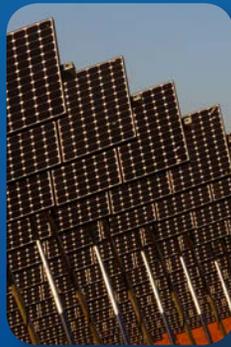




Securing Your Water Supply

COMPREHENSIVE ANNUAL FINANCIAL REPORT



For the Fiscal Year Ended June 30, 2014 and 2013
14205 Meridian Parkway • Riverside, CA 92518 • wmwd.com



**Western Municipal Water District
of Riverside County, California**

Comprehensive Annual Financial Report

**For the Fiscal Years Ended
June 30, 2014 and 2013**

Prepared by:

The Western Municipal Water District Finance Department



Securing Your Water Supply

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Western Municipal Water District

Comprehensive Annual Financial Report

For the Fiscal Years Ended June 30, 2014 and 2013

Table of Contents

INTRODUCTORY SECTION

Transmittal Letter	i
GFOA Certificate of Achievement	xii
District Service Area Map	xiii
District Officials	xiv
Organizational Chart	xv

FINANCIAL SECTION

Independent Auditor's Report	1
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government</i> <i>Auditing Standards</i>	3
Management's Discussion and Analysis	5
Basic Financial Statements:	
Statements of Net Position	19
Statements of Revenues, Expenses and Changes in Net Position	20
Statements of Cash Flows	21
Notes to the Basic Financial Statements	23
Required Supplementary Information	60

STATISTICAL SECTION

Statistical Section Contents	61
Financial Trends:	
Table I Net Position by Component	62
Table II Changes in Net Position	63
Table III Revenues by Source	64
Table IV Expenses by Function	65
Chart I Revenues and Expenses	66
Revenue Capacity:	
Table V Active Water Accounts by Meter Size	67
Table VI Retail Water Accounts by Type and Retail Wastewater Accounts	68
Table VII Water and Sewer Rates	69
Table VIII Principal Retail Water Customers	70
Table IX Wholesale Water Customer Deliveries	71
Table X Summary of Imported Water Rates	72
Table XI Water Sources	73

Table of Contents (continued)

Debt Capacity:

Table XII Ratio of Outstanding Debt by Type	74
Table XIII Revenue Bond Coverage	75
Table XIV Direct and Overlapping Debt	76
Chart II District and Contributed Capital Spending	77
Chart III Total Debt to Assets	77

Demographic and Economic Information:

Table XV Demographic and Economic Statistics	78
Table XVI Principal Employers in the County of Riverside	79
Table XVII District Employees by Function	80

Operating Information:

Table XVIII Operating and Capital Indicators	81
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INTRODUCTORY SECTION





John V. Rossi
General Manager

Securing Your Water Supply

Charles D. Field
Division 1

Thomas P. Evans
Division 2

Brenda Dennstedt
Division 3

Donald D. Galleano
Division 4

S.R. "Al" Lopez
Division 5

October 31, 2014

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, 2014.

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 the MD&A 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, 2014, 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 unmodified opinion that the District's financial statements for the fiscal year ended June 30, 2014, 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, Eastvale, 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 \$79 billion in this past fiscal year. Riverside County's population has slightly increased to 2.3 million, of which the District serves approximately 909,500 (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, recycle, 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 133 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), and from local sources. In fiscal year 2014, the District delivered approximately 91,000 acre-feet of water in our retail and wholesale service area. Please refer to Table VIII and IX in the Statistical section for additional information. This is equal to about 30 billion gallons. Approximately 75% of the water Western delivered was potable; the balance was non-potable or raw water. 69% of deliveries were to wholesale customers and the rest to retail users.

Wholesale customers that buy water from the District and in turn sell the water to their 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 (EVMWD), Lee Lake Water District, and Rancho California Water District.

Arlington Desalter

The only potable water treatment facility owned by the District is the Arlington Desalter. The Arlington Desalter is a \$32 million, 7.2 million gallons per day (MGD) reverse osmosis water treatment plant that provides 4,671 acre-feet of high quality potable water to the City of Norco and 1,392 acre-feet to the City of Corona by removing millions of pounds of salts from brackish groundwater in the Arlington Basin. The annual revenue budget for the Arlington Desalter for the fiscal year was \$4.1 million.



Retail Water Services

Western supplies water directly to about 23,000 domestic and agricultural users in the areas of El Sobrante, Eagle Valley, Orangecrest, Mission Grove, Temescal Creek, Woodcrest, Lake Mathews, March Air reserve Base, Rainbow Canyon, and portions of the City of Riverside and the City of Murrieta. The Murrieta service area, unlike most of Western's retail service areas, has local groundwater that supplements imported water supplies.

