Western approved a new \$0.07 per hundred cubic feet (HCF) Water Reliability Charge with revenue set aside specifically to pay for future capital projects that will increase system reliability and develop local water sources. This charge will increase by \$0.07 per HCF each January 1st through 2015. Water rate increases will likely continue in the future due to increased costs of labor, energy and imported water from MWD.

Growth in the communities served by the District has slowed dramatically as a result of the downturn in the economy. With the recent sluggish recovery of the economy, the District's assessed valuation in the past several years decreased by approximately 0.4% to \$76.1 billion in fiscal year 2012, from \$76.4 billion in fiscal year 2011. Additionally, the lack of growth in the service area continues to keep property taxes stagnant. The District received \$15.2 million in property tax revenue for fiscal year 2012, up from \$15.1 million in fiscal year 2011, an increase of only 0.7%.

Riverside County's population growth is expected to remain slow, reflecting the cautious return of builders in new housing construction and slow improvement in the local job market. The population of Riverside County remained flat at 2.2 million in fiscal year 2012. Nevertheless, the District continues to plan for and construct the necessary infrastructure to accommodate the significant long-term growth expected in the region. In addition, the District is aggressively pursuing alternative sources of water and expanding conservation efforts, as well as developing increased use of non-potable and reclaimed water where appropriate.

Major Initiatives

Since growth in the District's service area will eventually return, efforts to reduce regional dependence on imported water are at the forefront of District planning and construction activities. With the exception of wells in the District's Murrieta service area and water from the Arlington Desalter, the source of the District's water is external. Unplanned outages at MWD's filtration plants as well as the ever-present threat of regional drought conditions necessitates that the District pursue projects that will create more reliable local water supplies and reduce its dependence on imported water.

Chino Basin Desalter Authority

The Chino Basin Desalter Authority (CDA) is a joint powers authority comprised of Western, Inland Empire Utilities Agency, Jurupa Community Services District, Santa Ana River Water Company, and the cities of Chino, Chino Hills, Norco and Ontario. As a member of the CDA, Western is the program manager for the Chino Desalter Phase 3 Expansion Project. This project includes expanding the Chino II Desalter, expanding the raw water well fields, and adding additional product water delivery facilities. The Phase 3 Expansion Project will also facilitate hydraulic control of the Chino Basin to protect downstream water quality in Orange County. Completion of the entire project will increase the total desalter water production from 24,600 to 35,200 acre-feet per year (AFY). As a result, Western will receive 3,534 AFY and Jurupa Community Services

District and the City of Ontario will each receive an additional 3,533 AFY to add to their current desalter supply. The total project cost is estimated to be approximately \$120 million, with Western's share totaling \$49 million. Western's cost is reduced through grant funding. Project grant funding currently totals \$19 million, with another \$51 million committed. A financial incentive agreement has been signed with MWD that provides an offset to operating costs of up to \$139 per acre-foot of water produced.

Water Use Efficiency Initiatives

- **FreeSprinklerNozzles.com – A High-Efficiency Sprinkler Nozzle Distribution Program:** First launched in the summer of 2010, FreeSprinklerNozzles.com is a web-based high efficiency irrigation nozzle distribution program. Participants are directed to the FreeSprinklerNozzles.com website through various marketing techniques in order to obtain a voucher for free Precision™ Series Spray Nozzles, redeemable at local irrigation supply stores. Installation training is available online. Customers can easily install the nozzles in existing irrigation systems and immediately save water without making adjustments to their irrigation controller programming.

Through June 30, 2012, the FreeSprinklerNozzles.com program has distributed more than 320,000 nozzles within Western's general service area. The estimated lifetime water savings as a result of this program has exceeded 6,400 acre-feet. Since its launch, the program has expanded to include 17 additional participating water agencies, both within and outside of Western's general service area. To date, more than 305,000 nozzles have been distributed outside the District's general service area, yielding nearly 6,100 additional acre-feet of water saved in partnership with other water providers.

FreeSprinklerNozzles.com offers a large water savings potential due to the huge volume of non-efficient nozzles currently installed throughout southern California. The program is easily scalable, offering an unprecedented opportunity to promote landscape water efficiency through regional collaboration.

- **Western Smart Yard – A Smart Controller Installation Program:** Western's Smart Yard program is a turnkey smart controller installation program in direct partnership with our retail water customers. Participants are identified by the potential water savings based on recent consumption history. Smart Yard is designed to reduce the outdoor demand for water by targeting and reducing landscape water waste through intelligent irrigation scheduling. The smart controller technology automatically adjusts watering schedules based on changing local weather. The program targets approximately 400 high water use accounts annually, both commercial and residential, within the retail service area. The program includes a landscape water use assessment, a weather-based irrigation controller, professional installation, five years of Weather and Customer Service, and routine follow-up support.

Strategic Information Technology (IT) Master Plan (SITMP)

The District has embarked on the fulfillment of its Strategic IT Master Plan; the original plan was developed in 2006, and a major update was completed in 2011. SITMP provided the District with an assessment of its current IT infrastructure and identified all of the current key business processes based on extensive interaction with District staff. In addition, from these meetings with staff, a strategic vision and goals document was developed along with the identification of desired service levels. Implementation of SITMP is a long-term, multi-year process. This process enables the District to improve response to current and future business drivers and achieve its mission in an efficient and effective manner, supported by integrated technology that crosses departments. The District has completed implementation of several major initiatives and is now in the process of implementing additional improvements:

- **Computerized Work Management System (CWMS)** – This system will automate maintenance scheduling and manage operational work flows, as well as expand into a full enterprise asset management system for assessing life-cycle costs, identifying repair/replacement priorities, and guiding financial modeling and Capital Improvement Project planning. The project went live on October 22, 2012. The project team and staff will continue to work on the system as the District becomes familiar with its use. Full functionality of the system with additional features, including SCADA interface and mobile functionality, are anticipated to be completed in late 2013.

Human Capital Plan

The District conducted an assessment of existing workforce processes and practices in 2011, which led to the development and implementation of a Human Capital Plan. The goal of the Plan is to strengthen efforts to ensure that the District reaches its vision of “developing a leading-edge workforce that continuously creates greater efficiency and value for our customers.” Efforts have centered on the identification of human capital goals and the development of a roadmap to guide the District’s efforts. This has resulted in identifying eight human capital initiatives: 1) Job Description Review and Development of Career Paths, 2) Strategic Workforce Planning, 3) Centralized Learning and Development, 4) Leadership Development, 5) Talent Review and Succession Planning, 6) Knowledge Transfer, 7) Employee Engagement Survey and 8) Human Capital Metrics. Each initiative was selected to bring value to employees in the form of enhanced communication, developing opportunities to encourage positive workplace relationships, and creating an environment where employee talents are at the forefront. By developing and enhancing the efforts of the Human Capital Plan, these endeavors will be integrated into the District’s culture.

Financial Policies

The District has formally adopted the following financial policies:

Cash Reserve Policy

The policy states the purpose, source and funding limits for each of its designated reserves. These reserves have been established to meet internal requirements and/or external legal requirements. These policy guidelines enable restricting funds for future infrastructure needs, replacement of aging facilities, bond reserves and various operating reserves to mitigate unexpected occurrences. These reserves are critical to the District's financial strength and high bond rating.

Debt and Financial Management Policy

The District's debt and financial management policy is designed to establish parameters for issuing debt and provide guidance to decision makers with respect to all options available to finance infrastructure and other capital projects so that the most prudent, equitable and cost-effective method of financing can be chosen. The policy also documents the objectives to be achieved by staff both prior and subsequent to debt issuance. It promotes objectivity in the decision-making process and facilitates the financing process by establishing important policy decisions in advance.

Interest and Financial Risk Management Policy

The purpose of this policy is to establish guidelines for the use and management of all interest rate and risk management agreements incurred in connection with the expected issuance of new bonds, notes and other obligations, or to accompany bonds already issued, or to manage other risks of the District. This policy sets forth the manner of execution of swaps and provides for security and payment provisions, risk considerations and certain other relevant provisions in the context of being responsive to the 2003 Recommended Practices of the Government Finance Officers Association (GFOA) regarding the contents of an interest rate swap and financial risk management policy.

Investment Policy

The investment policy is intended to outline the guidelines and practices to be used in effectively managing the District's available cash and investment portfolio. It applies to all cash and investment assets of the District except those funds maintained in Deferred Compensation accounts for employees. All District monies, including those not required for immediate expenditure, are to be invested in compliance with governing provisions of law (California Government Code Sections 53600 et seq.). The policy lists in detail authorized investments as well as the percentage of portfolio limitations and required ratings for each investment type.

Accounting System

The Finance Department is responsible for providing financial services for the District, including financial accounting and reporting, accounts payable and receivable, purchasing, custody and investment of funds, billing and collection of water and wastewater charges, taxes, and other revenues. The District accounts for its activities as an enterprise fund and prepares its financial statements on the accrual basis of accounting, under which revenues are recognized when earned and expenses are recorded when liabilities are incurred. It is the intent of the Board of Directors to manage the District's operations as a business, thus matching revenues against the costs of providing the services.

Internal Controls

The District operates within a system of internal accounting controls established and continually reviewed by management to provide reasonable assurance that assets are adequately safeguarded and transactions are recorded in accordance with District policies and procedures. When establishing and reviewing controls, management must consider the cost of the control and the value of the benefit derived from its utilization. Management normally maintains or implements only those controls for which its value adequately exceeds its costs. Recent audits have not noted any weaknesses in internal controls.

Budgetary Controls

Though the District is not legally required to adopt and adhere to a budget or present budgetary comparison information, the Board has chosen to approve a two-year operating budget as a management tool. Quarterly comparison reports of budget to actual are prepared and presented at a summary level to the Board along with explanations of significant variances.

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 Western Municipal Water District for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2011. This was the seventh year that the District has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both GAAP 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.

We would like to express our appreciation to the Finance Department staff and the independent accounting firm of Rogers, Anderson, Malody & Scott, LLP for the efforts made to prepare this report. We would also like to thank the Board of Directors for their continued interest and support in all aspects of the District's financial management.

Respectfully submitted,



John V. Rossi
General Manager



Rod LeMond
Assistant General Manager /
Chief Financial Officer

.....

“It is the mission of Western Municipal Water District to provide water supply, wastewater disposal and water resource management to the public in a safe, reliable, environmentally sensitive, and financially responsible manner.”

.....

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Western Municipal Water District
of Riverside County, California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

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



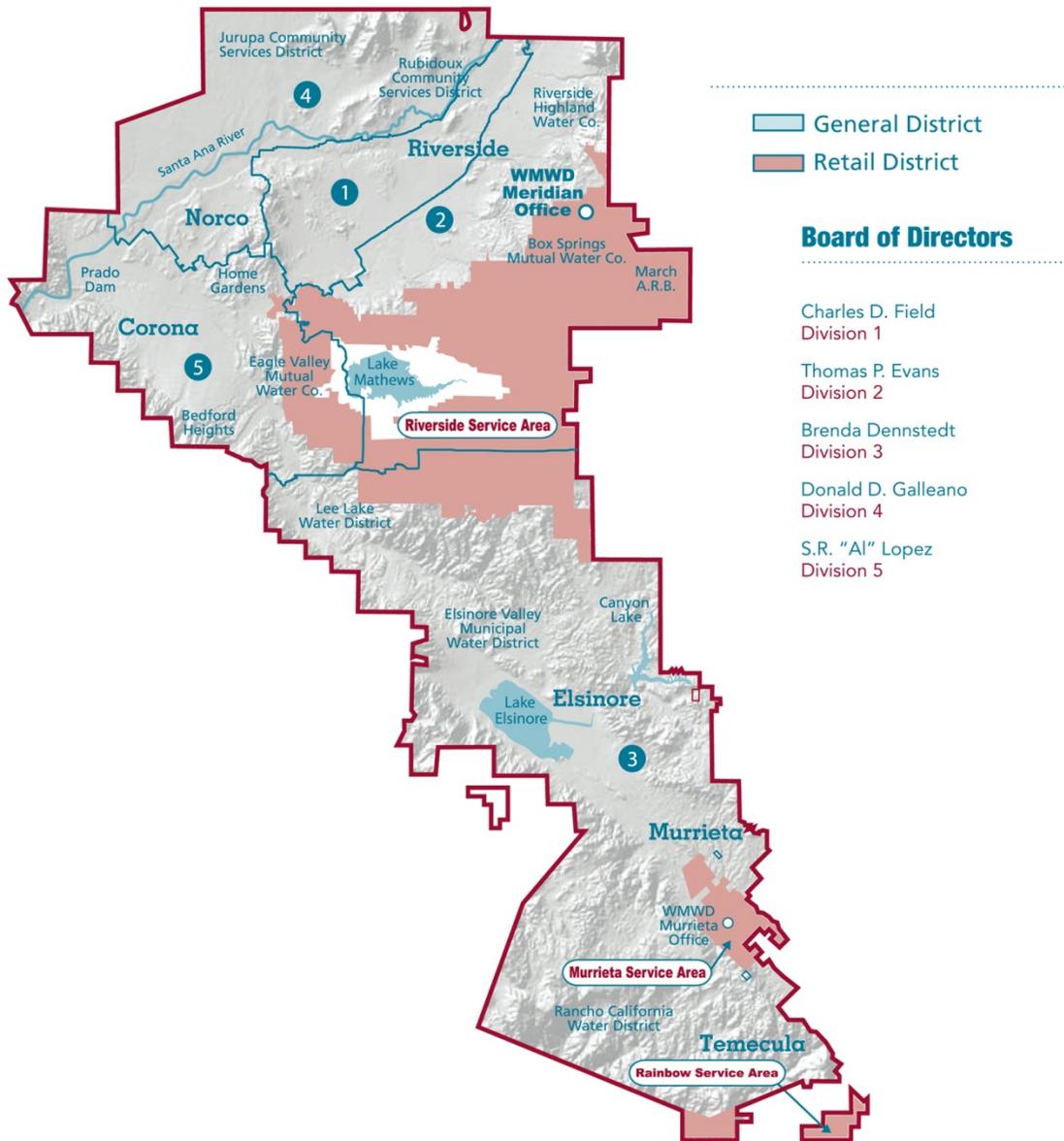
Christopher P. Moynell

President

Jeffrey R. Emer

Executive Director

Western Municipal Water District District Service Area Map



Western Municipal Water District
District Officials
At June 30, 2012

ELECTED BOARD OF DIRECTORS

Length of Service

Charles D. Field, Division 1	5 years
Thomas P. Evans, Division 2, Secretary-Treasurer	5 years
Brenda Dennstedt, Division 3	5 years
Donald D. Galleano, Division 4, President	7 years
S. R. "Al" Lopez, Division 5, Vice President	11 years

DISTRICT EXECUTIVE MANAGEMENT TEAM

John V. Rossi, General Manager	8 years
Jeffrey D. Sims, Deputy General Manager	17 years
Rod LeMond, Asst. General Manager, Chief Financial Officer	3 years
Paul Rugge, Asst. General Manager, Chief Operating Officer	7 years
Joseph J. Bernosky, Director of Engineering	6 years
Lonnie Clabaugh, Director of Operations	28 years
Greg Duecker, Director of Administration	6 years
Kevin C. Mascaro, Director of Finance	8 years
Jack S. Safely, Director of Water Resources	6 years
Stephen T. Schultz, Deputy Director of Operations	4 years
Timothy T. Barr, Water Use Efficiency Manager	3 years
Thomas D. McMillen, Administrative Services Manager	6 years
Michele McKinney Underwood, Community Affairs Manager	10 years
Nora K. Verceles, Human Resources Manager	4 years

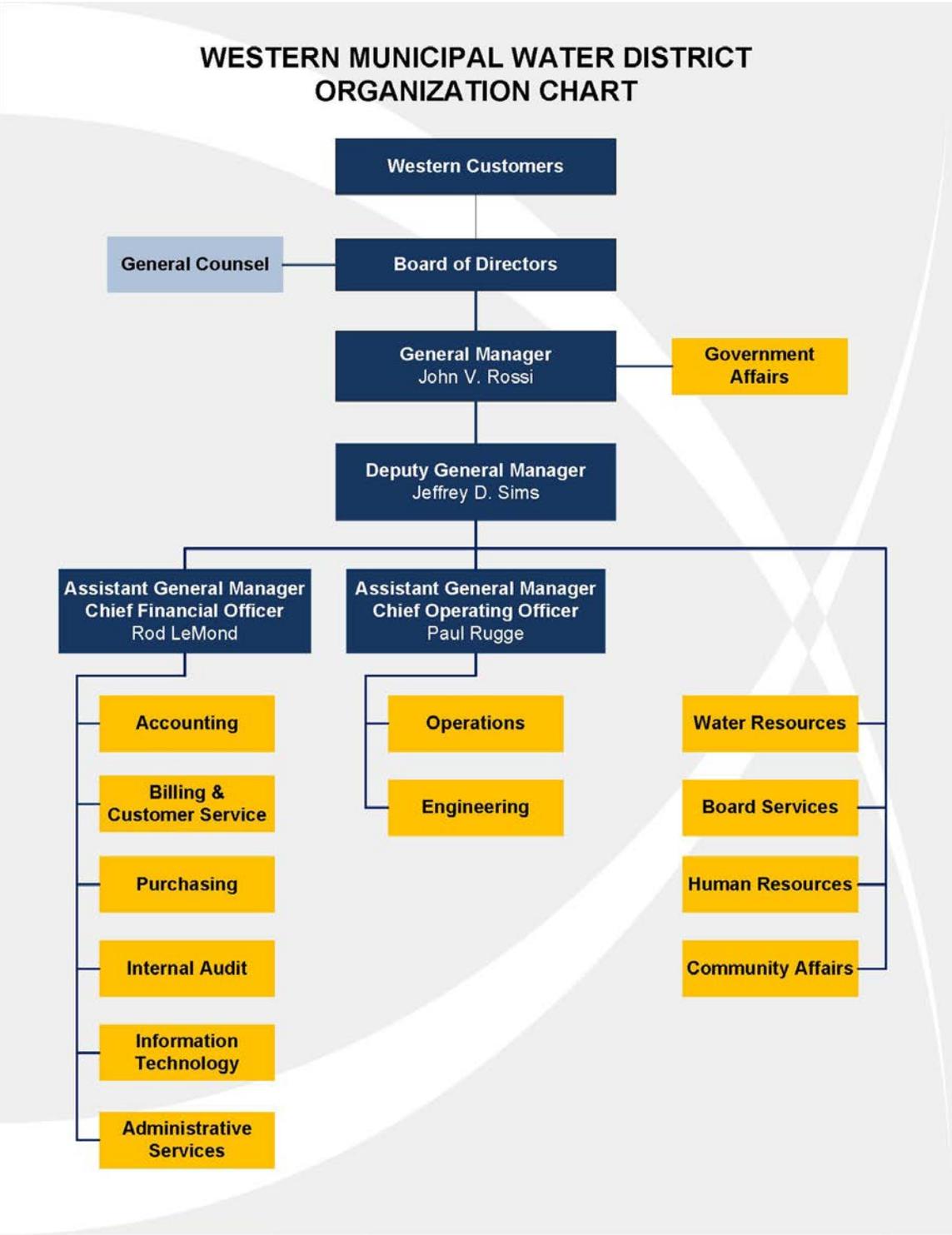
GENERAL COUNSEL

Best, Best & Krieger, LLP	57 years
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CONSULTING ENGINEER

Albert A. Webb Associates	57 years
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**WESTERN MUNICIPAL WATER DISTRICT
ORGANIZATION CHART**



FINANCIAL SECTION



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ROGERS, ANDERSON, MALODY & SCOTT, LLP
CERTIFIED PUBLIC ACCOUNTANTS, SINCE 1948

735 E. Carnegie Dr. Suite 100
San Bernardino, CA 92408
909 889 0871 T
909 889 5361 F
ramscca.net

Independent Auditor's Report

PARTNERS

Brenda L. Odle, CPA, MST
Terry P. Shea, CPA
Kirk A. Franks, CPA
Matthew B. Wilson, CPA, MSA
Scott W. Manno, CPA
Leena Shanbhag, CPA, MST
Jay H. Zercher, CPA (Retired)
Phillip H. Waller, CPA (Retired)

MANAGERS / STAFF

Nancy O'Rafferty, CPA, MBA
Bradferd A. Welebir, CPA, MBA
Jenny Liu, CPA, MST
Katie L. Millsom, CPA
Papa Matar Thiaw, CPA, MBA
Maya S. Ivanova, CPA, MBA
William C. Clayton, CPA
Peter E. Murray, CPA
Genivive Schwarzkopf, CPA
Megan Hackney, CPA
Seong-Hyea Lee, CPA, MBA
Charles De Simoni, CPA

**Board of Directors
Western Municipal Water District
Riverside, California**

We have audited the accompanying basic financial statements of the Western Municipal Water District (District), as of and for the years ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2012 and 2011, and the changes in financial position and cash flows thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2013 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

MEMBERS

American Institute of
Certified Public Accountants

*PCPS The AICPA Alliance
for CPA Firms*

*Governmental Audit
Quality Center*

California Society of
Certified Public Accountants

To the Board of Directors
Western Municipal Water District

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis*, as listed in the table of contents, 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 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 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.

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

Rogers Anderson Maloney & Scott, LLP

January 25, 2013



ROGERS, ANDERSON, MALODY & SCOTT, LLP
CERTIFIED PUBLIC ACCOUNTANTS, SINCE 1948

735 E. Carnegie Dr. Suite 100
San Bernardino, CA 92408
909 889 0871 T
909 889 5361 F
ramscca.net

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Riverside, California

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**Report 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**

We have audited the financial statements of Western Municipal Water District (District), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 25, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal control over financial reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or 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.

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

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Compliance and other matters

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

This report is intended solely for the information and use of management, the governing Board, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Rogers Anderson Matoly & Scott, LLP

January 25, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the years ended June 30, 2012 and 2011. We encourage readers to consider the information presented here in conjunction with the preceding Independent Auditor's Report, and the accompanying basic financial statements and notes to the financial statements.

Overview

The District

Western Municipal Water District of Riverside County was formed in 1954 under the Municipal Water District Act of 1911 for the purpose of bringing supplemental water from the Metropolitan Water District to growing western Riverside County. The District operates under the authority of the California Water Code and engages in various activities classified as "proprietary." The primary activities of the District include sale and delivery of potable and non-potable water to wholesale, domestic, agricultural and commercial accounts, as well as the collection, treatment and disposal of wastewater. The District also provides both operating and administrative contract services to other agencies within its 527 square mile service area.

Required Financial Statements

The financial statements of the District report information utilizing the full accrual basis of accounting and conform to accounting principles that are generally accepted in the United States of America. The financial statements consist of three interrelated statements designed to provide the reader with relevant, understandable data on the District's financial condition and operating results. They are the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows.

The *Statement of Net Assets* presents information on the District's assets and liabilities, and provides information about the nature and amounts of investments in resources (assets) and obligations to District creditors (liabilities) with the difference between the two being reported as Net Assets. Over time, increases and decreases in Net Assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. However, one must consider other non-financial factors such as changes in economic conditions, population growth, zoning, and new or changed government legislation.

The *Statement of Revenues, Expenses and Changes in Net Assets* identifies the District's revenues and expenses for the fiscal year. It provides information on the District's operations over the past fiscal year and can be used to determine whether the District has recovered all of its projected costs through user fees, tax revenues and other service-related charges.

The *Statement of Cash Flows* presents information regarding the District's cash receipts and cash payments for the period categorized according to whether they stem from operating activities, non-capital financing activities, capital and related financing activities or investing activities. From this statement, the reader can obtain comparative information on the sources and uses of the District's cash.

The *Notes to Financial Statements* provide additional information that is essential to a full understanding of the data provided in the basic financial statements and are an integral part of the financial statements.

Summary Financial Information and Analysis

The District's statement of net assets remains strong, providing a foundation for continued growth within the District's service area. Historically, the District experiences a loss at the operating level, meaning operating revenues are less than operating expenses. In the past, this loss has been offset by net non-operating revenues, primarily from property tax revenue and investment earnings. However, during fiscal years 2012 and 2011, net non-operating revenues were not sufficient to cover net operating losses. Explanations for this are provided in the discussion that follows.

Statements of Net Assets

The following tables compare the various categories of assets, liabilities and net assets for each of the consecutive fiscal years:

Condensed Statements of Net Assets as of June 30, 2012 and 2011

	As of June 30,		Increase (Decrease)	
	2012	2011	\$ Change	% Change
Assets				
Current	\$ 107,885,386	\$ 106,117,081	\$ 1,768,305	1.7%
Non-current:				
Capital	359,179,798	354,299,825	4,879,973	1.4%
Other	63,471,929	78,353,543	(14,881,614)	-19.0%
Total Assets	\$ 530,537,113	\$ 538,770,449	\$ (8,233,336)	-1.5%
Liabilities				
Current	\$ 26,845,158	\$ 32,379,043	\$ (5,533,885)	-17.1%
Non-current	154,157,323	158,416,052	(4,258,729)	-2.7%
Total Liabilities	\$ 181,002,481	\$ 190,795,095	\$ (9,792,614)	-5.1%
Net Assets				
Invested in capital assets, net of related debt	\$ 232,667,339	\$ 235,918,546	\$ (3,251,207)	-1.4%
Restricted for debt service	144,619	144,619	-	0.0%
Restricted for capacity charges	23,298,893	26,151,035	(2,852,142)	-10.9%
Unrestricted	93,423,781	85,761,154	7,662,627	8.9%
Total Net Assets	\$ 349,534,632	\$ 347,975,354	\$ 1,559,278	0.4%

Continued on next page

Condensed Statements of Net Assets as of June 30, 2011 and 2010

	As of June 30,		Increase (Decrease)	
	2011	2010	\$ Change	% Change
Assets				
Current	\$ 106,117,081	\$ 99,795,706	\$ 6,321,375	6.3%
Non-current:				
Capital	354,299,825	333,455,713	20,844,112	6.3%
Other	78,353,543	58,852,905	19,500,638	33.1%
Total Assets	\$ 538,770,449	\$ 492,104,324	\$ 46,666,125	9.5%
Liabilities				
Current	\$ 32,379,043	\$ 33,644,306	\$ (1,265,263)	-3.8%
Non-current	158,416,052	110,399,514	48,016,538	43.5%
Total Liabilities	\$ 190,795,095	\$ 144,043,820	\$ 46,751,275	32.5%
Net Assets				
Invested in capital assets, net of related debt	\$ 235,918,546	\$ 240,276,365	\$ (4,357,819)	-1.8%
Restricted for debt service	144,619	144,619	-	0.0%
Restricted for capacity charges	26,151,035	29,118,573	(2,967,538)	-10.2%
Unrestricted	85,761,154	78,520,947	7,240,207	9.2%
Total Net Assets	\$ 347,975,354	\$ 348,060,504	\$ (85,150)	-0.02%

Assets

During the fiscal year ended June 30, 2012, total assets decreased by \$8.2 million, or 1.5%. This reduction is due to an increase in current assets of \$1.8 million, or 1.7%, offset by a decrease of non-current assets of \$10.0 million, or 17.6%. This change was primarily due to a net decrease in cash and investments.

During the fiscal year ended June 30, 2011, total assets increased by \$46.7 million, or 9.5%. This increase was due to several factors, including a \$20.8 million, or 6.3%, net increase in capital assets. The increase in capital assets resulted primarily from contributed capital assets from developers (\$4.0 million); construction costs related to the Western Water Recycling Facility expansion, second phase (\$10.7 million); new Headquarters Building (\$4.5 million); Chino Basin Desalter Expansion (\$2.9 million); new Operations Center (\$1.6 million); River Road bridge pipelines (\$1.1 million); and various other capital projects (\$6.4 million), less depreciation (\$9.8 million) and other reductions, net (\$0.8 million). Additional information regarding capital assets can be found in Note 6 of the Notes to the Basic Financial Statements.

Liabilities

During the year ended June 30, 2012, total liabilities decreased by \$9.8 million, or 5.1%. This change was primarily due to a reduction in overall liabilities, including accounts payable, bonds and notes payable, and deferred SWAP inflow. Information on the District's long-term debt activity and SWAP activity can be found in Notes 7 and 8, respectively, of the Notes to the Basic Financial Statements.

During the year ended June 30, 2011, total liabilities increased by \$46.8 million, or 32.5%. This change was primarily due to \$52.3 million in Series 2010 Bonds issued during fiscal year 2011. These bonds were issued to generate funds to finance the acquisition and construction of major water and wastewater facilities. Information on the District's long-term debt activity can be found in Note 7 of the Notes to the Basic Financial Statements.

Net Assets

Net assets is the difference between the District's assets and liabilities. Net assets increased during fiscal year 2012 by \$1.6 million, or 0.4%. Net assets are classified into four categories: 1) Invested in Capital Assets, Net of Related Debt, 2) Restricted for Debt Service, 3) Restricted for Capacity Charges, and 4) Unrestricted. During fiscal year 2011, net assets decreased by \$85,150, or 0.02%.

Invested in Capital Assets, Net of Related Debt – The amount invested in capital assets, net of related debt, is the carrying value of capital assets less accumulated depreciation and less any liability outstanding related to the capital assets. The amount as of June 30, 2012 and 2011 was \$232.7 million and \$235.9 million, respectively. The \$3.3 million, or 1.4% decrease, and \$4.4 million, or 1.8% decrease, in fiscal years 2012 and 2011, respectively, are detailed in the next two tables.

Invested in Capital Assets, Net of Related Debt as of June 30, 2012 and 2011

	<u>As of June 30,</u>		<u>Increase (Decrease)</u>	
	<u>2012</u>	<u>2011</u>	<u>\$ Change</u>	<u>% Change</u>
Plant, building and improvements	\$ 367,349,159	\$ 302,396,693	\$ 64,952,466	21.5%
Intangible plant	34,679,018	34,106,219	572,799	1.7%
Construction in progress	29,965,201	81,799,092	(51,833,891)	-63.4%
Land and land improvements	11,661,026	10,757,900	903,126	8.4%
Equipment and vehicles	13,062,049	12,564,819	497,230	4.0%
Total Capital Assets	\$ 456,716,453	\$ 441,624,723	\$ 15,091,730	3.4%
Less Accumulated Depreciation	(97,536,655)	(87,324,898)	(10,211,757)	11.7%
Capital Assets, Net	\$ 359,179,798	\$ 354,299,825	\$ 4,879,973	1.4%
Less Related Debt:				
SAWPA brineline capacity use obligation	381,369	173,810	207,559	119.4%
WRCRWA State Water Resources Control Board	184,477	212,365	(27,888)	-13.1%
Assessment District 90-1	475,465	568,833	(93,368)	-16.4%
2009 Series A bonds	-	30,254,763	(30,254,763)	-100.0%
2009 Series B bonds	48,210,176	49,906,098	(1,695,922)	-3.4%
2010 Series B bonds	38,832,835	27,337,727	11,495,108	42.0%
2012 Series A bonds	29,638,420	-	29,638,420	
Note on Archer land	23,493	45,867	(22,374)	-48.8%
Note on Headquarters Building	8,656,264	9,623,903	(967,639)	-10.1%
Note on CWMS	109,960	257,913	(147,953)	-57.4%
Invested in Capital Assets, Net of Related Debt	\$ 232,667,339	\$ 235,918,546	\$ (3,251,207)	-1.4%

Invested in Capital Assets, Net of Related Debt as of June 30, 2011 and 2010

	<u>As of June 30,</u>		<u>Increase (Decrease)</u>	
	<u>2011</u>	<u>2010</u>	<u>\$ Change</u>	<u>% Change</u>
Plant, building and improvements	\$ 302,396,693	\$ 267,656,096	\$ 34,740,597	13.0%
Intangible plant	34,106,219	23,385,735	10,720,484	45.8%
Construction in progress	81,799,092	96,293,268	(14,494,176)	-15.1%
Land and land improvements	10,757,900	7,945,523	2,812,377	35.4%
Equipment and vehicles	12,564,819	16,268,836	(3,704,017)	-22.8%
Total Capital Assets	\$ 441,624,723	\$ 411,549,458	\$ 30,075,265	7.3%
Less Accumulated Depreciation	(87,324,898)	(78,093,745)	(9,231,153)	11.8%
Capital Assets, Net	\$ 354,299,825	\$ 333,455,713	\$ 20,844,112	6.3%
Less Related Debt:				
SAWPA brineline capacity use obligation	173,810	339,342	(165,532)	-48.8%
WRCRWA State Water Resources Control Board	212,365	239,494	(27,129)	-11.3%
Assessment District 90-1	568,833	662,201	(93,368)	-14.1%
2009 Series A bonds	30,254,763	30,820,627	(565,864)	-1.8%
2009 Series B bonds	49,906,098	50,497,450	(591,352)	-1.2%
2010 Series B bonds	27,337,727	-	27,337,727	
Note on Archer land	45,867	67,176	(21,309)	-31.7%
Note on Headquarters Building	9,623,903	10,553,058	(929,155)	-8.8%
Note on CWMS	257,913	-	257,913	
Invested in Capital Assets, Net of Related Debt	\$ 235,918,546	\$ 240,276,365	\$ (4,357,819)	-1.8%

Restricted for Debt Service – At June 30, 2012 and 2011, the amount restricted for debt service was \$144,619 for both years, and equals the reserve requirement for Assessment District 90-1 Bonds. Additional information related to the debt and all other District long-term debts can be found in Note 7 of the Notes to the Basic Financial Statements.

Restricted for Capacity Charges – The \$23.3 million and \$26.2 million at June 30, 2012 and 2011, respectively, reflect Added Facilities Charges and Distribution System Fees received from land owners and developers for the future expansion of water distribution and wastewater treatment and conveyance systems. An equivalent amount is reported in the Assets section of the Statement of Net Assets as part of the Restricted Investments line item (classified as Capacity Charges in Note 3 of the Notes to the Basic Financial Statements). A restricted asset is an asset for which constraints have been placed on the asset's use by creditors, contributors, laws or regulations of other governments, or a consequence of a restriction established by the District at the time a particular fee, charge, levy or assessment was approved (as is the case with these Capacity Charges). Additional information related to these restricted cash and investments can be found in Note 3 of the Notes to the Basic Financial Statements.

Unrestricted – The unrestricted amount is the portion of Net Assets that the District is not legally bound either through legislation or contractual agreement to restrict for a particular purpose. The total amount of legally unrestricted funds at June 30, 2012 and 2011 was \$93.4 million and \$85.8 million, respectively. Although these funds are not legally restricted, the Board of Directors of the District has designated these funds for various construction projects, system improvements and operations.

Changes in Net Assets

The following tables compare the various categories of revenues, expenses, and changes in net assets for each of the consecutive fiscal years:

Condensed Statements of Revenues, Expenses and Changes in Net Assets for the Fiscal Years Ended June 30, 2012 and 2011

	Fiscal Years Ended June 30,		Increase (Decrease)	
	2012	2011	\$ Change	% Change
Operating Revenue	\$ 91,100,463	\$ 79,471,048	\$ 11,629,415	14.6%
Operating Expenses	(109,559,065)	(100,249,983)	(9,309,082)	9.3%
Net Non-operating Revenue	14,956,215	14,874,129	82,086	0.6%
Changes in Net Assets Before Capital Contributions	(3,502,387)	(5,904,806)	2,402,419	-40.7%
Capital Contributions	5,061,665	5,819,656	(757,991)	-13.0%
Change in Net Assets	1,559,278	(85,150)	1,644,428	-1,931.2%
Net Assets, July 1	347,975,354	348,060,504	(85,150)	-0.02%
Net Assets, June 30	\$ 349,534,632	\$ 347,975,354	\$ 1,559,278	0.4%

Condensed Statements of Revenues, Expenses and Changes in Net Assets for the Fiscal Years Ended June 30, 2011 and 2010

	Fiscal Years Ended June 30,		Increase (Decrease)	
	2011	2010	\$ Change	% Change
Operating Revenue	\$ 79,471,048	\$ 79,126,995	\$ 344,053	0.4%
Operating Expenses	(100,249,983)	(100,280,997)	31,014	-0.03%
Net Non-operating Revenue	14,874,129	17,635,069	(2,760,940)	-15.7%
Changes in Net Assets Before Capital Contributions	(5,904,806)	(3,518,933)	(2,385,873)	67.8%
Capital Contributions	5,819,656	26,824,066	(21,004,410)	-78.3%
Change in Net Assets	(85,150)	23,305,133	(23,390,283)	-100.4%
Net Assets, July 1	348,060,504	324,755,371	23,305,133	7.2%
Net Assets, June 30	\$ 347,975,354	\$ 348,060,504	\$ (85,150)	-0.02%

Combined Revenue

Combined revenue (excluding capital contributions) for fiscal year 2012 totaled \$114.3 million, an increase of \$13.9 million, or 13.8%. The most significant variances from fiscal year 2012 to 2011 were in three revenue categories: water sales (\$9.8 million increase), water service (\$2.0 million increase), and investment earnings (\$1.8 million increase).

Water Sales – The \$9.8 million increase in water sales resulted from the increased passed-through cost of imported water, an increased demand of approximately 9,000 acre-feet of water during the fiscal year, and penalty revenue associated with the District’s new tiered water pricing within the Riverside service area.

Water Service – The \$2.0 million increase in water service was mainly due to the scheduled increase in the water reliability rate, pass-through increases to fixed system charge, as well as an increase in the wholesale service rate.

Investment Earnings – The \$5.6 million in investment earnings comprises \$314,000 in interest on loans to other government agencies, \$3.3 million from investments, \$126,000 in interest on bond proceeds, \$1.0 million in unrealized net gain on investments and \$0.8 million in realized net gain on investments. Realized gains are recorded when investments are sold prior to their maturity date for an amount greater than what the District paid for the investment. Realized gains occur for two reasons: 1) Debt security investments were sold prior to their maturity date in order to generate cash needed to pay for capital projects (infrastructure). Doing this in an interest rate environment that offers similar debt securities at a lower rate than what the District’s debt securities bear results in realized gain. 2) With similar effects as the reason above, debt securities are also sold to “rebalance” the investment portfolio. Rebalancing involves selling one debt security in order to purchase another debt security with a different maturity date and a higher interest rate. This is done deliberately when the long-term benefit of higher interest earnings on the new debt security is greater than the realized gain that occurs when selling the old debt security.

Unrealized gains and losses are different than realized gains and losses in that they are accounting for “paper” entries made in order to report investments at their fair market value rather than their purchase price. This is a requirement of GAAP. When a debt security has a fixed interest rate that is lower than the current market rates, the debt security decreases in market value (loses value). This is because newer debt securities that have a similar level of risk are being offered at a higher rate of interest than the old debt security. This decrease in market value is reported as an unrealized loss (or “paper loss”). If the debt security is sold prior to its maturity date, the loss would become “realized.” When the debt security reaches its maturity date, the unrealized loss associated with the matured debt security is reversed in the financial statements.

The increase in investment earnings was primarily due to a change in unrealized gains and losses on investments. In 2011 the District experienced an unrealized loss of \$0.9 million, whereas in 2012, the District experienced an unrealized gain of \$1.0 million. The District also experienced a decrease of \$217,000 in interest income and an increase in realized net gain on investments of \$78,000. Combined, these changes result in an approximate net increase of \$1.8 million.

Combined revenue (excluding capital contributions) for fiscal year 2011 totaled \$100.4 million, a decrease of \$4.2 million, or 4.0%. The most significant variances from fiscal year 2011 to 2010 are in four revenue categories: investment earnings (\$3 million decrease), other revenues (\$2.4 million decrease), water service (\$1.3 million increase) and property taxes (\$1.2 million decrease).

Investment Earnings – In 2011, the \$3.8 million in investment earnings comprises \$395,000 in interest on loans to other government agencies, \$3.5 million from investments, \$119,000 in interest on bond proceeds, and an unrealized net loss on investments of \$0.9 million, offset by \$0.7 million in a realized net gain on investments.

The decrease in investment earnings was primarily due to a change in unrealized gains and losses on investments. In 2010 the District experienced unrealized gains of \$2.3 million, whereas in 2011, the District experienced unrealized losses of \$0.9 million. The District also experienced an increase of \$265,000 in interest income on investments, including realized net gains on investments of \$0.7 million. Combined, these changes result in a net decrease of \$3.0 million.

Other Revenues – The \$2.4 million decrease in other revenues was primarily due to Metropolitan Water District no longer offering rebate programs for conservation (\$1.3 million decrease). The District also received a one-time gain on a settlement during fiscal year 2010 related to a class action lawsuit over defective valves sold to water agencies (\$0.7 million decrease). In fiscal year 2011, the 20-year local resource program related to the Arlington Desalter expired (\$0.6 million). Decreases in other revenues were also offset by various increases in other revenues (\$0.2 million).

Water Service – The \$1.3 million increase in water service was mainly due to retail water rate increases implemented by the District, which became effective in September 2010 and January 2011.

Property Taxes – Property tax revenue in fiscal year 2011 reflected the decreasing property values within the District's service area resulting from the downturn in the housing market. The county-assessed valuation led to a decrease in property tax revenue of \$1.2 million.

Contractual Services

In addition to providing water and wastewater services, the District provides operations and administrative services to developers and several neighboring agencies. Revenue from these services increased by \$0.4 million, or 23.9%, in fiscal year 2012 compared with 2011 due to an increase in contractual services rendered to WRCRWA for operation and maintenance of the WRCRWA plant.

The amount charged to the agencies and developers for contractual services reflects actual costs, time and materials, as well as an overhead charge. Therefore, an amount similar to the revenue is recorded as contractual services expense in the financial statements.

In fiscal year 2011, revenue from these services decreased by \$0.7 million, or 31.9%, compared with 2010 due to the decrease in contractual services provided to SAWPA for maintenance of the Inland Empire Brine Line. In addition, contractual services rendered to developers decreased, which can be directly associated with the slowdown in the real estate market.

Capital Contributions

During fiscal year 2012, the District experienced a decrease of \$0.8 million, or 13%, in capital contributions. Capital contributions include water and sewer connection fees (capacity charges), contributed assets from developers and grant proceeds. The variance was due to a reduction of grant proceeds of \$2.0 million during fiscal year 2012 compared with 2011, offset by \$1.5 million more developer capital contributions. Capacity charges also decreased by \$0.2 million in fiscal year 2012, resulting in the variance of approximately \$0.8 million.

During fiscal year 2011, the District experienced a decrease of \$21.0 million, or 78.3%, in capital contributions. The variance was primarily due to a reduction of developer capital contributions. The District received \$15.2 million less developer capital contributions during fiscal year 2011 compared with 2010. Being dependent on the completion of property developments within the District's retail service area, these amounts have fluctuated over the past several years as a result of the slow growth in the District's service area. Additionally, capacity charges decreased by \$5.9 million in fiscal year 2011, reflecting the downturn in development as a result of the economy.

Continued on next page

The following tables present a comparison of revenues by category for each of the consecutive fiscal years:

Revenues by Category for the Fiscal Years Ended June 30, 2012 and 2011

Revenue Category	Fiscal Years Ended June 30,		Increase (Decrease)	
	2012	2011	\$ Change	% Change
Water sales	\$ 66,310,917	\$ 56,473,710	\$ 9,837,207	17.4%
Water service	12,479,514	10,477,058	2,002,456	19.1%
Wastewater disposal	10,364,865	10,862,351	(497,486)	-4.6%
Contractual services	1,945,167	1,569,409	375,758	23.9%
Property taxes	15,221,864	15,106,222	115,642	0.8%
Investment earnings	5,578,084	3,802,288	1,775,796	46.7%
Capacity rights sales	828,459	997,710	(169,251)	-17.0%
Intergovernmental revenue	844,020	621,505	222,515	35.8%
Other	700,798	475,067	225,731	47.5%
Total Revenues	\$ 114,273,688	\$ 100,385,320	\$ 13,888,368	13.8%
Capital contributions	5,061,665	5,819,656	(757,991)	-13.0%
Total Revenues and Capital Contributions	\$ 119,335,353	\$ 106,204,976	\$ 13,130,377	12.4%

Revenues by Category for the Fiscal Years Ended June 30, 2011 and 2010

Revenue Category	Fiscal Years Ended June 30,		Increase (Decrease)	
	2011	2010	\$ Change	% Change
Water sales	\$ 56,473,710	\$ 56,223,768	\$ 249,942	0.4%
Water service	10,477,058	9,127,539	1,349,519	14.8%
Wastewater disposal	10,862,351	10,723,639	138,712	1.3%
Contractual services	1,569,409	2,303,612	(734,203)	-31.9%
Property taxes	15,106,222	16,262,545	(1,156,323)	-7.1%
Investment earnings	3,802,288	6,826,692	(3,024,404)	-44.3%
Capacity rights sales	997,710	163,118	834,592	511.6%
Intergovernmental revenue	621,505	-	621,505	
Other	475,067	2,910,470	(2,435,403)	-83.7%
Total Revenues	\$ 100,385,320	\$ 104,541,383	\$ (4,156,063)	-4.0%
Capital contributions	5,819,656	26,824,066	(21,004,410)	-78.3%
Total Revenues and Capital Contributions	\$ 106,204,976	\$ 131,365,449	\$ (25,160,473)	-19.2%

Combined Expenses

Combined expenses for fiscal year 2012 totaled \$117.8 million, an increase of \$11.5 million, or 10.8%. The most significant variances from fiscal year 2012 to 2011 were in three expense categories: purchased water (\$6.0 million increase), interest expense (\$3.6 million increase), and transmission and distribution (\$1.4 million increase).