Sewer and Recycled Water Services



Western Water Recycling Facility

The District owns and operates the Western Water Recycling Facility (WWRF), providing wastewater collection and treatment for the March Air Reserve Base and other residential and commercial customers located southeast of the City of Riverside. WWRF has a 3.0 MGD capacity and is currently operating at about 0.75 MGD. The slowdown in growth in the Inland Empire has resulted in an underutilization of the facility, with actual

flows lagging behind the increase in flows projected during design of this upgraded facility. WWRF currently provides wastewater treatment services for about 1,600 customers. All treated wastewater from the WWRF facility is fully utilized in Western's recycled water system. Supplemented with non-potable local groundwater from the Riverside Canal and surface water from the Colorado River Aqueduct, the tertiary treated recycled water from the WWRF plant is used by 46 customers to irrigate landscaping and agriculture.

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

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 treatment plant has a total capacity of 8.0 MGD, and currently processes an average of 6.5 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 is approximately 0.74 MGD, or 38% of the District's capacity right.



In order to better serve the needs of the steady growth in the region the plant is undergoing a critical \$64 million upgrade and expansion and will soon be expanded to 14 million gallons a day capacity of sewage (currently the plant can treat up to 8 million gallons a day). Agencies and communities served by the plant include Jurupa Community Services District; the cities of Norco and Corona; Home Gardens Sanitary District and Western Municipal Water District.

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 542,000 gallons per day of wastewater from the Murrieta area is provided under contract by Rancho California Water District (RCWD). Eastern Municipal Water District (EMWD) provides treatment services to 69 Murrieta commercial customers. Western passes through charges from RCWD and EMWD, 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 Brine Line dischargers include Desalters operated by Western and Eastern municipal water districts, Chino Desalter Authority and the city of Corona. The District is a member agency of SAWPA and is contracted by SAWPA for operation and maintenance of the Brine Line for approximately 10% 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) property development.

As the drought worsens, the goal of water use efficiency remains paramount. As stewards of this natural resource, it is incumbent upon Western to help communicate the value of this resource and assist customers in using it wisely. In October 2011, the District implemented a revenue-neutral water budget rate structure for retail potable water customers. This structure provides a site-specific efficient water budget to meet 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.

Although continuing to increase local water supplies, including leased groundwater rights in the Bunker Hill Basin, the District relies exclusively on MWD for potable 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 potable water will increase from \$890 per acre-foot to \$923 per acre-foot on January 1, 2015, a 3.7% increase. Western is limited to 21,110 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 \$132 higher than the Tier 1 rate.



Electrical energy supplies in Southern California are facing additional supply concerns with the permanent closure of the San Onofre nuclear generation station. While we have not recently been challenged with rolling brown-outs or black-outs, energy price and supply concerns remain. Assembly Bill 32, with the automatic emission reduction factors and cap-and-trade provisions, is anticipated to impact energy prices and availability. However, the extent and scope of these impacts may not be known for several more years. Additionally, 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.

Property development in the communities served by the District appear to be showing signs of recovery from the collapse of the residential construction market beginning in 2008. Even with the recent sluggish recovery of the economy, the District's assessed valuation in the past several years has

increased from \$76.1 billion to \$78.8 billion. The District received \$15.6 million in property tax revenue for fiscal year 2014, down from \$16.7 million in fiscal year 2013. This decrease was primarily due to one-time distributions of \$1.2 million received in 2013 from the dissolution of redevelopment agencies in California.

The population of Riverside County remained flat at 2.3 million in fiscal year 2014. 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 efficiency efforts, as well as developing increased use of non potable and recycled water where appropriate.

Major Initiatives



Chino Desalter Phase 3 Expansion

Securing local water supplies is very important to Western in order to reduce dependency on imported water. The Chino Desalter Phase 3 Expansion Project, a \$140 million local supply reliability project, will increase desalter drinking water production from 24,600 to 35,200 acre-feet per year. Each year, Western will receive 3,534 acre-feet of water from the Expansion Project, and Jurupa Community Services District (JCSD) and the

City of Ontario will each receive an additional 3,533 acre-feet to add to their current desalter supply. To date, the expansion has received more than \$70 million in state and federal grants.

When the expansion is complete around the end of 2015, it will include expansion of the Chino II Desalter; new brine concentrate reduction facility; expansion of the raw water well fields; and additional water delivery facilities. The expansion will also facilitate hydraulic control of the Chino Basin to protect downstream water quality in Orange County.