Purchased Water – The increase in purchased water expense of \$6.0 million resulted from the increased cost of imported water and an increased demand of approximately 9,000 acre-feet of purchased water during fiscal year 2012.

Interest Expense – The increase in interest expense of \$3.6 million resulted primarily from the issuance of the Series 2010 Bonds during fiscal year 2011, resulting in a partial year of interest compared with a full year in fiscal year 2012 (an increase of \$0.7 million). Additionally, capitalized interest, which is a reduction of interest expense, decreased by \$2.9 million during fiscal year 2012, resulting in a net increase in interest expense of \$3.6 million. Information on the District’s long-term debt activity can be found in Note 7 of the Notes to the Basic Financial Statements.

Transmission and Distribution – The increase in transmission and distribution of \$1.4 million resulted from delivery of approximately 11,000 acre-feet more water to wholesale and retail customers during fiscal year 2012.

Combined Expenses – Total expenses for fiscal year 2011 were \$106.3 million, a decrease of \$1.8 million, or 1.6%. The most significant variances were in the following three expense categories: depreciation and amortization (\$1.9 million increase), special studies and projects (\$1.4 million decrease), and interest expense (\$1.3 million decrease).

Depreciation and Amortization – The increase in depreciation and amortization resulted from an increase of \$42.0 million related to additions to depreciable capital assets and a decrease in amortization expense of \$110,000 for the amortization of the net premium on the Series 2010 Bonds. Information on the District’s capital assets can be found in Note 6 of the Notes to the Basic Financial Statements.

Special Studies and Projects – The decrease in special studies and projects of \$1.4 million resulted from the District’s ongoing effort to reduce operating expenses through, for example, the deferral of items normally expensed in this category.

Interest Expense – The decrease in interest expense of \$1.3 million resulted primarily from: 1) the District recording capitalized interest costs on construction in progress of \$3.1 million, which is a reduction to interest expense, 2) the issuance of the Series 2010 Bonds, which resulted in greater interest costs of \$2.1 million, and 3) the District implementing Governmental Accounting Standards Board (GASB) Statement No. 59 and recording interest costs on taxable Build America Bonds gross of federal reimbursement in the amount of \$622,000, which is an increase to interest expense. Information on the District’s long-term debt activity can be found in Note 7 of the Notes to the Basic Financial Statements.

Continued on next page

The following tables present a comparison of expenses by category for each of the consecutive fiscal years:

Expenses by Category for the Fiscal Years Ended June 30, 2012 and 2011

Expense Category	Fiscal Years Ended June 30,		Increase (Decrease)	
	2012	2011	\$ Change	% Change
Source of supply	\$ 2,698,466	\$ 2,249,030	\$ 449,436	20.0%
Purchased water	57,873,634	51,890,617	5,983,017	11.5%
Pumping - booster pumps	3,820,373	3,853,402	(33,029)	-0.9%
Water treatment	1,473,654	2,048,534	(574,880)	-28.1%
Transmission and distribution	7,679,552	6,234,543	1,445,009	23.2%
Administrative and general	10,888,801	11,456,106	(567,305)	-5.0%
Contractual services	1,867,917	1,528,335	339,582	22.2%
Special studies and projects	957,107	894,954	62,153	6.9%
Wastewater disposal	8,978,903	9,086,468	(107,565)	-1.2%
Depreciation and amortization	10,826,239	10,262,842	563,397	5.5%
Interest expense	7,016,077	3,422,262	3,593,815	105.0%
Other	3,695,352	3,363,033	332,319	9.9%
Total Expenses	\$ 117,776,075	\$ 106,290,126	\$ 11,485,949	10.8%

Expenses by Category for the Fiscal Years Ended June 30, 2011 and 2010

Expense Category	Fiscal Years Ended June 30,		Increase (Decrease)	
	2011	2010	\$ Change	% Change
Source of supply	\$ 2,249,030	\$ 2,384,027	\$ (134,997)	-5.7%
Purchased water	51,890,617	51,859,715	30,902	0.1%
Pumping - booster pumps	3,853,402	3,495,685	357,717	10.2%
Water treatment	2,048,534	1,343,418	705,116	52.5%
Transmission and distribution	6,234,543	6,533,961	(299,418)	-4.6%
Administrative and general	11,456,106	10,714,044	742,062	6.9%
Contractual services	1,528,335	2,745,281	(1,216,946)	-44.3%
Special studies and projects	894,954	2,273,136	(1,378,182)	-60.6%
Wastewater disposal	9,086,468	9,018,894	67,574	0.7%
Depreciation and amortization	10,262,842	8,410,181	1,852,661	22.0%
Interest expense	3,422,262	4,700,144	(1,277,882)	-27.2%
Other	3,363,033	4,581,830	(1,218,797)	-26.6%
Total Expenses	\$ 106,290,126	\$ 108,060,316	\$ (1,770,190)	-1.6%

Capital Assets

The District's investment in capital assets as of June 30, 2012 and 2011 were \$359.2 million and \$354.3 million, respectively (net of accumulated depreciation). This includes investment in buildings, building improvements, capacity rights, land, land improvements, equipment, vehicles, and plant assets such as source of supply, pumping plant, water treatment plant, transmission and distribution plant, wastewater plant, etc. Additional information can be found in Note 6 of the Notes to the Basic Financial Statements.

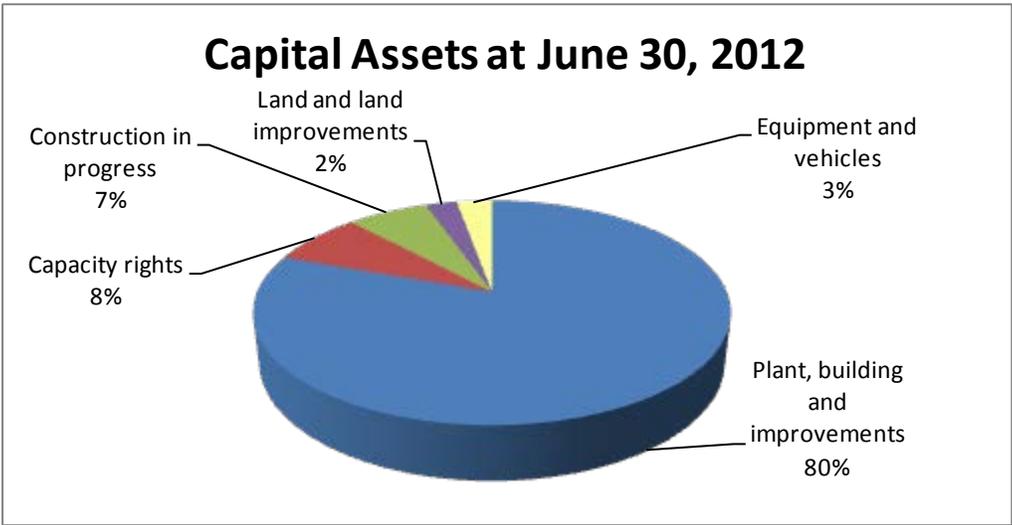
The following table summarizes the District's capital assets, net of accumulated depreciation at June 30:

Capital Assets, Net of Accumulated Depreciation as of June 30

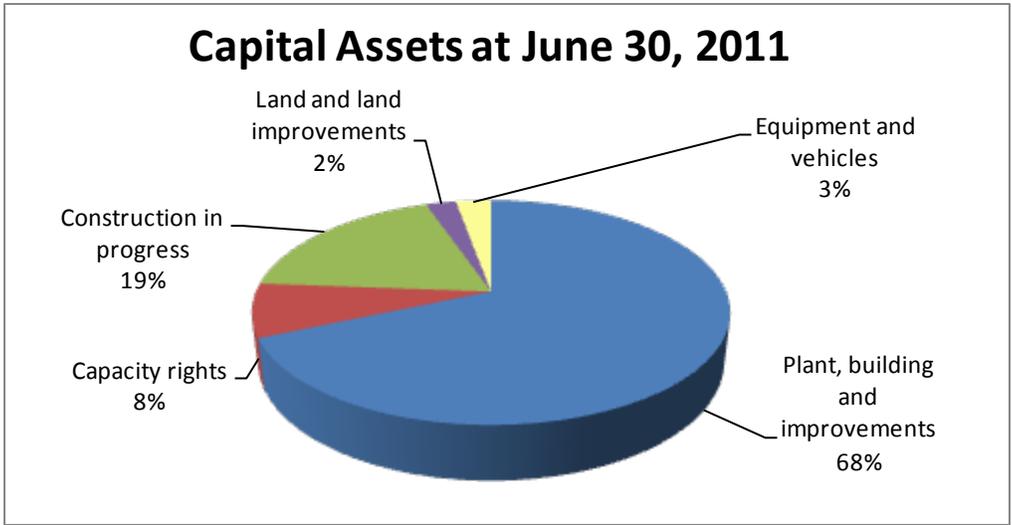
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Plant, buildings and improvements	\$ 367,349,159	\$ 302,396,693	\$ 267,656,096
Intangible plant	34,679,018	34,106,219	23,385,735
Construction in progress	29,965,201	81,799,092	96,293,268
Land and land improvements	11,661,026	10,757,900	7,945,523
Equipment and vehicles	<u>13,062,049</u>	<u>12,564,819</u>	<u>16,268,836</u>
Total Capital Assets	\$ 456,716,453	\$ 441,624,723	\$ 411,549,458
Less Accumulated Depreciation	<u>(97,536,655)</u>	<u>(87,324,898)</u>	<u>(78,093,745)</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 359,179,798</u>	<u>\$ 354,299,825</u>	<u>\$ 333,455,713</u>

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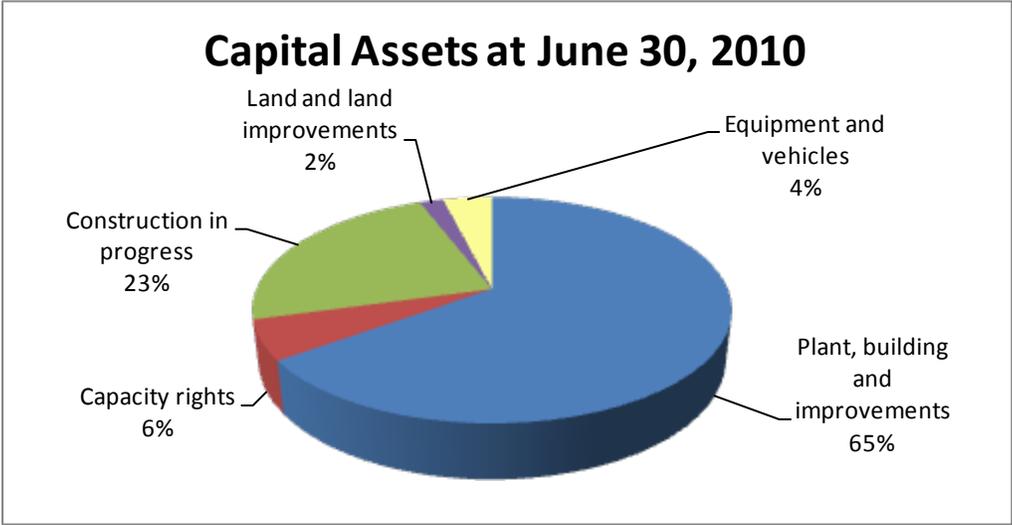
Capital Assets at June 30, 2012



Capital Assets at June 30, 2011



Capital Assets at June 30, 2010



Long-term Liabilities

As of June 30, 2012 and 2011, the District has outstanding long-term liabilities of \$165.5 million and \$163.6 million, respectively. Long-term liabilities include SWAP liability, compensated absences, due to other governments, bonds and notes payable. Additional information regarding long-term debt can be found in Note 7 of the Notes to the Basic Financial Statements.

The District's outstanding long-term liabilities as of June 30 are as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Deferred SWAP inflow	\$ 253,623	\$ 2,802,559	\$ 3,931,920
Compensated absences	2,263,129	1,899,668	1,715,353
Due to other government agencies	3,261,488	3,828,009	4,369,885
Bonds payable:			
Improvement bonds	480,000	575,000	670,000
Unamortized bond discount	(4,535)	(6,167)	(7,799)
Revenue Bonds	147,500,000	149,475,000	100,160,000
Unamortized discount	(797,368)	(836,740)	(616,359)
Unamortized premium	959,644	1,149,658	-
Deferred loss on refunding	(12,538,597)	(5,182,540)	(5,603,229)
SWAP liability	7,765,573	-	-
Note payable	8,789,717	9,927,683	10,620,234
Total Long-term Liabilities	<u>157,932,674</u>	<u>163,632,130</u>	<u>115,240,005</u>
Less current portion	<u>(3,775,351)</u>	<u>(5,216,078)</u>	<u>(4,840,491)</u>
Total Long-term Liabilities, net of current portion	<u>\$ 154,157,323</u>	<u>\$ 158,416,052</u>	<u>\$ 110,399,514</u>

Economic Factors and Next Year's Budgets and Rates

Slow growth in the District's service area is not expected to change for the next 4-6 years, but is expected to eventually recover and grow at a moderate pace. This growth will further create demand for water supply, wastewater treatment and disposal, and additional capital facilities. These demands have been anticipated in the District's facility master plans with new supply demands being met through imported water, interties with neighboring agencies, desalted water, maximizing reclaimed water and conservation. The District's 2013 fiscal year budget includes \$43.4 million in capital projects. In order to accommodate rising costs for purchased water, power, labor and maintenance, the District's Board of Directors approved a "Water Reliability Charge" in 2010 for the Riverside Service Area retail customers that automatically increases each January 1st by \$0.07 per hundred cubic feet through January 1, 2015. The Water Reliability Charge is a proactive approach to increasing system reliability and responsible water supply management. This charge will reduce the District's dependence on property tax revenue, with generated revenue dedicated to funding projects related to increasing water system capacity and improving the long-term sustainability of the water supply. A revenue neutral water budget rate structure for Riverside and Murrieta retail treated customers went into effect on October 1, 2011. A wastewater rate increase of approximately 7% went into effect on October 1, 2012.

Contacting the District's Financial Management

This financial report is designed to provide a general overview of the Western Municipal Water District of Riverside County's finances for the Board of Directors, customers, taxpayers, creditors and other interested parties. Questions concerning any of the information provided in the report or requests for additional information should be addressed to the District's Finance Department, 14205 Meridian Parkway, Riverside, CA 92518.

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Western Municipal Water District
Statements of Net Assets
June 30, 2012 and 2011

<i>Assets</i>	2012	2011
Current assets:		
Cash and cash equivalents (note 2)	\$ 13,585,027	\$ 5,070,760
Investments (note 2)	71,929,135	76,402,652
Receivables, net (note 4)	19,601,901	22,131,353
Stored groundwater inventory	1,525,095	1,525,095
Materials and supplies inventory	909,563	732,860
Other current assets	334,665	254,361
Total current assets	107,885,386	106,117,081
Non-current assets:		
Restricted investments (note 2, 3)	47,142,968	62,039,835
Prepaid assets (note 10)	3,405,964	184,924
Notes receivable (note 4)	8,889,278	9,365,105
Assessments receivable	2,480,000	2,575,000
Deferred charges	1,300,096	1,386,120
Deferred SWAP outflow (note 8)	253,623	2,802,559
Capital assets not being depreciated (note 6, 13)	60,877,188	112,004,126
Capital assets being depreciated, net (note 6)	298,302,610	242,295,699
Total non-current assets	422,651,727	432,653,368
Total assets	530,537,113	538,770,449
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable and accrued expenses	18,594,565	22,139,231
Customer deposits and deferred revenue	1,250,848	1,103,090
Construction advances	1,534,568	2,234,042
Accrued interest payable	1,689,826	1,686,602
Long-term liabilities - due in less than one year:		
Compensated absences (note 5)	1,448,304	1,453,919
Due to other governments payable (note 7)	410,038	566,522
Notes payable (note 7)	1,132,009	1,125,637
Bonds payable (note 7)	785,000	2,070,000
Total current liabilities	26,845,158	32,379,043
Non-current liabilities:		
Long-term liabilities - due in more than one year:		
Deferred SWAP inflow (note 8)	253,623	2,802,559
Compensated absences (note 5)	814,825	445,749
Due to other governments payable (note 7)	2,851,450	3,261,487
Notes payable (note 7)	7,657,708	8,802,046
Bonds payable (note 7)	142,579,717	143,104,211
Total non-current liabilities	154,157,323	158,416,052
Total liabilities	181,002,481	190,795,095
Commitments and contingencies (note 13)		
Net assets:		
Invested in capital assets, net of related debt (note 9)	232,667,339	235,918,546
Restricted for debt service (note 3)	144,619	144,619
Restricted for capacity charges (note 3)	23,298,893	26,151,035
Unrestricted	93,423,781	85,761,154
Total net assets	\$ 349,534,632	\$ 347,975,354

See accompanying notes to the basic financial statements

Western Municipal Water District
Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating revenues:		
Water sales	\$ 66,310,917	\$ 56,473,710
Water service	12,479,514	10,477,058
Wastewater disposal	10,364,865	10,862,351
Other charges and services	-	88,520
Contractual services	<u>1,945,167</u>	<u>1,569,409</u>
Total operating revenues	<u>91,100,463</u>	<u>79,471,048</u>
Operating expenses:		
Source of supply	2,698,466	2,249,030
Purchased water	57,873,634	51,890,617
Pumping - booster pumps	3,820,373	3,853,402
Water treatment	1,473,654	2,048,534
Transmission and distribution	7,679,552	6,234,543
Customer accounts	367,815	446,587
Administrative and general	10,888,801	11,456,106
Contractual services	1,867,917	1,528,335
Special studies and projects	957,107	894,954
Other operating expense	2,126,604	298,565
Wastewater disposal	<u>8,978,903</u>	<u>9,086,468</u>
Total operating expenses before depreciation and amortization	<u>98,732,826</u>	<u>89,987,141</u>
Operating loss before depreciation and amortization	(7,632,363)	(10,516,093)
Depreciation and amortization	<u>(10,826,239)</u>	<u>(10,262,842)</u>
Operating loss	<u>(18,458,602)</u>	<u>(20,778,935)</u>
Non-operating revenues (expenses):		
Property taxes	15,221,864	15,106,222
Investment earnings	5,578,084	3,802,288
Interest expense	(7,016,077)	(3,422,262)
Capacity rights sales	828,459	997,710
Intergovernmental revenue	844,020	621,505
Other revenues	700,798	386,547
Other expenses	(1,157,588)	(2,291,681)
(Loss) on disposal of assets, net	<u>(43,345)</u>	<u>(326,200)</u>
Total net non-operating revenues	<u>14,956,215</u>	<u>14,874,129</u>
Net (loss) before capital contributions	<u>(3,502,387)</u>	<u>(5,904,806)</u>
Capital contributions:		
Capacity charges	287,161	512,936
Developer capital contributions	3,505,810	2,021,824
Federal, state and local capital grants	<u>1,268,694</u>	<u>3,284,896</u>
Total capital contributions	<u>5,061,665</u>	<u>5,819,656</u>
Change in net assets	1,559,278	(85,150)
Net assets, beginning of year	<u>347,975,354</u>	<u>348,060,504</u>
Net assets, end of year	<u>\$ 349,534,632</u>	<u>\$ 347,975,354</u>

See accompanying notes to the basic financial statements

Western Municipal Water District
Statements of Cash Flows
For the Years Ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Cash receipts from customers for water sales and services	\$ 91,830,651	\$ 74,780,989
Cash paid to employees for salaries and wages	(12,735,407)	(11,882,680)
Cash paid to vendors and suppliers for materials and services	(87,539,241)	(75,729,553)
Net cash (used in) operating activities	(8,443,997)	(12,831,244)
Cash flows from non-capital financing activities:		
Proceeds from property taxes and assessments	14,931,712	15,201,222
Proceeds from note receivable	78,861	38,169
Proceeds from intergovernmental revenue	844,020	621,505
Net cash provided by non-capital financing activities	15,854,593	15,860,896
Cash flows from capital and related financing activities:		
Proceeds from capacity rights sales	362,659	252,596
Proceeds from note receivable	401,414	394,260
Acquisition and construction of capital assets	(16,958,292)	(30,655,356)
Proceeds from disposal of capital assets	43,345	326,200
Proceeds from capital contributions	3,093,417	8,468,181
Proceeds from the issuance of long-term debt	43,775,000	52,508,638
Principal paid on long-term debt	(47,549,487)	(4,020,337)
Interest paid on long-term debt	(7,012,853)	(2,841,952)
Net cash provided by (used in) capital and related financing activities	(23,844,797)	24,432,230
Cash flows from investing activities:		
Investment earnings	4,547,696	4,768,289
Purchase of investments	(81,822,856)	(198,255,715)
Proceeds from sale of investments	102,223,628	166,704,385
Net cash provided by (used in) investing activities	24,948,468	(26,783,041)
Net increase (decrease) in cash and cash equivalents	8,514,267	678,841
Cash and cash equivalents, beginning of year	5,070,760	4,391,919
Cash and cash equivalents, end of year	\$ 13,585,027	\$ 5,070,760
Reconciliation of cash and cash equivalents to the statements of net assets:		
Cash and cash equivalents	\$ 13,585,027	\$ 5,070,760
Total cash and cash equivalents	\$ 13,585,027	\$ 5,070,760

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See accompanying notes to the basic financial statements

Western Municipal Water District
Statements of Cash Flows, continued
For the Years Ended June 30, 2012 and 2011

	2012	2011
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (18,458,602)	\$ (20,778,935)
Adjustments to reconcile operating loss to net cash (used in) operating activities:		
Depreciation	10,479,709	9,846,969
Amortization	346,530	411,806
Other revenues	1,166,598	1,131,661
Other expenses	(1,157,588)	(2,291,681)
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	1,039,220	(2,585,542)
Materials and supplies inventory	(176,703)	(30,128)
Prepaid expense	(3,221,040)	225,178
Other current assets	(80,304)	180,178
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	1,106,964	1,074,318
Customer deposits and deferred revenue	147,758	(199,383)
Compensated absences	363,461	184,315
Total adjustments	10,014,605	7,947,691
Net cash (used in) operating activities	\$ (8,443,997)	\$ (12,831,244)
Non-cash investing, capital and financing transactions:		
Change in fair value of investments	\$ 1,030,388	\$ (966,001)
Capital contributions	3,139,710	3,693,016
Acquisition and construction of capital assets in accounts payable	631,836	5,283,466

See accompanying notes to the basic financial statements

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2012 and 2011

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

Western Municipal Water District of Riverside County (District) was formed in 1954 and created for the purpose of importing and delivering water to wholesale and retail customers within its service area. The District is governed by a five-member Board of Directors who serve overlapping four-year terms. The District purchases approximately 93% of its water from the Metropolitan Water District of Southern California. Approximately 30% of the purchased water comes from the Colorado River aqueduct and approximately 70% comes from the State Water Project.

The criteria used in determining the scope of the financial reporting entity is based on Codification of Governmental Accounting and Financial Reporting Standards, Part II. Financial Reporting, Section 2100: *Defining the Financial Reporting Entity*. 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 Western Municipal Water District Facilities Authority (Authority) was created in October 2002 by a joint exercise of powers agreement for the purpose of financing public capital improvements. It is governed by a Board of Directors comprised of the District's Board of Directors. The Authority has issued debt that is secured solely from installment payments payable under an installment purchase agreement entered into by the District and the Authority. All accounts or funds created and established pursuant to any instrument or agreement to which the Authority is a party, and any interest earned or accrued thereon, shall inure to the benefit of the District. Separate financial statements are not prepared for the Authority. It is reported as a blended component unit.

B. 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, in most instances, the intent of the District is that the costs of providing water or wastewater disposal to its service area on a continuing basis be financed or recovered primarily through user charges (water sales, water service charges and wastewater disposal), capital grants and similar funding. Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

Operating revenues and expenses, such as water sales, water purchases and wastewater disposal, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Management, administration and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2012 and 2011

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

C. Financial Reporting

The District is a special purpose government that has only enterprise activity and therefore follows the reporting requirements for enterprise funds, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, establishing accounting and financial reporting standards for the financial statements of state and local governments. The standard incorporates into the GASB's authoritative literature the applicable guidance previously only found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued before November 30, 1989.

D. Assets, Liabilities and Net Assets

1. Cash and Cash Equivalents

For the purpose of the statements of cash flows, the District considers all short-term debt securities purchased with an original maturity of three months or less to be cash equivalents.

2. Investments

Investments are reported in the accompanying statements of net assets at fair value based on the last reported sales price published on the national exchange. Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. In addition to the change in fair value, other investment income includes interest earnings and any gains or losses realized upon the liquidation or sale of investments.

3. Accounts Receivable and Allowance for Uncollectible Accounts

The District extends credit to customers in the normal course of operations. Based on management evaluation of customer accounts and creditor's ability to pay, allowance for doubtful accounts is set up as a bad debt expense. A recovery of previous reserves of (\$178,688) and a net charge of \$23,203 was made to bad debt expense, resulting in an allowance for uncollectible accounts of \$149,253 and \$435,402 for the fiscal years ended June 30, 2012 and 2011, respectively.

4. Property Taxes and Assessments

The County of Riverside Assessor's Office assesses all real and personal property within the County each year. The County of Riverside Tax Collector's Office bills and collects the District's share of property taxes and assessments. The County of Riverside Treasurer's Office remits current and delinquent property tax collections to the District throughout the year. Property tax revenue is recognized in the period levied for, less an allowance estimated for uncollectibles. Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations.

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2012 and 2011

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Liabilities and Net Assets, continued

4. Property Taxes and Assessments, continued

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

Lien Date	January 1
Levy Date	July 1 to June 30
Due Date	November 1 - 1st Installment February 1 - 2nd Installment
Delinquent Date	December 10th - 1st Installment April 10th - 2nd Installment

5. Prepaid Expenses

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

6. Deferred Charges

The deferred charges are from bond issuance costs that will be amortized using the effective interest rate method over the remaining life of the respective debt service.

7. Hedge Accounting

The District applies the provisions of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Financial Instruments*, as amended by GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*.

The District has determined that its interest rate swap agreement for reducing interest rate exposure on its variable rate debt is a hedging derivative instrument. Under hedge accounting, the changes in fair values of a hedging derivative instrument are reported as either deferred inflows or deferred outflows in a government's statement of net assets.

8. 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 and an estimated useful life of more than one year. Donated assets are recorded at estimated fair market value at the date of donation. Interest costs are capitalized during the construction period, where proceeds were used to finance the construction of assets. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. 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.

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2012 and 2011

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Liabilities and Net Assets, continued

8. Capital Assets, continued

Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets, as follows:

Vehicles and Equipment	5 - 10 years
Plant	20 - 40 years
Buildings	25 years

The District participates with various agencies entitling it to certain capacity rights. Such capacity rights are recorded as intangible assets and treated in accordance with GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The District's participation in these agencies is through cash payments. Monies used for the construction or expansion of capital assets, such as pipelines, wastewater facilities, etc., are recorded as capacity rights and included in capital assets. The capacity rights have either an indefinite useful life or a definite useful life depending on any legal, contractual, regulatory, technological or other factors that limit the useful life of the asset. Capacity rights with definite useful life are amortized over the life of the agreements.

A capital asset is considered impaired if both the decline in service utility of the capital asset is large in magnitude and the event or change in circumstances is outside the normal life cycle of the capital asset. The District periodically evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Management has determined that there were no such impairments at June 30, 2012 and 2011.

In accordance with GASB Statement No. 59, *Financial Instruments Omnibus*, interest costs on taxable Build America Bonds, used to finance the acquisition and construction of the District's capital assets, are reported gross and are not offset by federal reimbursement. On the Build America Bonds, gross interest expense amounts are used to calculate capitalized interest on construction projects.

9. Compensated Absences

The District's policy is to permit employees to accumulate earned vacation leave up to a maximum of 320 hours and at a rate of 10 to 20 days per year based on the number of years of employment. A terminating employee will be compensated for accrued vacation time based on the employee's rate on the date of termination. Sick leave accrues at the rate of 8 hours per month up to a maximum of 1,600 hours. Upon termination, the District pays 25% of accumulated sick leave for the first full year of service, plus 3% per year for each additional full year of service. An employee who has accumulated in excess of 500 hours of sick leave may be compensated at the formula used for terminating employees for any hours exceeding 500 hours, but not more than 80 hours in any calendar year, and only once per calendar year. In addition, an employee that completes a full calendar year of employment (January 1 to December 31), and that uses no more than 18 accrued hours of sick leave during that calendar year, may be compensated for up to 40 hours of accrued sick leave at the employee's applicable rate of pay.

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2012 and 2011

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Liabilities and Net Assets, continued

10. Water and Wastewater Services

Water and wastewater revenue is based on usage and recognized at the time of use. Customers are billed on a monthly cyclical basis. Estimated unbilled water and wastewater revenue based on estimated usage through June 30 has been accrued at year-end.

11. Capital Contributions

Capital contributions represent cash and capital asset additions contributed to the District by property owners, granting agencies or real estate developers desiring services that require capital expenditures or capacity commitment. Capital contributions are recognized on the statement of revenues, expenses and changes in net assets when the capital asset is placed in service.

12. Grants

When a grant agreement is approved and eligible expenditures are incurred, the amount is recorded as a capital or operating grant receivable on the statement of net assets and as capital grant contribution or operating grant revenue, as appropriate, on the statement of revenues, expenses and changes in net assets.

13. Net Assets

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

- **Invested in capital assets, net of related debt** – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt associated with the acquisition, construction or improvement of those assets.
- **Restricted for debt service and capacity charges** – This component of net assets consists of the following line items: restricted for debt service and restricted for capacity charges. Restricted net assets have constraints placed on them imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted** – This component of net assets consists of net assets that do not meet the definition of *restricted* or *invested in capital assets, net of related debt*.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first and then unrestricted resources as they are needed.

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2012 and 2011**

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Liabilities and Net Assets, continued

14. Use of Estimates

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

15. Budgetary Policies

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

16. Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

(2) Cash and Investments

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

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 13,585,027	\$ 5,070,760
Total cash and cash equivalents	13,585,027	5,070,760
Investments	71,929,135	76,402,652
Restricted investments	47,142,968	62,039,835
	<u>\$ 132,657,130</u>	<u>\$ 143,513,247</u>

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2012 and 2011

(2) Cash and Investments, continued

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

	2012	2011
Petty cash	\$ 16,300	\$ 16,300
Deposits with financial institutions	13,568,727	5,054,460
Total cash and cash equivalents	13,585,027	5,070,760
Money market funds	2,935,628	745,976
California Local Agency Investment Fund	3,299,410	9,285,217
Money market funds with fiscal agent	16,031,119	25,089,019
U.S. Treasury notes	18,438,007	16,906,068
Government-sponsored agency securities	53,367,235	55,558,054
Corporate bonds	25,000,704	30,858,153
Total investments	119,072,103	138,442,487
	\$ 132,657,130	\$ 143,513,247

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

The table below identifies the investment types that are authorized by the District in accordance with 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 address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
Local Agency Bonds	5 years	10%	No limit
U.S. Treasury Obligations	10 years	None	No limit
State Registered Obligations	5 years	10%	No limit
Other Local California Agency Obligations	5 years	None	No limit
U.S. Agency Securities	10 years	None	No limit
Banker's Acceptances	180 days	40%	30%
Prime Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	No limit
Repurchase Agreements	90 days	5%	No limit
Medium-Term Corporate Notes	5 years	30%	No limit
Local Agency Investment Fund	N/A	\$50 million	No limit
Money Market Mutual Funds & Mutual Funds	5 years	20%	No limit
Collateralized Bank Deposits	5 years	None	No limit
Mortgage Pass-Through Securities	5 years	20%	No limit
County Pooled Investment Funds	N/A	None	No limit

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2012 and 2011**

(2) Cash and Investments, continued

Investments Authorized by Debt Agreements

Investments of debt proceeds held by a bond trustee are governed by provisions of the debt agreement 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 a bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
Government Obligations	None	None	No limit
Local Agency Bonds	None	None	No limit
U.S. Agency Securities	None	None	No limit
Certificates of Deposit	365 days	10%	No limit
Money Market Funds	N/A	None	No limit
Local Agency Investment Fund ⁽¹⁾	N/A	\$50 million	No limit

(1) Money in the Reserve Fund may not be invested in the Local Agency Investment Fund.

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. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as Local Agency Investment Fund (LAIF)). In addition, none of the District's counterparties hold the investments, for which separate safekeeping arrangements exist.

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2012 and 2011**

(2) Cash and Investments, continued

Custodial Credit Risk, continued

At June 30, 2012 and 2011, the carrying amounts of the District's deposits were \$13,568,727 and \$5,054,460, respectively, and the corresponding bank balances were \$13,899,186 and \$7,655,006, respectively. The differences of \$330,459 and \$2,600,546 at June 30, 2012 and 2011, respectively, were principally due to outstanding checks, wires and/or deposits in transit. Of the bank balances, \$250,000 was insured by Federal Deposit Insurance Corporation (FDIC) depository insurance.

Investment in State Investment Pool

The District is a voluntary participant in LAIF, which is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF.

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. The District's investment policy provides limits on investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates.

Maturities of investments at June 30, 2012 are as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More Than 10</u>
U.S. Treasury Notes	\$ 18,438,007	\$ -	\$ 9,033,263	\$ 9,404,744	\$ -
Government-Sponsored Agency Securities	53,367,235	2,024,680	31,257,558	19,262,487	822,510
Corporate Bonds	25,000,704	3,696,665	21,304,039	-	-
Local Agency Investment Fund	3,299,410	3,299,410	-	-	-
Money Market Funds	18,966,747	18,966,747	-	-	-
Total	\$ 119,072,103	\$ 27,987,502	\$ 61,594,860	\$ 28,667,231	\$ 822,510

Maturities of investments at June 30, 2011 are as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More Than 10</u>
U.S. Treasury Notes	\$ 16,906,068	\$ -	\$ 8,868,035	\$ 8,038,033	\$ -
Government-Sponsored Agency Securities	55,558,054	3,038,963	28,155,508	23,549,244	814,339
Corporate Bonds	30,858,153	4,200,741	26,657,412	-	-
Local Agency Investment Fund	9,285,217	9,285,217	-	-	-
Money Market Funds	25,834,995	25,834,995	-	-	-
Total	\$ 138,442,487	\$ 42,359,916	\$ 63,680,955	\$ 31,587,277	\$ 814,339

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2012 and 2011

(2) Cash and Investments, continued

Credit Risk

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.

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

Investment Type	Fair Value	Minimum Legal Rating	Exempt From Disclosure	Ratings as of Year-End			Not Rated
				AAA	AA	A	
U.S. Treasury Notes	\$ 18,438,007	N/A	\$ 18,438,007	\$ -	\$ -	\$ -	\$ -
Government-Sponsored Agency Securities	53,367,235	None	-	-	53,251,319	-	115,916
Corporate Bonds	25,000,704	A	-	-	8,535,657	16,465,047	-
Local Agency Investment Fund	3,299,410	N/A	-	-	-	-	3,299,410
Money Market Funds	18,966,747	N/A	-	-	-	-	18,966,747
	<u>\$ 119,072,103</u>		<u>\$ 18,438,007</u>	<u>\$ -</u>	<u>\$ 61,786,976</u>	<u>\$ 16,465,047</u>	<u>\$ 22,382,073</u>

Credit ratings of investments as of June 30, 2011 were as follows:

Investment Type	Fair Value	Minimum Legal Rating	Exempt From Disclosure	Ratings as of Year-End			Not Rated
				AAA	AA	A	
U.S. Treasury Notes	\$ 16,906,068	N/A	\$ 16,906,068	\$ -	\$ -	\$ -	\$ -
Government-Sponsored Agency Securities	55,558,054	None	-	55,558,054	-	-	-
Corporate Bonds	30,858,153	A	-	3,986,728	9,629,103	17,242,322	-
Local Agency Investment Fund	9,285,217	N/A	-	-	-	-	9,285,217
Money Market Funds	25,834,995	N/A	-	-	-	-	25,834,995
	<u>\$ 138,442,487</u>		<u>\$ 16,906,068</u>	<u>\$ 59,544,782</u>	<u>\$ 9,629,103</u>	<u>\$ 17,242,322</u>	<u>\$ 35,120,212</u>

Concentration of Credit Risk

The District's investment policy contains various limitations on the amounts that can be invested in any one governmental agency or non-governmental issuer as stipulated by the California Government Code. The District's investment with LAIF is 2.49% and 6.47% of the District's total depository and investment portfolio as of June 30, 2012 and 2011, respectively. There were no investments in any one non-governmental issuer that represented 15% or more of the District's total investments.

Issuer	Investment Type	2012 Reported Amount	2011 Reported Amount	2012 % of Total Investments	2011 % of Total Investments
Federal Farm Credit Bank	Government-Sponsored Agency Securities	\$ 5,979,419	\$ 6,314,325	5%	5%
Federal Home Loan Bank	Government-Sponsored Agency Securities	13,977,822	14,825,388	12%	11%
Federal National Mortgage Association	Government-Sponsored Agency Securities	13,347,969	14,122,009	11%	10%
Tennessee Valley Authority	Government-Sponsored Agency Securities	6,106,046	5,810,793	5%	4%
Federal Home Loan Mortgage Corp.	Government-Sponsored Agency Securities	13,955,981	14,485,539	12%	10%

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2012 and 2011

(3) Restricted Investments

Restricted investments at June 30 are restricted as follows:

	<u>2012</u>	<u>2011</u>
Capacity charges	\$ 23,298,893	\$ 26,151,035
SARI capacity use loan from SAWPA	1,267,487	1,578,828
Reserve for Assessment District AD 90-1	144,619	144,619
Customer deposits	1,151,163	984,944
Construction advances	1,534,568	2,234,042
2009 Series A Adjustable Rate Water Revenue Refunding Bonds Reserve Fund	-	3,196,325
2009 Series B Water Revenue Bonds Reserve Fund and Debt Service Fund	3,715,119	2,661,023
2009 Series A Adjustable Rate Water Revenue Refunding Bonds Reserve Fund	-	93,808
2009 Series A Adjustable Rate Water Revenue Refunding Bonds Debt Service Fund	379	-
2009 Series B Water Revenue Bonds Reserve Fund and Debt Service Fund	2,464,759	83,307
2010 Series A Water Revenue Bonds Service Fund	1	2,413
2010 Series A Water Revenue Bonds Construction Fund	9,690,150	9,687,194
2010 Series B Water Revenue Bonds Construction Fund	9	-
2010 Series B Water Revenue Bonds Construction Fund	3,722,272	15,222,297
2012 Series A Water Revenue Bonds Service Fund	153,545	-
Other	4	-
	<u>\$ 47,142,968</u>	<u>\$ 62,039,835</u>

(4) Accounts Receivable

Receivables at June 30 consisted of the following:

	<u>2012</u>	<u>2011</u>
Utility services - wholesale	\$ 12,376,582	\$ 15,390,108
Utility services - retail	5,622,126	5,011,100
Allowance for doubtful accounts	(149,253)	(435,402)
Accrued interest	689,322	717,774
Property taxes & assessments	1,022,070	1,402,983
Other	41,054	44,790
	<u>\$ 19,601,901</u>	<u>\$ 22,131,353</u>

Non-current Receivables

Non-current receivables at June 30 consisted of the following:

	<u>2012</u>	<u>2011</u>
Note receivable from Elsinore Valley Municipal Water District	\$ 937,052	\$ 1,099,808
Note receivable from Jurupa Community Services District	7,736,578	7,975,238
Other	215,648	290,059
	<u>\$ 8,889,278</u>	<u>\$ 9,365,105</u>

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2012 and 2011**

(4) Accounts Receivable, continued

Non-current Receivables, continued

On January 12, 1999, the District sold 0.8 million gallons per day (MGD) of pipeline capacity to Elsinore Valley Municipal Water District (EVMWD) for \$3,060,000, for which a note was received. An initial payment of \$153,000 was received within 30 days of the agreement date. The note requires EVMWD to pay the District 20 annual interest and principal payments of \$215,663 beginning March 1999 and bearing an interest rate of 4%.

In July 2004, the District sold 3.0 MGD of pipeline capacity to Jurupa Community Services District (Jurupa) for \$9,486,754, for which a note was received. The note requires Jurupa to pay the District 29 annual principal payments ranging from \$198,884 to \$517,098 beginning January 1, 2005. The interest rate is variable starting at 1.985%.

Other notes receivable amounted to \$215,648 and \$290,059 at June 30, 2012 and 2011, respectively.

(5) Compensated Absences

Compensated absences comprise unpaid vacation and sick leave, which are accrued as earned. The District's liability for compensated absences is determined annually.