The Chino Basin Desalter Authority (CDA) is a joint powers authority comprising Western, Inland Empire Utilities Agency, JCSD, Santa Ana River Water Company and the cities of Chino, Chino Hills, Norco and Ontario.

Riverside North Aquifer Storage and Recovery Project

The Riverside North Aquifer Storage and Recovery project, a partnership between Riverside Public Utilities, San Bernardino Valley Municipal Water District and Western, will capture and recharge high-quality storm water to the local groundwater basins for subsequent extraction and municipal use. When complete in summer of 2018, an inflatable dam will be used in the Santa Ana River to divert up to approximately 10,000 acre feet per year of water that will then be captured and recharged into the ground. It is anticipated that the inflatable dam will be operational during most of the winter and spring when flow is present in the Santa Ana River.

Drought Outreach and Education

Western supports Governor Brown’s emergency drought declaration for California. Through Western’s Water Shortage Contingency Plan and water budget-based rates, the District currently meets the required water use restrictions put forth by the State Water Resource Control Board. From Western’s free efficiency evaluations, Turf Replacement Program rebate, Master Gardener Workshops and other rebates, there are many ways for customers to save water during the drought.



Water Use Efficiency Initiatives



Helping customers continue to reduce use through efficiency programs is Western’s goal. Customers have a variety of efficiency programs, rebates and tips to help save water. The District’s FreeSprinklerNozzle.com program helps customers save water as well as money. The nozzles are worth \$4 each and customers can receive up to 25 free Toro® Precision™ Spray Nozzles. In addition, the District’s Turf Replacement Program offers a newly increased financial incentive of up to \$2 per square foot to replace water-guzzling grass with new, water-saving landscaping. Customers can also take part in the District’s free Landscape Evaluation program in which an expert comes to their home and helps check for leaks and other ways to save water. For additional water-friendly planting recommendations, customers can visit Western’s water-wise garden, Landscapes Southern California StyleSM. The garden is also home to gardening workshops presented by the Riverside Master Gardeners.

La Sierra Pipeline Project

With an anticipated completion date of 2018, the La Sierra Pipeline will connect the Arlington Desalter to the La Sierra Tank to serve Western's Riverside Retail area. This will provide Western's Riverside Retail Distribution System with access to groundwater from the Arlington Basin and the Chino Desalter Authority's distribution system. The completion of the pipeline and pump stations will reduce the region's dependency on imported water from MWD. Highlights of the project include five miles of 24-inch steel pipeline, railroad and flood control channel crossing, as well as a 3,500-horsepower pump station at the Arlington Desalter and a 750-horsepower pump station at the La Sierra tank site.



Arlington Recharge Basin

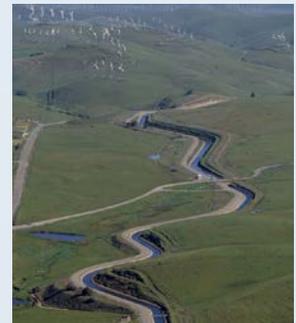
Western's \$10 million Arlington Basin Groundwater Improvement project will stabilize declining groundwater levels in the Arlington Basin by the introduction of captured groundwater while at the same time improving basin water quality and increasing the local water supply and system reliability.

Future benefits of the project include bringing in the water to Western's system as an additional local supply via the proposed La Sierra Pipeline. Future projects include recharging the basin with recycled water.

This project is anticipated to be completed in 2017.

Bay Delta Conservation Plan

Western continues to support the adoption of the Bay Delta Conservation Plan (BDCP) - a part of California's overall water management infrastructure. The BDCP is being developed as a 50-year habitat conservation plan with the goals of restoring the Sacramento-San Joaquin Bay-Delta ecosystem and securing California water supplies through the building of new water delivery system. The BDCP would also restore and protect approximately 145,000 acres of habitat to address the Delta's environmental challenges. As Western imports the majority of water supply from this source, our agency endorses the critical project and works to educate our customers and stakeholders of its benefits.



Financial Policies

The District has formally adopted the following financial policies:

Cash Reserve Policy

The policy states the purpose, source, and minimum/maximum funding levels 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.

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.

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 decisions 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.

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 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, 2013. This was the ninth 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."

.....◆.....





Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

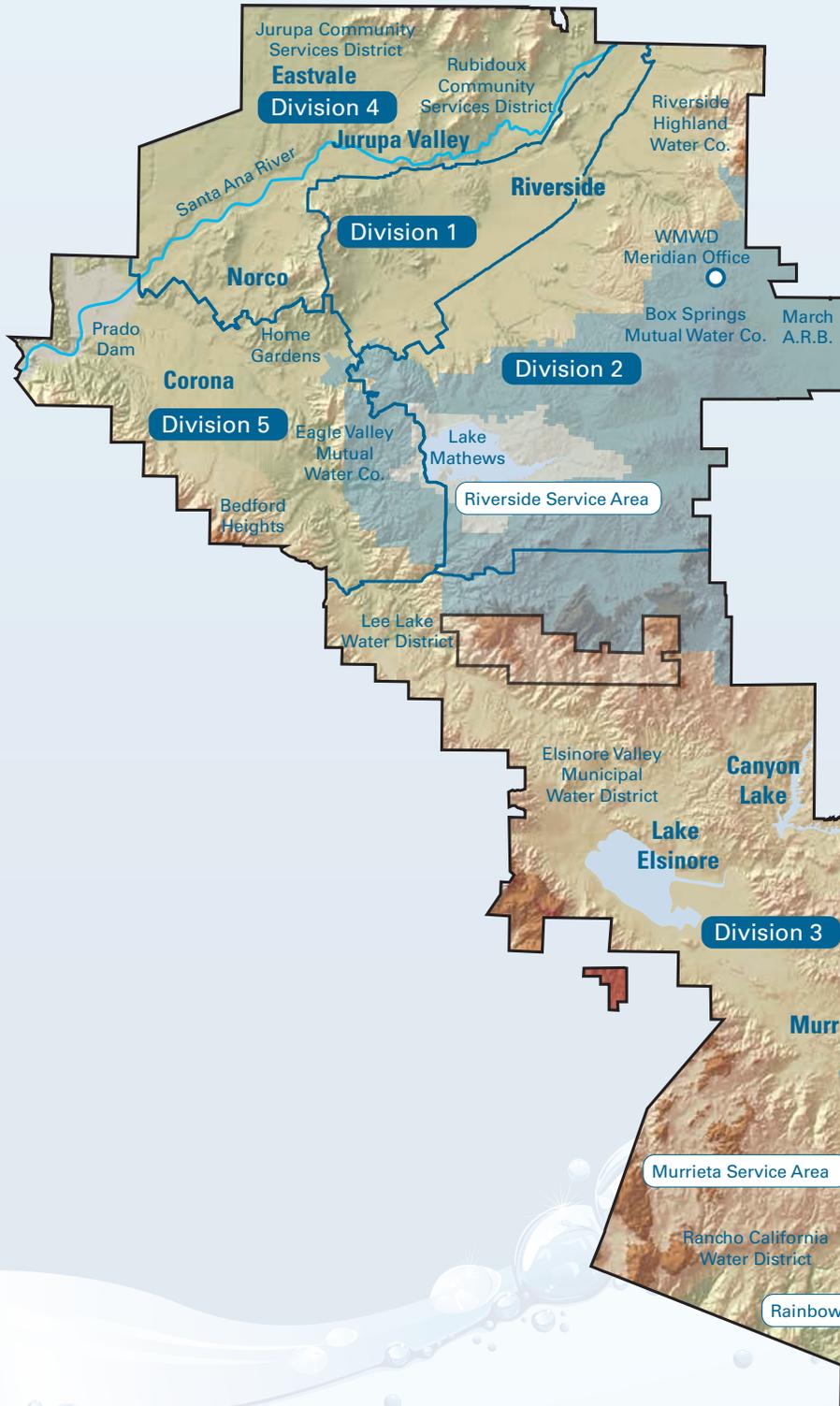
**Western Municipal Water District
of Riverside County, California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO

Western Municipal Water District District Service Area Map



- General District
- Retail District

Board of Directors

Charles D. Field
Division 1

Thomas P. Evans
Division 2

Brenda Dennstedt
Division 3

Donald D. Galleano
Division 4

S.R. "Al" Lopez
Division 5

Western Municipal Water District

District Officials

At June 30, 2014

Elected Board of Directors

	Length of Service
Charles D. Field, Division 1	7 years
Thomas P. Evans, Division 2	7 years
Brenda Dennstedt, Division 3, President	7 years
Donald D. Galleano, Division 4, Vice President	9 years
S. R. "Al" Lopez, Division 5, Secretary-Treasurer	13 years