<u>Balance</u> <u>2011</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance</u> <u>2012</u>	<u>Current</u> <u>Portion</u>	<u>Long-term</u> <u>Portion</u>
\$ 1,899,668	\$ 1,761,762	\$ (1,398,301)	\$ 2,263,129	\$ 1,448,304	\$ 814,825

<u>Balance</u> <u>2010</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance</u> <u>2011</u>	<u>Current</u> <u>Portion</u>	<u>Long-term</u> <u>Portion</u>
\$ 1,715,353	\$ 1,690,494	\$ (1,506,179)	\$ 1,899,668	\$ 1,453,919	\$ 445,749

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2012 and 2011

(6) Capital Assets

The balance in capital assets for the year ended June 30, 2012 was as follows:

	<u>Balance 2011</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2012</u>
Capital assets not being depreciated:				
Land	\$ 6,819,299	\$ 844,282	\$ -	\$ 7,663,581
Capacity rights	23,385,735	-	(137,329)	23,248,406
Construction-in-progress	81,799,092	16,751,647	(68,585,538)	29,965,201
Total capital assets not being depreciated	<u>112,004,126</u>	<u>17,595,929</u>	<u>(68,722,867)</u>	<u>60,877,188</u>
Capital assets being depreciated:				
Land improvements	3,938,601	58,844	-	3,997,445
Plant	893,219	-	-	893,219
Source of supply - plant	1,064,308	-	-	1,064,308
Pumping plant	30,328,853	-	-	30,328,853
Water treatment plant	7,250,331	45,780	-	7,296,111
Transmission and distribution plant	189,988,570	2,843,858	-	192,832,428
Wastewater treatment plant	43,236,388	62,094,528	(66,304)	105,264,612
Buildings	29,635,024	34,604	-	29,669,628
Furniture, fixtures and office equipment	2,114,160	50,771	(3,670)	2,161,261
Vehicles	4,361,608	246,596	(41,742)	4,566,462
Construction and maintenance equipment	842,678	-	(59,597)	783,081
Computer equipment	4,535,215	73,138	(29,509)	4,578,844
Miscellaneous equipment	711,158	371,718	(110,475)	972,401
Capacity rights	10,720,484	710,128	-	11,430,612
Total capital assets being depreciated	<u>329,620,597</u>	<u>66,529,965</u>	<u>(311,297)</u>	<u>395,839,265</u>
Less accumulated depreciation:				
Land improvements	(1,778,169)	(161,021)	-	(1,939,190)
Plant	(751,719)	(17,489)	-	(769,208)
Source of supply - plant	(959,113)	(16,451)	-	(975,564)
Pumping plant	(10,270,945)	(1,352,346)	-	(11,623,291)
Water treatment plant	(3,602,322)	(569,781)	-	(4,172,103)
Transmission and distribution plant	(53,705,192)	(4,363,260)	-	(58,068,452)
Wastewater treatment plant	(6,150,384)	(1,339,545)	23,206	(7,466,723)
Buildings	(3,076,254)	(1,078,487)	-	(4,154,741)
Furniture, fixtures and office equipment	(468,261)	(379,367)	3,670	(843,958)
Vehicles	(3,146,143)	(336,052)	41,495	(3,440,700)
Construction and maintenance equipment	(723,023)	(37,007)	59,597	(700,433)
Computer equipment	(68,995)	(460,422)	29,509	(499,908)
Miscellaneous equipment	(307,509)	(96,607)	110,475	(293,641)
Capacity rights	(2,316,869)	(271,874)	-	(2,588,743)
Total accumulated depreciation	<u>(87,324,898)</u>	<u>(10,479,709)</u>	<u>267,952</u>	<u>(97,536,655)</u>
Total capital assets being depreciated, net	<u>242,295,699</u>	<u>56,050,256</u>	<u>(43,345)</u>	<u>298,302,610</u>
Total capital assets, net	<u>\$ 354,299,825</u>	<u>\$ 73,646,185</u>	<u>\$ (68,766,212)</u>	<u>\$ 359,179,798</u>

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2012 and 2011

(6) Capital Assets, continued

The balance in capital assets for the year ended June 30, 2011 was as follows:

	<u>Balance 2010</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2011</u>
Capital assets not being depreciated:				
Land	\$ 4,586,853	\$ 2,232,446	\$ -	\$ 6,819,299
Capacity rights	23,385,735	-	-	23,385,735
Construction-in-progress	96,293,268	26,209,969	(40,704,145)	81,799,092
Total capital assets not being depreciated	<u>124,265,856</u>	<u>28,442,415</u>	<u>(40,704,145)</u>	<u>112,004,126</u>
Capital assets being depreciated:				
Land improvements	3,358,670	579,931	-	3,938,601
Plant	893,219	-	-	893,219
Source of supply - plant	1,064,308	-	-	1,064,308
Pumping plant	29,986,848	342,005	-	30,328,853
Water treatment plant	7,243,291	29,963	(22,923)	7,250,331
Transmission and distribution plant	182,641,220	7,432,579	(85,229)	189,988,570
Wastewater treatment plant	42,114,497	1,122,891	(1,000)	43,236,388
Buildings	3,712,713	25,926,811	(4,500)	29,635,024
Furniture, fixtures and office equipment	612,085	1,574,633	(72,558)	2,114,160
Vehicles	3,578,936	804,710	(22,038)	4,361,608
Construction and maintenance equipment	838,862	14,355	(10,539)	842,678
Computer equipment	584,602	4,345,048	(394,435)	4,535,215
Miscellaneous equipment	431,804	332,047	(52,693)	711,158
Capacity rights	10,222,547	497,937	-	10,720,484
Total capital assets being depreciated	<u>287,283,602</u>	<u>43,002,910</u>	<u>(665,915)</u>	<u>329,620,597</u>
Less accumulated depreciation:				
Land improvements	(1,648,859)	(129,310)	-	(1,778,169)
Plant	(733,963)	(17,756)	-	(751,719)
Source of supply - plant	(941,523)	(17,590)	-	(959,113)
Pumping plant	(8,937,574)	(1,333,371)	-	(10,270,945)
Water treatment plant	(3,058,190)	(567,055)	22,923	(3,602,322)
Transmission and distribution plant	(48,010,923)	(5,735,889)	41,620	(53,705,192)
Wastewater treatment plant	(4,855,095)	(1,296,289)	1,000	(6,150,384)
Buildings	(2,958,373)	(122,381)	4,500	(3,076,254)
Furniture, fixtures and office equipment	(517,306)	(23,513)	72,558	(468,261)
Vehicles	(2,804,492)	(363,689)	22,038	(3,146,143)
Construction and maintenance equipment	(694,445)	(39,117)	10,539	(723,023)
Computer equipment	(438,993)	(17,947)	387,945	(68,995)
Miscellaneous equipment	(330,143)	(30,059)	52,693	(307,509)
Capacity rights	(2,163,866)	(153,003)	-	(2,316,869)
Total accumulated depreciation	<u>(78,093,745)</u>	<u>(9,846,969)</u>	<u>615,816</u>	<u>(87,324,898)</u>
Total capital assets being depreciated, net	<u>209,189,857</u>	<u>33,155,941</u>	<u>(50,099)</u>	<u>242,295,699</u>
Total capital assets, net	<u>\$ 333,455,713</u>	<u>\$ 61,598,356</u>	<u>\$ (40,754,244)</u>	<u>\$ 354,299,825</u>

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2012 and 2011

(6) Capital Assets, continued

Construction-In-Process

The District has been involved in various construction projects throughout the year. The balances of the various construction projects that comprise the construction-in-process balances at June 30 are as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Chino Basin desalter expansion	\$ 11,909,349	\$ 5,378,133	\$ 2,488,674
Riverside - Corona feeder	3,804,944	3,382,072	3,234,086
2320 Pressure Zone Reach 1 Pipeline	2,433,049	-	-
Recycled Water Distribution System	1,995,740	1,656,305	-
River Road Bridge Pipelines	1,258,968	1,229,193	-
Computerized Work Management System Implementation	1,163,155	257,913	-
Western Water Recycling Facility expansion - phase II	-	58,911,875	48,162,374
Arlington Desalter expansion	-	2,441,521	2,401,368
New operations center	-	-	11,562,378
Headquarters Building	-	-	11,171,804
Hidden Valley Tank	-	-	4,090,079
ERP Finance Implementation	-	-	2,107,217
IT Master Plan: CIS	-	-	1,491,337
Hayes Ave from Ivy Pipeline	-	-	1,171,877
Various projects	7,399,996	8,542,080	8,412,074
Construction-in-process	<u>\$ 29,965,201</u>	<u>\$ 81,799,092</u>	<u>\$ 96,293,268</u>

At June 30, 2012 and 2011, interest cost of \$287,677 and \$3,141,562, respectively, was capitalized in relation to debt financing of construction projects.

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2012 and 2011

(7) Long-term Debt

Long-term debt activities for the year ended June 30, 2012 were as follows:

	<u>Balance</u> <u>2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>2012</u>	<u>Current</u> <u>Portion</u>	<u>Long-term</u> <u>Portion</u>
Due to other local government agencies:						
Santa Ana Watershed Project Authority:						
Brine Line capacity use rights	\$ 173,810	\$ -	\$ (173,810)	\$ -	\$ -	\$ -
SARI capacity use rights	3,441,834	-	(364,823)	3,077,011	381,369	2,695,642
Western Riverside County Regional Wastewater Authority:						
State Water Resources Control Board	212,365	-	(27,888)	184,477	28,669	155,808
	<u>3,828,009</u>	<u>-</u>	<u>(566,521)</u>	<u>3,261,488</u>	<u>410,038</u>	<u>2,851,450</u>
Bonds payable:						
Assessment District 90-1	575,000	-	(95,000)	480,000	105,000	375,000
Unamortized discount	(6,167)	-	1,632	(4,535)	-	(4,535)
2009 Series A bonds	45,080,000	-	(45,080,000)	-	-	-
2009 Series B bonds	53,155,000	-	(670,000)	52,485,000	680,000	51,805,000
Unamortized discount	(587,880)	-	28,172	(559,708)	-	(559,708)
Deferred loss on refunding SWAP liability ⁽¹⁾	(5,182,540)	(7,765,573)	409,516	(12,538,597)	-	(12,538,597)
	-	7,765,573	-	7,765,573	-	7,765,573
2010 Series A bonds	8,485,000	-	-	8,485,000	-	8,485,000
2010 Series B bonds	42,755,000	-	-	42,755,000	-	42,755,000
Unamortized premium	1,149,658	-	(190,014)	959,644	-	959,644
Unamortized discount	(248,860)	-	11,200	(237,660)	-	(237,660)
2012 Series A bonds	-	43,775,000	-	43,775,000	-	43,775,000
	<u>145,174,211</u>	<u>43,775,000</u>	<u>(45,584,494)</u>	<u>143,364,717</u>	<u>785,000</u>	<u>142,579,717</u>
Notes payable:						
Note payable - Land	45,867	-	(22,374)	23,493	23,493	-
Note payable - Headquarters Building	9,623,903	-	(967,639)	8,656,264	1,007,719	7,648,545
Note payable - Other	257,913	-	(147,953)	109,960	100,797	9,163
	<u>9,927,683</u>	<u>-</u>	<u>(1,137,966)</u>	<u>8,789,717</u>	<u>1,132,009</u>	<u>7,657,708</u>
Total long-term debt	<u>\$ 158,929,903</u>	<u>\$ 43,775,000</u>	<u>\$ (47,288,981)</u>	<u>\$ 155,415,922</u>	<u>\$ 2,327,047</u>	<u>\$ 153,088,875</u>

(1) Refer to Note 8 for further information on the SWAP agreement.

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2012 and 2011

(7) Long-term Debt, continued

Long-term debt activities for the year ended June 30, 2011 were as follows:

	<u>Balance 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2011</u>	<u>Current Portion</u>	<u>Long-term Portion</u>
Due to other local government agencies:						
Santa Ana Watershed Project Authority:						
Brine Line capacity use rights	\$ 339,342	\$ -	\$ (165,532)	\$ 173,810	\$ 173,810	\$ -
SARI capacity use rights	3,791,049	-	(349,215)	3,441,834	364,823	3,077,011
Western Riverside County Regional Wastewater Authority:						
State Water Resources Control Board	239,494	-	(27,129)	212,365	27,889	184,476
	<u>4,369,885</u>	<u>-</u>	<u>(541,876)</u>	<u>3,828,009</u>	<u>566,522</u>	<u>3,261,487</u>
Bonds payable:						
Assessment District 90-1	670,000	-	(95,000)	575,000	95,000	480,000
Unamortized discount	(7,799)	-	1,632	(6,167)	-	(6,167)
2009 Series A bonds	46,335,000	-	(1,255,000)	45,080,000	1,305,000	43,775,000
2009 Series B bonds	53,825,000	-	(670,000)	53,155,000	670,000	52,485,000
Unamortized discount	(616,359)	-	28,479	(587,880)	-	(587,880)
Deferred loss on refunding	(5,603,229)	-	420,689	(5,182,540)	-	(5,182,540)
2010 Series A bonds	-	8,485,000	-	8,485,000	-	8,485,000
2010 Series B bonds	-	42,755,000	-	42,755,000	-	42,755,000
Unamortized premium	-	1,266,470	(116,812)	1,149,658	-	1,149,658
Unamortized discount	-	(255,745)	6,885	(248,860)	-	(248,860)
	<u>94,602,613</u>	<u>52,250,725</u>	<u>(1,679,127)</u>	<u>145,174,211</u>	<u>2,070,000</u>	<u>143,104,211</u>
Notes payable:						
Note payable - Land	67,176	-	(21,309)	45,867	22,374	23,493
Note payable - Headquarters Building	10,553,058	-	(929,155)	9,623,903	967,639	8,656,264
Note payable - Other	-	257,913	-	257,913	135,624	122,289
	<u>10,620,234</u>	<u>257,913</u>	<u>(950,464)</u>	<u>9,927,683</u>	<u>1,125,637</u>	<u>8,802,046</u>
Total long-term debt	<u>\$ 109,592,732</u>	<u>\$ 52,508,638</u>	<u>\$ (3,171,467)</u>	<u>\$ 158,929,903</u>	<u>\$ 3,762,159</u>	<u>\$ 155,167,744</u>

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2012 and 2011**

(7) Long-term Debt, continued

Due to Other Governmental Agencies

The future annual maturities of all long-term borrowings as of June 30, 2012 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 2,327,047	\$ 7,243,404	\$ 9,570,451
2014	3,202,000	7,148,148	10,350,148
2015	3,310,721	7,030,915	10,341,636
2016	3,451,546	6,880,577	10,332,123
2017	3,440,450	6,721,363	10,161,813
2018-2022	21,964,441	32,165,722	54,130,163
2023-2027	21,045,000	34,017,907	55,062,907
2028-2032	25,075,000	30,735,934	55,810,934
2033-2037	32,220,000	26,394,512	58,614,512
2038-2042	41,085,000	22,131,420	63,216,420
2043-2047	<u>2,910,000</u>	<u>19,752</u>	<u>2,929,752</u>
Total	160,031,205	\$ <u>180,489,654</u>	\$ <u>340,520,859</u>
Unamortized discount	(801,903)		
Unamortized premium	959,644		
Deferred loss on refunding	(12,538,597)		
SWAP liability	<u>7,765,573</u>		
Total	<u>155,415,922</u>		
Less current portion	<u>(2,327,047)</u>		
Total non-current	\$ <u>153,088,875</u>		

Santa Ana Watershed Project Authority (SAWPA) 1.0 MGD Brine Line Pipeline Capacity

In 1993 the District purchased a brine line capacity use right from SAWPA of 1.0 MGD in the Brine Line, which was paid by making 20 annual installments of \$182,500 each year beginning in June 1993 through June 2012.

SAWPA 2.0 MGD Brine Line Pipeline Capacity

On January 12, 1999, the District entered into an agreement (Agreement) with SAWPA to purchase brine line capacity use rights of 2.0 MGD in the Brine Line for \$7,500,000 with an annual interest rate of 4.0%. An initial payment of 5% of the purchase price was paid within 30 days of the agreement date. The terms of the agreement require annual payments of interest and principal of \$528,584 for 20 years beginning July 1999. This agreement provided the District with the option to sell the purchased capacity to EVMWD and the City of Corona. On January 12, 1999, the District sold 0.8 MGD of pipeline capacity use right to EVMWD and 1.2 MGD of pipeline capacity to the City of Corona. EVMWD issued a note for \$3,060,000 for their purchases. For additional information on the note, refer to Note 4. The City of Corona paid \$4.6 million in cash for their purchases. Cash received from the City of Corona as well as any interest earned in the amount of \$1.3 million as of June 30, 2012 is restricted for repayment to SAWPA. As of June 30, 2012, the future annual maturities of the District's obligation are as follows:

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2012 and 2011**

(7) Long-Term Debt, continued

Due to Other Governmental Agencies, continued

SAWPA 2.0 MGD Brine Line Pipeline Capacity, continued

Fiscal Year	Principal	Interest	Total
2013	\$ 381,369	\$ 147,215	\$ 528,584
2014	398,907	129,676	528,583
2015	417,498	111,086	528,584
2016	437,204	91,380	528,584
2017	458,092	70,491	528,583
2018-2022	983,941	73,229	1,057,170
Total	3,077,011	\$ 623,077	\$ 3,700,088
Less current portion	(381,369)		
Total non-current	\$ 2,695,642		

State Water Resources Control Board – Contracts 3 and 4

On March 27, 1996, the District entered into an agreement with Western Riverside County Regional Wastewater Authority (WRCRWA) to purchase capacity in certain components of a wastewater treatment system. The District's share of the debt on the State Water Resources Control Board loans and the terms of the repayment are as follows:

State Water Resources Control Board – Contract 3

Loan was advanced for the construction of South Regional Conveyance System Phase II. The maximum loan amount was \$4,583,644 with interest at 2.8%. The District is responsible for 7.26% of the loan. The District's share of annual repayment is \$22,272, including principal and interest.

State Water Resources Control Board – Contract 4

Loan was advanced for the construction of the South Regional Pumping Station. The maximum loan amount was \$1,853,499 with interest at 2.8%. The District is responsible for 9.4% of the loan. The District's share of the annual repayments is \$11,562, including principal and interest.

The loans with the State Water Resources Control Board contain covenants and restrictions that include, but are not limited to, assurances relating to adherence to the Clean Water Act, Equal Opportunity and Civil rights laws, and certain other assurances. As of June 30, 2012, the future annual maturities of the District's obligation are as follows:

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2012 and 2011

(7) Long-Term Debt, continued

Due to Other Governmental Agencies, continued

State Water Resources Control Board – Contracts 3 and 4, continued

Fiscal Year	Principal	Interest	Total
2013	\$ 28,669	\$ 5,165	\$ 33,834
2014	29,471	4,363	33,834
2015	30,296	3,538	33,834
2016	31,145	2,689	33,834
2017	32,017	1,817	33,834
2018-2022	32,879	921	33,800
Total	184,477	\$ 18,493	\$ 202,970
Less current portion	(28,669)		
Total non-current	\$ 155,808		

Bonds Payable

Improvement Bonds

The improvement proceedings for Assessment District 90-1 (Lake Hills) were initiated by adoption of the Resolution of Intention, Resolution 1675, by the Board of Directors of the District on June 20, 1990. The proceedings were conducted pursuant to the Municipal Improvement Act of 1913. The proceeds from the sale of the Improvement Bonds were used to pay for the construction and acquisition of water system and sewer system improvements. The Bonds represent unpaid assessments levied against private property in the Assessment District in accordance with the provisions of the Municipal Improvement Act of 1913, and were issued pursuant to the Improvement Bond Act of 1915.

The Improvement Bonds in the amount of \$5,630,822 were issued in August 1990, with original issuance discount of \$32,279, and mature September 2, 1991 through September 2, 2015. The original issuance discount is being amortized using the effective interest rate method over the life of the bonds. The interest rate varies from 6.80% to 7.125%. As of June 30, 2012, the future annual maturities of the District's obligation are as follows:

Fiscal Year	Principal	Interest	Total
2013	\$ 105,000	\$ 30,459	\$ 135,459
2014	115,000	22,622	137,622
2015	125,000	14,072	139,072
2016	135,000	4,809	139,809
Total	480,000	\$ 71,962	\$ 551,962
Less current portion	(105,000)		
Total non-current	\$ 375,000		

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2012 and 2011

(7) Long-term Debt, continued

Bonds Payable, continued

2009 Series B Bonds

In May 2009, the Authority issued \$54,340,000 of 2009 Series B Water Revenue Bonds with original issuance discount of \$647,259. The Bonds were issued to finance the acquisition and construction of certain water and wastewater facilities. Interest on the Bonds is paid semiannually at stated rates ranging from 2.5% to 5.0%. The original issuance discount is being amortized using the effective interest rate method over the life of the bonds. The bonds mature in serial and term fashion through October 2039 and certain bonds are subject to optional or mandatory redemption. The bonds are secured by a pledge of the District's net revenues. The District is required to maintain net revenues equal to at least 110% of adjusted annual debt service.

As of June 30, 2012, the future annual maturities of the District's obligation are as follows:

Year Ending June 30,	Fixed-Rate Bonds		Total
	Principal	Interest	
2013	\$ 680,000	\$ 2,523,244	\$ 3,203,244
2014	690,000	2,506,244	3,196,244
2015	700,000	2,478,644	3,178,644
2016	720,000	2,450,644	3,170,644
2017	735,000	2,414,644	3,149,644
2018-2022	3,970,000	11,583,619	15,553,619
2023-2027	4,405,000	10,692,156	15,097,156
2028-2032	4,900,000	9,652,369	14,552,369
2033-2037	19,350,000	7,395,250	26,745,250
2038-2042	16,335,000	1,660,750	17,995,750
Total	52,485,000	\$ 53,357,564	\$ 105,842,564
Less current portion	(680,000)		
Total non-current	\$ 51,805,000		

2010 Series A Bonds

In October 2010, the Authority issued \$8,485,000 of 2010 Series A Water Revenue Bonds with original issuance premium of \$1,266,470. The bonds were issued to finance the acquisition and construction of certain water and wastewater facilities. Interest on the bonds is paid semiannually at stated rates ranging from 2.0% to 5.0%. The original issuance premium is being amortized using the effective interest rate method over the life of the bonds. The bonds mature in serial fashion through October 2022.

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2012 and 2011

(7) Long-term Debt, continued

Bonds Payable, continued

2010 Series A Bonds, continued

As of June 30, 2012, the future annual maturities of the District's obligation are as follows:

Year Ending June 30,	Fixed-Rate Bonds		Total
	Principal	Interest ⁽¹⁾	
2013	\$ -	\$ 363,100	\$ 363,100
2014	910,000	363,100	1,273,100
2015	945,000	344,900	1,289,900
2016	990,000	297,650	1,287,650
2017	1,030,000	248,150	1,278,150
2018-2022	4,610,000	517,550	5,127,550
Total	8,485,000	\$ 2,134,450	\$ 10,619,450
Less current portion	-		
Total non-current	\$ 8,485,000		

⁽¹⁾ Assuming an interest rate of 2.715% based on the SWAP.

2010 Series B Bonds

In October 2010, the Authority issued \$42,755,000 of 2010 Series B Water Revenue Bonds, Taxable Build America Bonds, with original issuance discount of \$255,745 to finance the acquisition and construction of certain water and wastewater facilities, such as the expansion of Western Water Recycling Facility. Interest on the bonds is paid semiannually at stated rates ranging from 4.528% to 6.510%. The original issuance discount is being amortized using the effective interest rate method over the life of the bonds. The bonds mature in serial and term fashion through October 2040 and certain bonds are subject to optional or mandatory redemption. Build America Bonds, created as part of the American Recovery and Reinvestment Act of 2009 (ARRA), are taxable securities that are subject to a subsidy payment from the United States Treasury equal to 35% of interest payable on the Build America Bonds. The subsidy payment does not constitute a full faith and credit guarantee of the federal government, but is required to be paid under the ARRA. The subsidy is pledged to the repayment of the bonds.

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2012 and 2011**

(7) Long-term Debt, continued

Bonds Payable, continued

2010 Series B Bonds, continued

As of June 30, 2012, the future annual maturities of the District's obligation are as follows:

Year Ending June 30,	Fixed-Rate Bonds		
	Principal	Interest	Total
2013	\$ -	\$ 2,630,711	\$ 2,630,711
2014	-	2,630,711	2,630,711
2015	-	2,630,711	2,630,711
2016	-	2,630,711	2,630,711
2017	-	2,630,711	2,630,711
2018-2022	1,270,000	14,423,554	15,693,554
2023-2027	6,990,000	19,157,479	26,147,479
2028-2032	8,415,000	18,378,339	26,793,339
2033-2037	10,230,000	17,378,135	27,608,135
2038-2042	15,850,000	19,048,689	34,898,689
Total	42,755,000	\$ <u>101,539,751</u>	\$ <u>144,294,751</u>
Less current portion	-		
Total non-current	\$ <u>42,755,000</u>		

2012 Series A Bonds

In June 2012, the Authority issued \$43,775,000 of 2012 Series A Adjustable Rate Water Revenue Refunding Bonds (2012 Series A) to refund the District's 2009 Series A Adjustable Rate Water Revenue Refunding Bonds (2009 Series A). The refunding restructures the timing of debt service payments in order to better align these payments with expected revenues from future development activity. While the refunding increased aggregate debt service payments by approximately \$6.2 million over the next 30 years, the District obtained an economic gain (difference between the present value of the old and new debt service payments) of \$657,533.

At the time of the refunding, the District's interest rate swap agreement for the 2009 Series A Bonds was effective with its cumulative change in fair value of \$7,765,573 reported as a deferred swap outflow. With the refunding, the District has entered into a new amended and restated swap agreement, replacing the 2009 Series A with the 2012 Series A. The deferred swap outflow from the old agreement carries forward to the new agreement. For accounting purposes, however, the refunding produces a termination event and the deferred swap outflow (swap liability) at time of refunding is included with the carrying value of the old debt for determining the refunding loss to be deferred and amortized as an element of interest expense over the life of the refunded debt. This deferred loss on refunding is reported as a reduction of bonds payable.

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2012 and 2011**

(7) Long-term Debt, continued

Bonds Payable, continued

2012 Series A Bonds, continued

The 2012 Series A Bonds are adjustable interest rate bonds with varying optional redemption provisions whose rates adjust from the remarketing of bonds tendered for redemption. An underlying credit facility provides liquidity and security for redemption should remarketing efforts not provide sufficient funds. In addition to optional redemption, mandatory redemption occurs through scheduled sinking fund payments. The bonds are secured by a pledge of the District's net revenues. The District is required to maintain net revenues equal to at least 110% of adjusted annual debt service.

Refer to Note 8 for further information on the swap agreement.

As of June 30, 2012, the future annual maturities of the District's obligation are as follows:

Year Ending June 30,	Variable-Rate Bonds		Total
	Principal	Interest ⁽¹⁾	
2013	\$ -	\$ 1,188,491	\$ 1,188,491
2014	-	1,188,491	1,188,491
2015	-	1,188,491	1,188,491
2016	-	1,188,491	1,188,491
2017	-	1,188,491	1,188,491
2018-2022	7,915,000	5,368,471	13,283,471
2023-2027	9,650,000	4,168,272	13,818,272
2028-2032	11,760,000	2,705,226	14,465,226
2033-2037	2,640,000	1,621,127	4,261,127
2038-2042	8,900,000	1,421,981	10,321,981
2043-2047	2,910,000	19,752	2,929,752
Total	43,775,000	\$ 21,247,284	\$ 65,022,284
Less current portion	-		
Total non-current	\$ 43,775,000		

(1) Assuming an interest rate of 2.715% based on the swap.

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2012 and 2011

(7) Long-term Debt, continued

Note Payable – Land

On April 26, 2004, the District acquired land in exchange for a note payable. Terms of the note provide that the District is to make 10 annual payments of \$24,667, including interest. The District made the first payment on April 26, 2004. The note has a stated interest rate of 5.0%. As of June 30, 2012, the future annual maturities of the District's obligation are as follows:

Fiscal Year	Principal	Interest	Total
2013	\$ 23,493	\$ 1,175	\$ 24,668
Total	23,493	<u>1,175</u>	<u>24,668</u>
Less current portion	<u>(23,493)</u>		
Total non-current	<u>\$ -</u>		

Note Payable – Headquarters Building

On September 28, 2009, the District obtained unsecured financing from a bank for the acquisition and development of its new headquarters building. Terms of the note provide that the District is to make semiannual payments of \$676,200, including interest, through October 2019. The District made the first payment on April 1, 2010. The note has a stated interest rate of 4.10%.

As of June 30, 2012, the future annual maturities of the District's obligation are as follows:

Fiscal Year	Principal	Interest	Total
2013	\$ 1,007,719	\$ 344,681	\$ 1,352,400
2014	1,049,459	302,941	1,352,400
2015	1,092,927	259,473	1,352,400
2016	1,138,197	214,203	1,352,400
2017	1,185,341	167,059	1,352,400
2018-2022	<u>3,182,621</u>	<u>198,378</u>	<u>3,380,999</u>
Total	8,656,264	<u>\$ 1,486,735</u>	<u>\$ 10,142,999</u>
Less current portion	<u>(1,007,719)</u>		
Total non-current	<u>\$ 7,648,545</u>		

Note Payable – Other

On June 29, 2011, the District entered into a non-interest-bearing note payable agreement to finance the acquisition of licensed software that it will use for its operations. Terms of the note provide that the District is to make 12 monthly payments in the amount of \$12,329 commencing on August 1, 2011, followed by 12 monthly payments in the amount of \$9,163 commencing on August 1, 2012 through July 1, 2013.

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2012 and 2011

(8) Interest Rate Swap

The District entered into an interest rate swap agreement for the Authority's 2009 Series A Water Revenue Refunding Bonds. In connection with the refunding of the 2009 Series A Bonds, the District has amended and restated the swap agreement, with the same counterparty, essentially replacing the 2009 Series A Bonds with the 2012 Series A Bonds with no change in notional amounts. The amended agreement carries over the swap liability from the prior agreement. Because of the carryover, the new agreement is considered a hybrid instrument for financial reporting, whose pay fixed rate of 2.715% (off-market rate) enables the pay-down of the carryover swap liability and provides for an interest rate hedging derivative with an imputed at-market rate of 1.424%.

The District's objective with the swap agreement is to alter its exposure to interest rate fluctuations, specifically rising interest rates that would negatively impact cash flows, by swapping an obligation to pay fixed rates for one that pays a floating rate. The table that follows summarizes the significant swap payment terms:

Description	Summary of Swap Payment Terms	
	District	Counterparty
Original Confirmation Date	November 4, 2008	November 4, 2008
Original Notional Amount	\$48,000,000	\$48,000,000
Amended and Restated Date	June 26, 2012	June 26, 2012
Amended Notional Amount	\$43,775,000	\$43,775,000
Notional Reductions	Annually on 10/1	Annually on 10/1
Termination Date	October 1, 2042	October 1, 2042
Payment Dates	1st Calendar day of each Month	1st Calendar day of each Month
Payment Rate	2.715%	67% of 1-month USD LIBOR

Evaluation of Swap Effectiveness

The District applies the provisions of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB Statement No. 53 prescribes the accounting and financial reporting required for derivative instruments that hedge identified financial risks. If the derivative instrument is determined to be effective in reducing the identified exposure, hedge accounting provides that changes in the fair value of the hedging instrument—in this instance, the interest rate swap—be reported as either deferred inflows or deferred outflows in a government's statement of net assets. To evaluate the effectiveness of the swap, the Synthetic Instrument Method (SIM) prescribed by GASB Statement No. 53 was employed for the fiscal years ended June 30, 2012 and 2011. The resulting analyses reveal the swap is effective as a hedging instrument for both fiscal years. The fair value or marked-to-market value of the swap as of June 30, 2012, as amended and restated, and 2011 is \$253,623 and (\$2,802,559), respectively, which is the amount the District would receive or owe as of this date should the swap be terminated. The change in fair market value of the swap in the amount of (\$3,056,182) and (\$1,129,361) from June 30, 2011 and 2010, respectively, was recorded as an increase and a decrease, respectively, in deferred outflow; and an increase and a decrease, respectively, in the liability in the statement of net assets.

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2012 and 2011**

(8) Interest Rate Swap

Credit Risk

The amended and restated interest rate SWAP agreement adds a third-party guarantor for any termination payment obligation that may be incurred by the counterparty.

The following tables compare the counterparty and guarantor credit ratings at June 30, 2012 against their threshold rating for termination:

Counterparty	Moody's	S&P
Senior Debt	Aa3	AAA
Threshold Amount	A3	A-
Counterparty Guarantor	Moody's	S&P
Senior Debt	Baa2	A-
Threshold Amount	A3	A-

Under the agreement, a swap termination event may occur if the counterparty's credit rating falls to the threshold level and, after 30 days' notice, collateral as required by the agreement is not delivered in favor of the District.

Interest Rate Risk

The District is exposed to interest rate risk on its pay-fixed, receive-variable interest rate swap. As LIBOR decreases, the District's net payment on the swap increases.

Basis Risk

The District is exposed to basis risk on the swap because the variable-rate payments received by the District are based on an index other than interest rates the District pays on hedged variable rate debt. At June 30, 2012, the District's 2012 Series A Bonds, which are hedged by the amended swap, had a weighted-average variable rate of 0.11%. As of June 30, 2012, the current rate on the 2012 Series A Bonds was 0.16% and the current rate of 67% of one-month USD LIBOR was 0.16%, resulting in no basis gain or risk for the District.

Termination Risk

The swap may be terminated by the District or its counterparty if the other party fails to perform under the terms of the contract. If, at the time of termination, the swap is in a liability position, the District would be obligated to pay the counterparty the liability position. The District has established policies to limit its termination liability payment risk to a predetermined percentage of its available reserves. The swap termination value at June 30, 2012 was within these limits.

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2012 and 2011

(9) Invested in Capital Assets, Net of Related Debt

The balance at June 30 consists of the following:

	2012	2011
Capital assets not being depreciated	\$ 60,877,188	\$ 112,004,126
Capital assets being depreciated, net	298,302,610	242,295,699
Due to other governmental agencies	(565,848)	(386,175)
Bonds payable	(117,156,894)	(108,067,421)
Notes payable	(8,789,717)	(9,927,683)
Invested in capital assets, net of related debt	\$ 232,667,339	\$ 235,918,546

(10) Defined Benefit Pension Plans

Plan Description

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

Funding Policy

Active Plan members in the Plan are required to contribute 8% of their annual covered salary. The District makes these contributions required of District employees on their behalf and for their account. The District is required to contribute the actuarially determined remaining amounts necessary to fund the 2.5% at age 55 Risk Pool Retirement Plan for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rates for the fiscal years ended June 30, 2012, 2011 and 2010 were 12.572%, 7.062% and 5.013%, respectively. The contribution requirements of the Plan members are established by state statute, and the employer contribution rate is established and may be amended by CalPERS.

Fiscal Year		Annual Required Contribution (ARC)	Percentage of ARC Contributed
2011-2012	\$	1,957,103	100%
2010-2011		1,485,941	100%
2009-2010		1,201,928	100%

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2012 and 2011

(10) Defined Benefit Pension Plans, continued

Annual Pension Cost

In August 2004, the District made a \$3.1 million prepayment to CalPERS in order to reduce its employer rate to zero for both fiscal years 2005 and 2006. This interest-bearing side fund was initially set to be amortized over 12 years to offset future employer contributions. Since its establishment, the side fund has had two lump sum reductions resulting from significant events. The two events were: (1) In November 2005, Murrieta County Water District (MCWD) was merged into the District, and since the CalPERS asset pool that MCWD was in was not funded at the same level as the District's, a lump sum transfer was made from the side fund to correct this. (2) In October 2007, the District's CalPERS benefit plan changed from 2.0% at 55 years old to 2.5% at 55 years old. The side fund was consequently reduced to bring the District's funding level to match that of the new plan's asset pool. The side fund balances at June 30, 2012 and 2011 were \$140,391 and \$184,924, respectively.

As is the case with most retirement systems, CalPERS is exposed to general market risk. This general market risk is reflected in asset valuations fluctuating with market volatility. Any impact from market volatility on CalPERS depends in large measure on how deep the market downturn is, how long it lasts, and how it fits within fiscal year reporting periods. The resulting market risk and associated realized and unrealized gains and losses could impact the financial condition of CalPERS and the District's required contribution to CalPERS.

The District modified its employee pension benefit by requiring all employees hired on or after December 16, 2012 to participate in the 2.0% at 55 years old plan with CalPERS, with the pension benefit based on the highest three-year salary average. In addition, District employees in this benefit plan are required to pay 85% of the Employee Share of the benefit funding, which equates to 5.95% of salary.

(11) Other Post-Employment Benefits

Plan Description

The District is the Plan Administrator for the Western Municipal Water District Retirement Medical Benefits Plan (the Medical Plan). The Medical Plan was established effective June 15, 2006 and is a single employer defined benefit plan to provide advance funding for medical post-employment health care benefits to eligible employees and eligible dependents in accordance with plan provisions. Medical Plan assets are accumulated and benefits are paid from a voluntary employees' beneficiary association (VEBA) trust established by the District. The Medical Plan does not issue a stand-alone financial report.

Eligible participants for the Medical Plan are based on four groups:

- a. Group 1 is classified employees hired on or before December 18, 2002, who are at least fifty-five (55) years old at retirement and have completed at least twelve (12) years of service. The District provides benefits for the employee and spouse.
- b. Group 2 is classified employees hired after December 18, 2002, who are at least fifty-five (55) years old at retirement and have completed at least fifteen (15) years of service. The District provides benefits for the employee only.

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2012 and 2011**

(11) Other Post-Employment Benefits, continued

Plan Description, continued

- c. Group 3 is non-classified employees hired on or before December 18, 2002, who are at least fifty-five (55) years old at retirement and have completed at least ten (10) years of service. The District provides benefits for the employee and spouse.
- d. Group 4 is non-classified employees hired after December 18, 2002, who are at least fifty-five (55) years old at retirement and have completed at least ten (10) years of service. The District provides benefits for the employee only.

As of the fiscal year ended June 30, 2012, there were 23 employees and six Board members who had retired and were eligible for Medical Plan benefits.

Effective January 1, 2013, a new California state law mandates an employer to provide the same retiree health benefit vesting schedule to represented and unrepresented employees. In order to comply with the new state law, the District's vesting schedule has been changed to 10 years of service for all employees. The vesting schedule was previously 12 years and 15 years for represented employees, depending on their hire date.

Funding Policy and Annual Cost

Medical Plan members do not contribute to the plan. The contribution requirement of the District is established and may be amended by the District's Board of Directors. The District contributes to the VEBA trust an amount equal to the ARC, which is an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

Since the District has contributed an amount equal to the ARC each year, the net obligation to the Medical Plan is zero. The ARC for fiscal years ended June 30, 2012, 2011 and 2010 was \$590,992, \$590,992 and \$491,418, respectively. The VEBA trust paid insurance premiums on behalf of retired participants in the amounts of \$227,765, \$239,971 and \$219,076 for the fiscal years ended June 30, 2012, 2011 and 2010, respectively.

Funding Status and Funding Progress

The funded status of the Medical Plan as of the last actuarial valuation date of June 30, 2010 was as follows:

Actuarial accrued liability (AAL)	\$ 9,223,686
Actuarial value of plan assets	<u>7,529,501</u>
Unfunded actuarial accrued liability (UAAL)	\$ 1,694,185
Funded ratio (actuarial value of plan assets/AAL)	81.6%
Covered payroll (active plan members)	\$ 8,091,122
UAAL as a percentage of covered payroll	20.9%

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2012 and 2011

(11) Other Post-Employment Benefits, continued

Funding Status and Funding Progress, continued

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the Medical Plan and the ARCs of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

In the June 30, 2010 actuarial valuation, the projected unit credit cost method was used, in which assets are valued at fair value. The actuarial assumptions included a 3.25% projected salary increase, a 5.0% investment rate of return compounded annually (net of administrative expenses) and a healthcare inflation rate of 8.5% per annum, graded down each year in 0.5% increments to an ultimate rate of 4.5%. The unfunded actuarial accrued liability is amortized over the maximum allowable (closed) 30-year period, based on the level dollar amortization method.

Projections of benefits are based on the substantive plan and include the types of benefits in effect at the valuation date and the pattern of sharing benefit costs between the District and the plan members to that point. Actuarial valuations involve the use of future estimates that are subject to continual revision. These calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility.

(12) 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, 2012, the District participated in the liability and property programs of the ACWA/JPIA as follows:

- General and auto liability, public officials and employees' errors and omissions: Total risk financing self-insurance limits of \$2,000,000 per occurrence.
- ACWA/JPIA purchased additional excess coverage layers: \$60 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 coverage.
- Property loss is paid at the replacement cost for property on file, if replaced within two years after the loss, otherwise paid on an actual cash value basis, to a combined total of \$100 million per occurrence, subject to a \$25,000 deductible per occurrence.

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2012 and 2011

(12) Risk Management, continued

- Boiler and machinery coverage for the replacement cost up to \$100 million per occurrence, subject to various deductibles depending on the type of equipment.
- Public officials' personal liability up to \$1,000,000 each occurrence, with an annual aggregate of \$20,000,000 per each elected/appointed official to which this coverage applies, subject to the terms of the policy.
- Workers' compensation insurance up to California statutory limits of \$2,000,000 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, 2012 and 2011. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2012 and 2011.

(13) Commitments and Contingencies

Joint Ventures

The District participates in the following joint ventures with other districts and agencies for various water and wastewater projects and operating facilities in Southern California:

Chino Basin Desalter Authority

The District joined the Chino Basin Desalter Authority (CDA) in November 2008 and became a voting member of the CDA on September 22, 2011 through a facility buy-in contribution of \$3,163,712. Working in partnership with two CDA partners, the City of Ontario and Jurupa, the District is augmenting water supplies from the Chino Basin by expanding the capacity of the Chino II Desalter from 12 MGD to 22 MGD. As expansion partners, the District, the City of Ontario and Jurupa will be responsible for funding the remaining cost of the \$120 million project. The District's total share of the project is expected to be \$50 million, reduced by \$29 million in grant funding, for a net cost of \$21 million funded by bond proceeds. Amounts paid to date include \$18.8 million as of June 30, 2012. The District's participation in the CDA is accounted for as a joint venture without an equity interest.

Inland Empire Utilities Agency is responsible for the administration and operations of the CDA. Separate financial statements of the CDA may be obtained at Inland Empire Utilities Agency, 6075 Kimball Avenue, Chino, CA 91708.

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2012 and 2011**

(13) Commitments and Contingencies, continued

Joint Ventures, continued

Chino Basin Desalter Authority, continued

Financial information for the operation of the CDA for the fiscal years ended June 30 is as follows:

	2012	2011
Total assets	\$ 176,444,534	\$ 145,307,722
Total liabilities	\$ 97,341,926	\$ 90,270,155
Total net assets	\$ 79,102,608	\$ 55,037,567
Total revenues	\$ 61,821,724	\$ 37,742,275
Total expenses	(37,756,683)	(40,144,031)
Net change in net assets	\$ 24,065,041	\$ (2,401,756)

Western Riverside County Regional Wastewater Authority

WRCRWA was formed in 1992 pursuant to the provisions of Article 1, Chapter 5, Division 7, Title 1 of the Government Code of the State of California relating to the joint exercise of powers common to public agencies, for the purpose of constructing, maintaining, operating and managing facilities for the collection, transmission, treatment and disposal of wastewater, the reclamation of wastewater, and the use of reclaimed wastewater for any beneficial purpose.

The five-member agencies are the Home Gardens Sanitary District, the District, the City of Norco, SAWPA and Jurupa. WRCRWA is governed by a 10-member Board of Directors. The District's participation in WRCRWA is accounted for as a joint venture without an equity interest.

WRCRWA owns and operates 8.00 MGD tertiary wastewater treatment plant in Riverside County. The member agencies support the operating costs and capital costs through fixed and variable rates established by WRCRWA's Board of Directors.

The plant's capacity is owned by member agencies as follows:

Member Agencies	Million Gallons per Day (MGD)
Western Municipal Water District	1.93
Jurupa Community Services District	3.25
City of Norco	2.20
Home Gardens Sanitary District	0.62
Santa Ana Watershed Project Authority	0.00
	8.00

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2012 and 2011**

(13) Commitments and Contingencies, continued

Joint Ventures, continued

Western Riverside County Regional Wastewater Authority, continued

Financial information for the operation of WRCRWA for the fiscal years ended June 30 is as follows:

	<u>2012</u>	<u>2011</u>
Total assets	\$ 50,614,600	\$ 46,736,357
Total liabilities	\$ 6,797,243	\$ 6,177,985
Total net assets	\$ 43,817,357	\$ 40,558,372
Total revenues	\$ 9,288,411	\$ 6,052,501
Total expenses	(6,029,426)	(5,832,470)
Net change in net assets	\$ 3,258,985	\$ 220,031

Since July 1, 1998, the District has been responsible for the administration and operations of WRCRWA. Separate financial statements of WRCRWA may be obtained at Western Municipal Water District, 14205 Meridian Parkway, Riverside, CA 92518.

SAWPA

SAWPA was formed under a joint exercise of power agreement for the purpose of undertaking projects for water quality control and protection in the Santa Ana River Watershed. SAWPA is composed of five water agencies within the watershed area: Eastern Municipal Water District, Orange County Water District, San Bernardino Valley Municipal Water District, the District and the Inland Empire Utilities Agencies. Each participating agency appoints two commissioners to SAWPA to form an oversight committee of 10. Equal contributions are made by each member agency for administration and contributions based on capacity use rights for project agreements under which capital construction is accomplished. Special projects or studies are funded by contributions based on the general or specific nature of the project or study. The District's participation in SAWPA is accounted for as a joint venture without an equity interest. Financial data may be obtained at Santa Ana Watershed Project Authority, 11615 Sterling Avenue, Riverside, California 92503.

Financial information for the operation of SAWPA for the fiscal years ended June 30 is as follows:

	<u>2012</u>	<u>2011</u>
Total assets	\$ 192,136,326	\$ 181,103,770
Total liabilities	\$ 123,953,552	\$ 115,484,904
Total net assets	\$ 68,182,774	\$ 65,618,866
Total revenues	\$ 19,424,885	\$ 18,111,314
Total expenses	(16,860,977)	(18,253,295)
Net change in net assets	\$ 2,563,908	\$ (141,981)

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2012 and 2011**

(13) Commitments and Contingencies, continued

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 within its service area. The financing of such construction contracts is being provided primarily from the District's replacement reserves and advances for construction. The District has committed to \$1,101,076 in open construction contracts as of June 30, 2012. These include:

<u>Project</u>	<u>Approved Contract</u>	<u>Payments To Date</u>	<u>Remaining Commitment</u>
Ivy Street Water and Sewer Improvements W-206	\$ 516,977	\$ 423,855	\$ 93,122
Construction of 2320 PZ (Hillside) Pipeline Reach W-204	2,598,247	1,592,793	1,005,454
Van Buren Blvd. & Gila Way Pipeline Replacement W-209	76,334	73,834	2,500
Total	<u>\$ 3,191,558</u>	<u>\$ 2,090,482</u>	<u>\$ 1,101,076</u>

Murrieta Service Area

Wastewater treatment within the Murrieta service area is provided by Rancho California Water District's (RCWD) Santa Rosa Wastewater Reclamation Facility (Santa Rosa Facility). Besides the District's Murrieta service area, the Santa Rosa Facility serves the wastewater customers of RCWD and those of neighboring districts. RCWD has determined that the Santa Rosa Facility will need improvements/enhancements in order to meet anticipated demand. The District has been approached by RCWD to discuss its willingness to share in paying for a portion of the proposed costs and to establish the District's obligations with respect to cost overruns in connection with past construction of the Santa Rosa Facility. While the District's share in proposed costs cannot yet be determined, its contribution for cost overruns could approximate \$10 million. The District has not determined whether it will participate in improving the Santa Rosa Facility and is evaluating its obligations, if any, with respect to cost overruns. Any obligations incurred by the District with respect to cost overruns or the expansion of the Santa Rosa Facility would be paid for with connection fees and increased rates from within the Murrieta service area and by using certain reserves and other amounts attributable to the Santa Rosa Facility.

General Litigation

The District is subject to various claims covering a wide range of matters that arise in the ordinary course of business. Management believes that any liability that may ultimately result from the resolution of these matters will not have a material adverse effect on the financial condition of the District.

(14) Implementation of New Accounting Principles

GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53*, became effective during fiscal year 2012. The implementation of this Statement had no impact on the District's financial statements.

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2012 and 2011

(15) GASB Statements Issued, Not Yet Effective

GASB Statement No. 60

In November 2010, the GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This standard addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. Common examples of SCAs include long-term arrangements in which a government (the transferor) engages a company or another government (the operator) to operate a major capital asset in return for the right to collect fees from users of the capital asset. In these SCAs, the operator generally makes a large up-front payment to the transferor. Alternatively, the operator may build a new capital asset for the transferor and operate it on the transferor's behalf. This Statement is effective for financial statements for periods beginning after December 15, 2011. The impact of the implementation of this Statement on the District's financial statements has not been assessed at this time.

GASB Statement No. 61

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*. This standard is designed to improve financial reporting for governmental entities by amending the requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, to better meet the needs of users and address reporting entity issues that have come to light since GASB Statement No. 14 and GASB Statement No. 34 were issued in 1991 and 1999, respectively. It is intended to improve the information presented about the financial reporting entity, which comprises a primary government and related entities (component units). In addition, this standard amends the criteria for blending—reporting component units as if they were part of the primary government—in certain circumstances. This Statement is effective for financial statements for periods beginning after June 15, 2012, with earlier application encouraged. The impact of the implementation of this Statement on the District's financial statements has not been assessed at this time.

GASB Statement No. 63

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This standard provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. This Statement amends the net asset reporting requirements in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. This Statement is effective for financial statements for periods beginning after December 15, 2011. The impact of the implementation of this Statement on the District's financial statements has not been assessed at this time.

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2012 and 2011

(15) GASB Statements Issued, Not Yet Effective, continued

GASB Statement No. 65

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This standard establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012, with earlier application encouraged. The impact of the implementation of this Statement on the District's financial statements has not been assessed at this time.

GASB Statement No. 66

In March 2012, the GASB issued Statement No. 66, *Technical Corrections—2012—An amendment of GASB Statements No. 10 and No. 62*. This standard improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement amends GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported, as required in GASB Statement No. 54 and GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. This Statement also amends GASB Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply GASB Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012, with earlier application encouraged. The impact of the implementation of this Statement on the District's financial statements has not been assessed at this time.

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2012 and 2011

(15) GASB Statements Issued, Not Yet Effective, continued

GASB Statement No. 67

In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans—An amendment of GASB Statement No. 25*. This standard replaces the requirements of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and GASB Statement No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. GASB Statement No. 67 builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. The Statement enhances note disclosures and required supplementary information for both defined benefit and defined contribution pension plans. The Statement also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year required supplementary information schedules. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013, with earlier application encouraged. The impact of the implementation of this Statement on the District's financial statements has not been assessed at this time.

GASB Statement No. 68

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—An Amendment of GASB Statement No. 27*. This standard replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and GASB Statement No. 50, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. The Statement requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information. The provisions of this Statement are effective for fiscal years beginning after June 15, 2014, with earlier application encouraged. The impact of the implementation of this Statement on the District's financial statements has not been assessed at this time.

(16) Subsequent Events

Public Employees Pension Reform

On September 12, 2012, the Governor signed into law Assembly Bill 340, the California Public Employees' Pension Reform Act of 2013 (PEPRA). This bill will affect both current and future employees hired into the District on or after January 1, 2013, with the majority of the provisions affecting the latter group. CalPERS has indicated the legislation will save an estimated \$42 billion to \$55 billion over the next 30 years program-wide. The specific economic impact on the District has not yet been determined, but there is expected to be long-term savings realized through the PEPRA.

STATISTICAL SECTION



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Statistical Section

This part of the District's comprehensive annual financial report presents detailed information as a context for understanding what the information in the accompanying financial statements and notes to the basic financial statements says about the District's overall financial health.

Contents

Financial Trends

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

Revenue Capacity

These schedules contain information to help the reader assess the factors affecting the District's ability to generate revenues.

Debt Capacity

The 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 in the future.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place and to help make compensations over time and with other agencies.

Operating Information

These schedules contain information about the District's operations and resources to help the reader understand how the District's financial information relates to the services the District provides and the activities it performs.

TABLE I – NET ASSETS BY COMPONENT
Last Ten Fiscal Years

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Invested in capital assets, □ net of related debt	\$ 112,471,840	\$ 100,216,221	\$ 103,243,603	\$ 154,768,447	\$ 168,574,254	\$ 187,971,684 ⁽¹⁾	\$ 215,778,402 ⁽¹⁾	\$ 240,688,039	\$ 235,918,546	\$ 232,667,339
Restricted for debt service	7,153,406	6,884,378	6,650,184	6,463,109	-	155,331	144,619	144,619	144,619	144,619
Restricted for investments	23,083,445	29,337,887	38,685,499	40,153,846	31,698,838	26,556,373	28,974,102	29,118,573	26,151,035	23,298,893
Unrestricted	<u>70,774,126</u>	<u>95,897,145</u>	<u>101,312,682</u>	<u>77,929,380</u>	<u>93,838,974</u>	<u>95,813,330</u>	<u>79,858,248</u>	<u>78,109,273</u>	<u>85,761,154</u>	<u>93,423,781</u>
Total Net Assets	<u>\$ 213,482,817</u>	<u>\$ 232,335,631</u>	<u>\$ 249,891,968</u>	<u>\$ 279,314,782</u>	<u>\$ 294,112,066</u>	<u>\$ 310,496,718</u>	<u>\$ 324,755,371</u>	<u>\$ 348,060,504</u>	<u>\$ 347,975,354</u>	<u>\$ 349,534,632</u>
Percentage Increase (Decrease)		9%	8%	12%	5%	6%	5%	7%	-0.02%	0.45%

⁽¹⁾ Fiscal years 2008 and 2009 balances have been retrospectively restated for the implementation of GASB Statement No. 51.

Source: Western Municipal Water District

TABLE II – CHANGES IN NET ASSETS
Last Ten Fiscal Years

Fiscal Year	Operating Revenues ⁽¹⁾	Operating Expenses ⁽²⁾	Operating Income/(Loss)	Total Non-Operating Revenues/ (Expenses)	Income/(Loss) Before Capital Contributions	Capital Contributions ⁽⁴⁾	Change in Net Assets
2012	\$ 91,100,463	\$ 109,559,065	\$ (18,458,602)	\$ 14,956,215	\$ (3,502,387)	\$ 5,061,665	\$ 1,559,278
2011	79,471,048	100,249,983	(20,778,935)	14,874,129	(5,904,806)	5,819,656	(85,150)
2010	79,126,995	100,280,997	(21,154,002)	17,625,069	(3,528,933)	26,834,066	23,305,133
2009	75,480,412	97,167,792	(21,687,380) ⁽³⁾	21,652,217	(35,163)	14,293,816	14,258,653
2008	72,005,893	90,548,426	(18,542,533) ⁽³⁾	24,721,336	6,178,803	7,304,570	13,483,373
2007	71,774,787	83,794,594	(12,019,807)	20,140,134	8,120,327	6,681,243	14,801,570
2006	58,643,034	70,497,736	(11,854,702)	30,602,563	18,747,861	10,674,953	29,422,814
2005	47,651,008	57,962,469	(10,311,461)	13,904,315	3,592,854	13,963,483	17,556,337
2004	55,054,673	64,200,273	(9,145,600)	12,914,655	3,769,055	15,083,759	18,852,814
2003	49,142,127	56,523,924	(7,381,797)	22,843,726	15,461,929	12,716,444	28,178,373

⁽¹⁾ See Table III for details of revenues.

⁽²⁾ See Table IV for details of expenses.

⁽³⁾ Balance has been retrospectively restated for the implementation of GASB Statement No. 51.

⁽⁴⁾ Capital contributions include water and sewer connection fees (capacity charges) and contributed assets from developers, as well as grant proceeds. Being dependent on the development interest within the retail service area, these amounts naturally fluctuate from year to year.

Source: *Western Municipal Water District*

TABLE III – REVENUES BY SOURCE
(Excluding Capital Contributions and Special Items)
 Last Ten Fiscal Years

Fiscal Year	Operating Revenues						Non-Operating Revenues					Combined Revenues
	Water Sales	Water Service	Wastewater Disposal	Contractual Services	Other Operating	Total Operating Revenues	Property Taxes	Investment Earnings	Capacity Rights Sales	Other Non-Operating	Total Non-Operating Revenues	
2012	\$66,310,917	\$12,479,514	\$10,364,865	\$1,945,167	\$ -	\$91,100,463	\$ 15,221,864	\$5,578,084	\$ 828,459	\$1,544,818	\$ 23,173,225	\$ 114,273,688
2011	56,473,710	10,477,058	10,862,351	1,569,409	88,520	79,471,048	15,106,222	3,802,289	997,710	1,008,052	20,914,273	100,385,321
2010	56,223,768	9,127,539	10,723,639	748,437	2,303,612	79,126,995	16,262,545	6,826,692	163,118	2,152,033	25,404,388	104,531,383
2009	55,667,804	7,776,582	8,161,485	2,532,882	1,341,659	75,480,412	17,853,043	6,378,492	280,376	849,205	25,361,116	100,841,528
2008	53,588,433	6,711,049	7,931,271	2,250,140	1,525,000	72,005,893	17,704,142	9,415,423	606,424	900,532	28,626,521	100,632,414
2007	53,192,559	6,074,097	8,652,596	2,515,810	1,339,725	71,774,787	16,419,757	6,790,364	403,446	1,197,962	24,811,529	96,586,316
2006 ⁽¹⁾	43,191,741	4,934,235	6,525,941	3,027,621	963,496	58,643,034	7,442,255 ⁽²⁾	1,203,183	195,235	1,213,030	10,053,703	68,696,737
2005	35,915,647	3,997,064	4,485,883	3,209,674	42,740	47,651,008	4,898,836 ⁽²⁾	6,844,838	1,345,921	2,619,497	15,709,092	63,360,100
2004	43,776,828	3,625,705	3,526,382	3,929,826	195,932	55,054,673	10,059,670	(134,800)	2,470,520	2,184,251	14,579,641	69,634,314
2003	37,001,266	5,673,839	3,357,896	1,974,209	1,134,917	49,142,127	8,748,823	6,661,485	6,032,450	2,209,601	23,652,359	72,794,486

⁽¹⁾ All categories with the exception of Contractual Services and Capacity Rights Sales have been impacted due to the consolidation of the Murrieta County Water District into Western Municipal Water District effective November 27, 2005, and the transfer of the Arlington Desalter from the Santa Ana Watershed Project Authority effective December 1, 2005.

⁽²⁾ Decrease due to ERAF shift of \$6.7 million in property tax revenue to the State.

Source: Western Municipal Water District

TABLE IV – EXPENSES BY FUNCTION
Last Ten Fiscal Years

Fiscal Year	Operating Expenses								Total Non-Operating Expenses	Combined Expenses	
	Purchased Water	Pumping	Transmission & Distribution	Admin and General	Contractual Services	Depreciation	Other	Wastewater Disposal			Total Operating
2012	\$ 57,873,634	\$3,820,373	\$ 7,679,552	\$ 10,888,801	\$1,867,917	\$ 10,826,239	\$7,623,646	\$8,978,903	\$ 109,559,065	\$8,217,010	\$ 117,776,075
2011	51,890,617	3,853,402	6,234,543	11,456,106	1,528,335	10,262,842	5,937,670	9,086,468	100,249,983	6,040,143	106,290,126
2010	2,249,030	51,890,617	2,048,534	446,587	11,456,106	10,516,093	14,895,261	298,565	93,800,793	7,779,319 ⁽³⁾	101,580,112
2009	51,655,168	3,727,019	5,611,231	11,328,694	2,742,866	7,035,161 ⁽²⁾	6,992,836 ⁽²⁾	8,074,817	97,167,792	3,708,899	100,876,691
2008	50,897,920	3,246,535	4,867,610	10,234,890	2,200,289	6,431,717 ⁽²⁾	4,858,647 ⁽²⁾	7,810,818	90,548,426	3,905,185	94,453,611
2007	49,496,922	2,637,091	3,843,680	8,469,239	2,515,810	5,933,388	3,143,603	7,754,861	83,794,594	4,671,395	88,465,989
2006 ⁽¹⁾	40,303,646	2,672,132	3,398,754	6,274,755	3,027,621	5,071,100	3,028,361	6,721,367	70,497,736	3,220,501	73,718,237
2005	34,442,427	1,806,219	1,950,989	6,074,707	3,209,674	4,098,388	3,093,901	3,286,164	57,962,469	1,804,777	59,767,246
2004	40,697,084	1,741,423	1,791,049	4,750,526	3,929,826	4,002,307	3,905,390	3,382,668	64,200,273	1,664,986	65,865,259
2003	34,118,164	1,709,996	1,661,059	7,349,989	1,974,209	3,431,843	3,586,492	2,692,172	56,523,924	808,633	57,332,557

⁽¹⁾ All categories, with the exception of Contractual Services, have been impacted due to the consolidation of the Murrieta County Water District into Western Municipal Water District effective November 27, 2005, and the transfer of the Arlington Desalter from the Santa Ana Watershed Project Authority effective December 1, 2005.

⁽²⁾ Balance has been retrospectively restated for the implementation of GASB Statement No. 51.

⁽³⁾ The significant increase in fiscal year 2010 is primarily due to a \$2.6 million greater interest expense resulting from the issuance of the District's 2010 Series A and Series B Revenue Bonds in May 2009.

Source: Western Municipal Water District

CHART I – REVENUE AND EXPENSES
Last Ten Fiscal Years

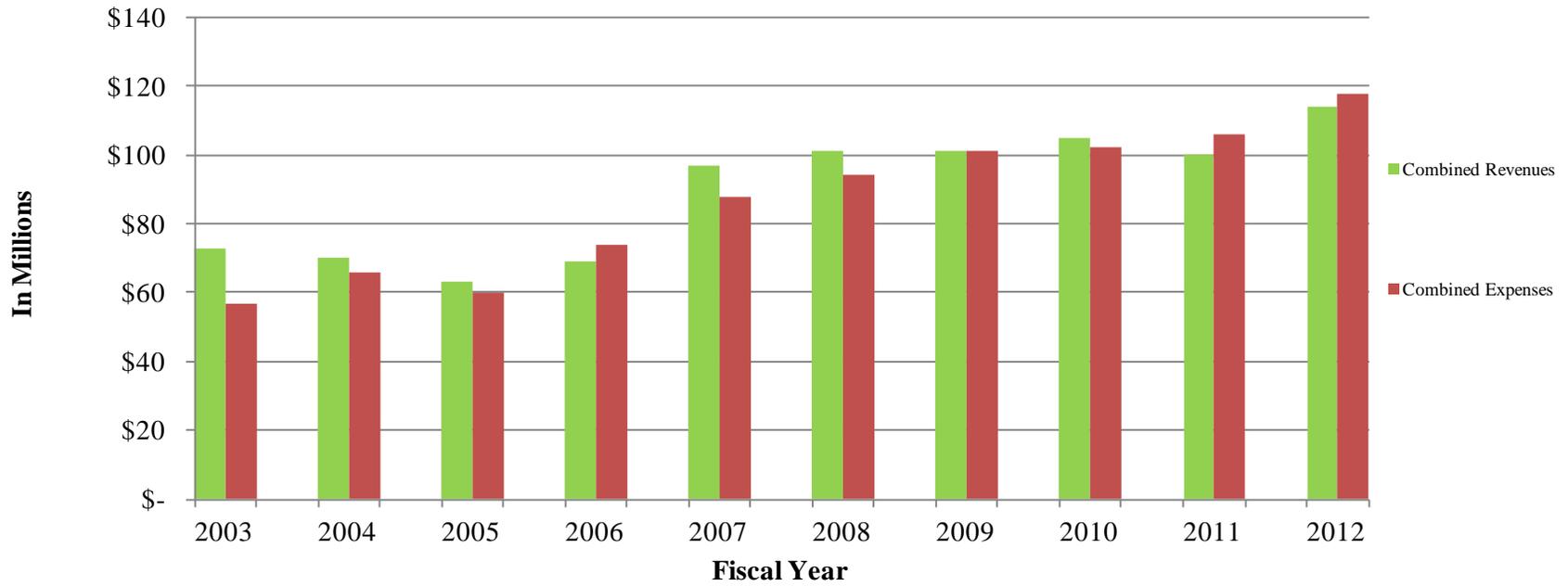


TABLE V – ACTIVE WATER ACCOUNTS BY METER SIZE
Last Ten Fiscal Years

Fiscal Year	¾-Inch	1-Inch	1½-Inch	2-Inch	3-Inch	4-Inch	6-Inch	8-Inch & Greater	Total
2012	17,969	4,332	358	475	50	48	20	25	23,277
2011	17,795	4,316	388	490	52	75	86	151	23,353
2010	17,820	4,325	393	506	52	76	61	75	23,308
2009	17,806	4,320	391	500	51	76	60	72	23,276
2008	17,680	4,309	386	461	48	74	59	66	23,083
2007	17,610	4,312	376	412	52	82	59	72	22,975
2006	17,113	4,236	349	372	56	90	62	59	22,337
2005	13,699	4,021	257	218	41	63	21	32	18,352
2004	12,694	3,977	250	202	41	61	21	31	17,277
2003	12,249	3,868	236	183	38	61	21	29	16,685

Notes: 2,547 of the 3,985 additional water accounts during fiscal year 2006 were due to the consolidation of Murrieta County Water District with Western Municipal Water District on November 27, 2005.

Source: Western Municipal Water District

**TABLE VI – RETAIL WATER ACCOUNTS BY TYPE
AND RETAIL WASTEWATER ACCOUNTS**
Last Ten Fiscal Years

Fiscal Year	Water Accounts			Wastewater Accounts
	Domestic	Agriculture	Total	
2012	23,148	129	23,277	8,188
2011	23,211	142	23,353	8,149
2010	23,162	146	23,308	7,968
2009	23,131	145	23,276	7,935
2008	22,938	145	23,083	7,738
2007	22,778	197	22,975	7,494
2006	22,131	206	22,337	6,896
2005	18,153	199	18,352	4,021
2004	17,080	197	17,277	3,477
2003	16,489	196	16,685	3,284

Note: 2,547 of the 3,985 additional water accounts, and 1,862 of the 2,875 additional wastewater accounts, during fiscal year 2006 were due to the consolidation of Murrieta County Water District with Western Municipal Water District on November 27, 2005.

Source: Western Municipal Water District

TABLE VII – WATER AND SEWER RATES
Last Ten Fiscal Years

At June 30,	Fixed Monthly Base Rate Based on Meter Size								Monthly Usage Rate ⁽¹⁾	Monthly Sewer Rate ⁽²⁾
	¾-Inch	1-Inch	1½-Inch	2-Inch	3-Inch	4-Inch	6-Inch	8-Inch		
2012	\$ 22.38	\$ 36.20	\$ 72.41	\$ 89.65	\$ 108.61	\$ 125.82	\$ 143.08	\$ 162.03	\$ 66.85	\$ 32.91
2011	20.44	33.06	66.13	81.88	99.19	114.91	130.67	147.98	57.36	30.19
2010 ⁽³⁾	18.69	30.19	60.38	74.75	90.57	104.94	119.32	135.13	48.46	27.70
2009	18.69	30.19	60.38	74.75	90.57	104.94	119.32	135.13	48.46	25.40
2008	14.17	22.89	45.78	56.68	68.67	79.57	90.47	102.46	35.38	23.33
2007	13.00	21.00	42.00	52.00	63.00	73.00	83.00	94.00	32.48	21.40
2006	13.00	21.00	42.00	52.00	63.00	73.00	83.00	94.00	32.48	21.40
2005	13.00	18.00	19.00	32.00	36.00	42.00	48.00	54.00	32.48	20.00
2004	13.00	18.00	19.00	32.00	36.00	42.00	48.00	54.00	32.48	20.00
2003	13.00	18.00	19.00	32.00	36.00	42.00	48.00	54.00	32.48	20.00

Notes: The water meter and water rate information shown is for domestic customers (i.e., non-agricultural) residing in the District's retail service area that has the vast majority of customers (Riverside service area, Improvement District No. 1 / Power Zone 1).

⁽¹⁾ The rate shown is for an average monthly treated water consumption of 29 units. A unit is 100 cubic feet of water or 748 gallons. An average customer with a ¾-inch water meter will pay \$89.23 per month (\$22.38 fixed + \$66.85 usage).

⁽²⁾ The sewer rate information shown is for one EDU (equivalent dwelling unit) in the District's Lake Hills area.

⁽³⁾ Water and sewer rates were increased effective January 1, 2012 and November 1, 2011, respectively.

Source: Western Municipal Water District

TABLE VIII – PRINCIPAL RETAIL WATER CUSTOMERS
Fiscal Year Ended June 30, 2012

Customer Name	Water Deliveries in Acre-Feet	Percentage of Water Deliveries
Riverside National Cemetery	999	3.9%
Altman Plants	581	2.2%
City of Riverside	570	2.2%
Fresh & Easy Neighborhood Market	551	2.1%
Village Nurseries	519	2.0%
Pepsi Cola Plant	352	1.4%
The Kroger Plant	329	1.3%
General Old Golf Course	288	1.1%
Air Force Village	255	1.0%
John J. Gless/Gless Ranch	145	0.6%
Total Principal Customers	4,589	17.7%
Other Customers	21,282	82.3%
Total Retail Water Deliveries	25,871	100.0%

Source: Western Municipal Water District

TABLE IX – WHOLESALE WATER CUSTOMER DELIVERIES
Fiscal Year Ended June 30, 2012

Water Agency	Water Deliveries in Acre-Feet	Percentage of Water Deliveries
Elsinore Valley Municipal Water District	17,929	28.9%
Rancho California Water District	17,408	28.1%
City of Corona	17,471	28.2%
City of Norco	5,749	9.3%
Lee Lake Water District	2,828	4.6%
Eagle Valley Mutual Water District	456	0.7%
Box Springs Mutual Water Company	81	0.1%
City of Riverside	0	0.0%
Metropolitan Water District	9	0.1%
Total Wholesale Deliveries	61,931	100.0%

Source: Western Municipal Water District

**TABLE X – SUMMARY OF IMPORTED WATER RATES
(dollars per acre-foot)**

Rates Effective	Full Service		Interim Agricultural Program		Long-term Seasonal Storage	
	Treated	Untreated	Treated	Untreated	Treated	Untreated
Jan. 1, 2003 Tier 1	408	326	294	236	290	233
Jan. 1, 2003 Tier 2	489	407	n/a	n/a	n/a	n/a
Jan. 1, 2004 Tier 1	418	326	304	236	300	233
Jan. 1, 2004 Tier 2	499	407	n/a	n/a	n/a	n/a
Jan. 1, 2005 Tier 1	443	331	329	241	325	238
Jan. 1, 2005 Tier 2	524	412	n/a	n/a	n/a	n/a
Jan. 1, 2006 Tier 1	453	331	339	241	335	238
Jan. 1, 2006 Tier 2	549	427	n/a	n/a	n/a	n/a
Jan. 1, 2007 Tier 1	478	331	364	241	360	238
Jan. 1, 2007 Tier 2	574	427	n/a	n/a	n/a	n/a
Jan. 1, 2008 Tier 1	508	351	394	261	390	258
Jan. 1, 2008 Tier 2	606	449	n/a	n/a	n/a	n/a
Jan. 1, 2009 Tier 1	579	412	465	322	436	294
Jan. 1, 2009 Tier 2	695	528	n/a	n/a	n/a	n/a
Sep. 1, 2009 Tier 1	701	484	587	394	558	366
Sep. 1, 2009 Tier 2	781	564	n/a	n/a	n/a	n/a
Jan. 1, 2010 Tier 1	701	484	615	416	558	366
Jan. 1, 2010 Tier 2	811	594	n/a	n/a	n/a	n/a
Jan. 1, 2011 Tier 1	744	527	687	482	601	409
Jan. 1, 2011 Tier 2	869	652	n/a	n/a	n/a	n/a
Jan. 1, 2012 Tier 1	794	560	765	537	651	442
Jan. 1, 2012 Tier 2	920	686	n/a	n/a	n/a	n/a

Source: Metropolitan Water District

TABLE XI – WATER SOURCES (IN ACRE-FEET)
Last Ten Fiscal Years

Fiscal Year	Purchased						Purchased Total	Wells	Desalter	Recycled Water	Grand Total
	Domestic			Agriculture							
	Treated	Untreated	Total	Treated	Untreated	Total					
2012	54,268	20,782	75,050	5,016	4,232	9,248	84,298	678	4,928	649	90,553
2011	47,312	18,168	65,480	5,064	4,278	9,342	74,822	518	4,441		79,781
2010	51,961	17,882	69,843	6,849	4,451	11,300	81,143	785	5,100		87,028
2009	60,685	16,328	77,013	12,374	8,247	20,621	97,634	808	5,830		104,272
2008	64,923	18,630	83,553	15,177	7,215	22,392	105,945	395 ⁽¹⁾	6,407		112,747
2007	68,526	23,109	91,635	18,851	7,961	26,812	118,447	2,302	5,267		126,016
2006	57,236	18,751	75,987	14,588	7,552	22,140	98,127	1,181	3,249		102,557
2005	51,767	14,219	65,986	11,407	9,357	20,764	86,750				86,750
2004	55,074	19,945	75,019	19,329	13,018	32,347	107,366				107,366
2003	45,373	19,208	64,581	16,152	11,596	27,748	92,329				92,329

⁽¹⁾ Well production in fiscal year 2008 decreased significantly due to operational constraints.

Source: Western Municipal Water District

TABLE XII – RATIO OF OUTSTANDING DEBT BY TYPE
Last Ten Fiscal Years

Fiscal Year	Revenue Bonds	Improvement Bonds	Loans	Total	Total Debt Per Capita⁽¹⁾
2012	\$ 142,889,252	\$ 475,465	\$ 12,051,205	\$ 155,415,922	174.90
2011	144,605,378	568,833	13,755,692	158,929,903	180.62
2010	93,940,413	662,201	14,990,119	109,592,733	124.71
2009	95,493,936	745,569	4,975,884	101,215,389	114.57
2008	43,073,129	888,937	5,902,752	49,864,818	56.97
2007	44,151,477	967,305	7,346,574	52,465,356	61.50
2006	45,129,825	1,040,673	8,749,142	54,919,640	66.50
2005	46,108,173	1,109,041	6,965,461	54,182,675	67.91
2004	47,086,521	1,172,409	7,420,675	55,679,605	72.15
2003	48,064,868	1,230,777	7,666,896	56,962,541	76.60

Notes: Details regarding the District's outstanding debt can be found in the notes to the basic financial statements.

⁽¹⁾ Calculated by dividing the total outstanding debt by the District's estimated service area population.

Source: *Western Municipal Water District*

TABLE XIII – REVENUE BOND COVERAGE
Last Ten Fiscal Years

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
GROSS REVENUE										
Water Sales	\$ 37,001,266	\$ 43,776,828	\$ 35,915,647	\$ 43,191,741	\$ 53,192,559	\$ 53,588,433	\$ 55,667,804	\$ 56,223,768	\$ 56,473,710	\$ 66,310,917
Water Service	5,673,839	3,625,705	3,997,064	4,934,235	6,074,097	6,711,049	7,776,582	9,127,539	10,477,058	12,479,514
Wastewater Service	6,714,883	3,526,382	4,485,883	6,525,941	8,652,596	7,931,271	8,161,485	10,723,639	10,862,351	10,364,865
Ad Valorem Taxes ⁽¹⁾	8,748,823	10,059,670	4,898,836	7,442,255	16,271,059	17,622,207	17,789,635	16,254,320	15,048,059	15,161,942
Interest Income	6,661,485	5,496,142	7,523,894	4,578,251	6,612,647	9,292,695	6,337,190	6,685,940	3,671,725	5,437,782
Connection Fees - Water	3,595,299	2,521,457	3,774,690	4,296,543	3,100,050	1,454,500	896,624	290,477	236,080	188,491
Connection Fees - Wastewater	136,296	157,004	4,018,926	4,001,963	1,219,750	2,395,553	1,316,970	6,153,635	276,856	98,670
Federal, State and Local Capital Grants	-	-	-	192,010	500,785	626,083	1,551,562	3,149,581	3,284,896	1,268,694
Other Revenue	7,994,190	8,780,529	7,217,832	5,399,382	5,456,943	5,282,096	5,004,122	5,367,200	5,042,186	3,474,424
Total	76,526,081	77,943,717	71,832,772	80,562,321	101,080,486	104,903,887	104,501,974	113,976,099	105,372,920	114,785,300
MAINTENANCE AND OPERATION COSTS										
Administration	7,349,989	4,750,526	6,074,707	6,274,755	8,469,239	10,234,890	11,328,694	10,714,044	11,456,106	10,888,801
Purchased Water	34,118,164	40,697,084	34,442,427	40,303,646	49,496,922	50,897,920	51,655,168	51,859,715	51,890,617	57,873,634
Water Operations	6,111,392	6,053,685	6,043,360	8,744,569	8,810,775	10,809,412	12,941,548	14,452,967	14,832,096	16,039,860
Wastewater Operations	2,692,172	3,382,668	3,286,164	6,721,367	7,754,861	7,810,818	8,074,817	9,018,894	9,086,468	8,978,903
Other Expenses	3,194,364	5,666,594	4,388,684	4,273,745	5,625,607	5,918,202	7,951,851	8,718,326	5,013,535	6,109,216
Contract Resource Obligations	354,592	941,544	903,466	1,922,681	1,986,239	1,974,146	829,532	1,223,458	731,894	1,110,776
Total	53,820,673	61,492,101	55,138,808	68,240,763	82,143,643	87,645,388	92,781,610	95,987,404	93,010,716	101,001,190
Net Revenues	22,705,408	16,451,616	16,693,964	12,321,558	18,936,843	17,258,499	11,720,364	17,988,196	12,362,204	13,784,109
Series of 2002 A Bonds ⁽²⁾	470,017	1,866,340	2,041,545	2,145,227	2,513,341	3,041,456	2,640,029	-	-	-
Series of 2009 A&B Bonds ⁽²⁾	-	-	-	-	-	-	-	5,967,575	5,753,746	5,618,520
Series of 2010 A&B Bonds ⁽²⁾	-	-	-	-	-	-	-	-	1,337,200	2,086,248
Total	470,017	1,866,340	2,041,545	2,145,227	2,513,341	3,041,456	2,640,029	5,967,575	7,090,946	7,704,768
DEBT SERVICE COVERAGE	48.31	8.81	8.18	5.74	7.53	5.67	4.44	3.01	1.74	1.79

⁽¹⁾ Fiscal year 2005 and 2006 each had a \$6.7 million shift of property tax revenue to the State.

⁽²⁾ Actual debt service figures on bonds from fiscal year 2004 through 2012.

Source: Western Municipal Water District

TABLE XIV – DIRECT AND OVERLAPPING DEBT

As of June 30, 2012

2011-12 Assessed Valuation:	\$	65,908,380,343 (1)	
Redevelopment Incremental Valuation:		15,973,190,694	
Adjusted Assessed Valuation:	\$	49,935,189,649	
<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 6/30/12</u>	
Metropolitan Water District	2.77%	\$ 5,434,469	
Riverside City Community College District	78.927	182,209,586	
Alvord Unified School District	99.987	205,134,283	
Corona-Norco Unified School District	95.958	262,994,557	
Jurupa Unified School District	99.783	51,141,753	
Murrieta Valley Unified School District	12.685	21,415,769	
Riverside Unified School District	99.991	147,121,758	
Other School Districts	Various	2,073,949	
City of Riverside	97.358	15,494,526	
Western Municipal Water District Community Facilities Districts	100	8,440,000	
Western Municipal Water District Assessment District No. 90-1 (Lake Hills)	100	480,000	
Riverside County Flood Control District, Zone No. 3 Benefit Assessment District	33.812	804,726	
Community Facilities Districts	Various	1,012,794,102	
City and Special District 1915 Act Bonds	Various	43,820,643	
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$ 1,959,360,121	
<u>Ratios to 2011-12 Assessed Valuation:</u>			
Direct Debt		0.00%	
Total Direct and Overlapping Tax and Assessment Debt		2.97%	
<u>OVERLAPPING GENERAL FUND DEBT:</u>			
Riverside County General Fund Obligations	34.43%	\$ 225,504,821	
Riverside County Pension Obligations	34.426	123,086,720	
Riverside County Board of Education Certificates of Participation	34.426	1,740,234	
Alvord Unified School District Certificates of Participation	99.987	2,026,797	
Corona-Norco Unified School District Certificates of Participation	95.958	28,820,985	
Jurupa Unified School District Certificates of Participation	99.783	7,204,333	
Lake Elsinore Unified School District Certificates of Participation	42.871	16,149,506	
Murrieta Unified School District General Fund Obligations	12.685	2,733,618	
Riverside Unified School District Certificates of Participation	99.991	13,258,807	
Other School District General Fund Obligations	Various	3,757,872	
City of Corona General Fund Obligations	99.987	64,406,626	
City of Lake Elsinore General Fund Obligations	56.816	7,371,876	
City of Moreno Valley General Fund Obligations	0.425	318,410	
City of Murrieta General Fund Obligations	14.753	1,883,958	
City of Riverside General Fund Obligations	97.358	201,136,760	
City of Riverside Pension Obligations	97.358	124,111,978	
Other City and Special District General Fund Obligations	Various	223,137	
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT		\$ 823,736,438	
Less:			
			4,267,415
			2,394,689
TOTAL NET OVERLAPPING GENERAL FUND DEBT		\$ 817,074,334	
TOTAL DIRECT DEBT		\$ 8,920,000	
TOTAL GROSS OVERLAPPING DEBT		\$ 2,767,514,455	
TOTAL NET OVERLAPPING DEBT		\$ 2,776,434,455	
GROSS COMBINED TOTAL DEBT		\$ 2,783,096,559	(2)
NET COMBINED TOTAL DEBT		\$ 2,776,434,455	

(1) Excludes assessed valuation of additional fringe areas of the District.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Qualified Zone Academy Bonds are included based on principal due at maturity.

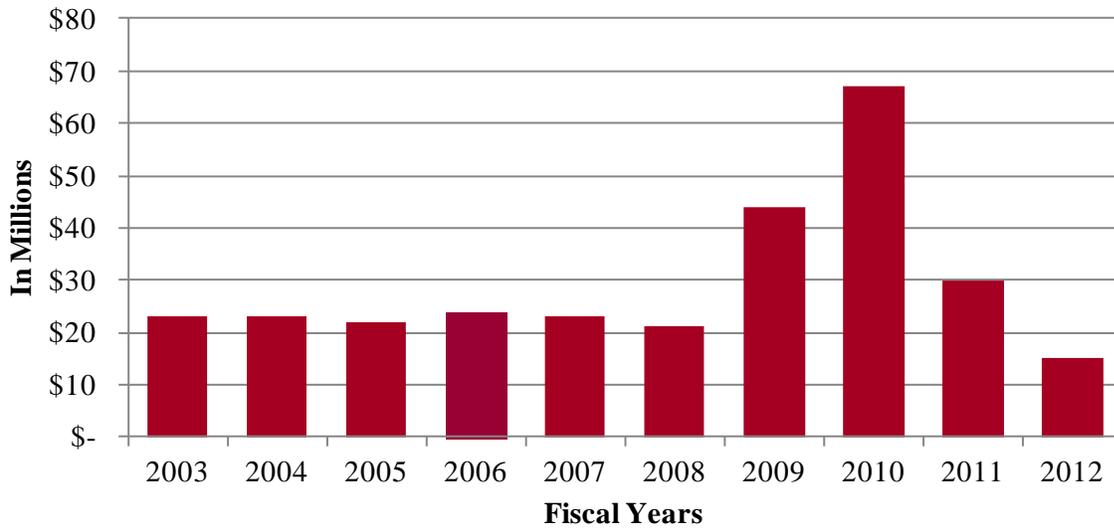
Ratios to Adjusted Assessed Valuation:

Gross Combined Total Debt	5.57%
Net Combined Total Debt	5.56%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/12: \$0

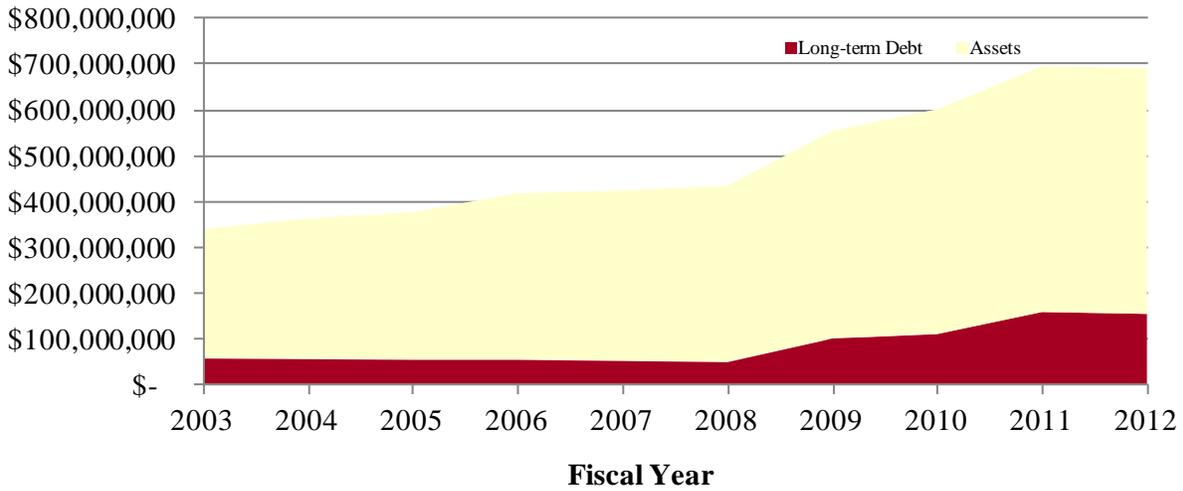
Source: California Municipal Statistics, Inc.

**CHART II – DISTRICT AND CONTRIBUTED CAPITAL SPENDING
Last Ten Fiscal Years**



Source: Western Municipal Water District

**CHART III – TOTAL DEBT TO ASSETS
Last Ten Fiscal Years**



Source: Western Municipal Water District

TABLE XV – DEMOGRAPHIC AND ECONOMIC STATISTICS
Last Ten Fiscal Years

Fiscal Year	Assessed Valuation ⁽¹⁾ Western Service Area	Estimated Svc. Area Population	County Population	Personal Income ⁽²⁾ (in Billions)	County Per Capita Personal Income	County Unemployment Rate (June)
2012	\$ 76,093,889,073	888,600	2,227,577	\$ 26.6	\$ 29,927	12.6%
2011	76,380,473,323	879,900	2,205,731	26.3	29,029	14.4%
2010	78,547,029,366	878,800	2,202,978	25.5	28,865	14.5%
2009	87,194,859,529	883,400	2,107,653	25.5	30,842	14.0%
2008	86,370,022,705	875,300	2,088,322	27.0	30,720	8.3%
2007	74,392,832,042	853,100	2,034,840	26.2	30,039	5.9%
2006	60,883,470,483	825,800	1,966,607	24.8	28,563	5.1%
2005	51,998,800,542	797,900	1,885,627	22.8	27,416	5.4%
2004	45,928,203,296	771,700	1,805,519	21.2	26,528	6.1%
2003	41,584,733,912	743,600	1,725,890	19.7	25,854	6.8%

⁽¹⁾ Assessed value includes both secured and unsecured property.

⁽²⁾ Personal income for the service area is calculated by multiplying the estimated population in the District's service area by the County's per capita personal income projection.

Source: Riverside County Assessor for the assessed valuation; California Department of Finance for the county population estimates; U.S. Bureau of Economic Analysis for the county per capita personal income; and California Employment Development Department for the county unemployment rate

**TABLE XVI – PRINCIPAL EMPLOYERS IN THE
COUNTY OF RIVERSIDE**

Fiscal Year Ended June 30, 2012

Employer Name	Fiscal Year 2012	
	No. of Employees	Percentage of Total County Labor Force
County of Riverside	17,702	1.9%
March Air Reserve Base	9,000	1.0%
Stater Bros. Markets	6,900	0.7%
University of California, Riverside	5,790	0.6%
Wal-Mart	5,360	0.6%
Corona-Norco Unified School District	4,686	0.5%
Kaiser Permanente Medical Center	4,000	0.4%
Pechanga Resort and Casino	4,000	0.4%
Riverside Unified School District	3,796	0.4%
Moreno Valley Unified School District	3,500	0.4%
Total	64,734	6.9%
 Total Labor Force		 940,400

Note: Data is for the County of Riverside. The District is located within the County.

Source: Riverside County Economic Development Agency

TABLE XVII – DISTRICT EMPLOYEES BY FUNCTION
 Filled Positions Only at June 30

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Management	4	5	5	5	5	7	7
Human Resources & Administration	7	9	10	11	13	8	8
Engineering	14	13	15	14	15	12	10
Finance	7	7	8	8	6	8	11
Billing/Customer Service	3	5	5	6	8	5	6
Public Affairs	5	5	5	5	4	4	6
Water Resources	1	2	2	3	5	5	6
Operations	55	59	60	60	59	56	59
Legislative Affairs	1	1	1	1	2	1	1
Information Systems	3	5	5	6	5	6	6
Total	<u>100</u>	<u>111</u>	<u>116</u>	<u>119</u>	<u>122</u>	<u>112</u>	<u>120</u>

Notes: All managers are included with their divisions. Temporary employees are not included. Data for prior years is not available.

Source: *Western Municipal Water District*

TABLE XVIII – OPERATING AND CAPITAL INDICATORS
Last Eight Fiscal Years

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Number of Employees	88	100	111	116	119	122	112	120
Service Area (in acres)	326,000	337,000	337,000	337,000	337,000	337,000	337,000	337,000
Service Area (in square miles)	510	527	527	527	527	527	527	527
Assessed Valuation (billion)	\$ 52	\$ 61	\$ 74	\$ 86	\$ 87	\$ 79	\$ 76	\$ 76
Population Served (approx.)	800,000	826,000	853,000	875,000	883,000	879,000	880,000	889,000
Miles of Water Pipeline	536	588	591	591	623	623	621	622
Number of Storage Tanks	34	38	38	38	38	36	36	35
Max Storage Capacity (million gal.)	76.5	80.2	80.2	80.7	87.3	93.7	93.7	92.7
Sewer Treatment Plants Owned	1	1	1	1	1	1	1	1
Sewer Treatment Capacity (MGD)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Avg. Flows into Sewer Plant (MGD)	0.5	0.5	0.5	0.8	0.8	0.8	0.9	0.8
Number of Lift Stations	13	18	18	20	22	22	20	20

Note: Data for prior fiscal years is not available.

Source: *Western Municipal Water District*

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