District Executive Management Team

John V. Rossi, General Manager	10 years
Craig Miller, Deputy General Manager	< 1 year
Jeffrey D. Sims, Assistant General Manager/COO	19 years
Rod LeMond, Assistant General Manager/CFO	5 years
Leasa Cleland, Director of Water Resources	< 1 year
Greg Duecker, Director of Administration	8 years
Derek Kawaii, Director of Engineering	8 years
Kevin C. Mascaro, Director of Finance	10 years
Michele McKinney Underwood, Director of Community Affairs	12 years
Paul Ruge, Director of Operations	9 years
Stephen T. Schultz, Deputy Director of Operations	6 years
Timothy T. Barr, Water Use Efficiency Manager	19 years
Diana Leibrich, Human Resources Manager	1 year
Thomas D. McMillen, Administrative Services Manager	8 years
Veronica Zheng, Accounting Manager	4 years

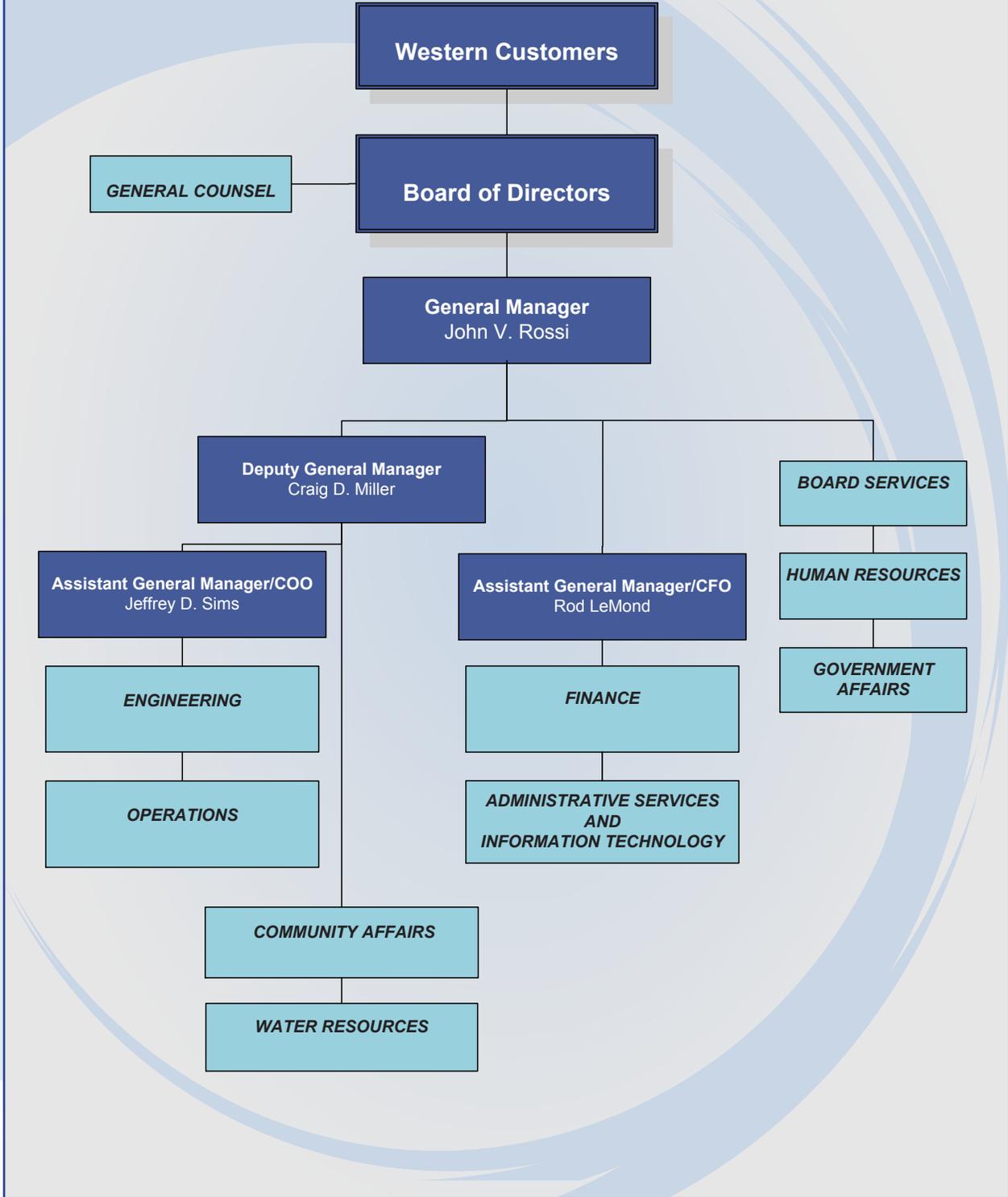
General Counsel

Best, Best & Krieger, LLP	58 years
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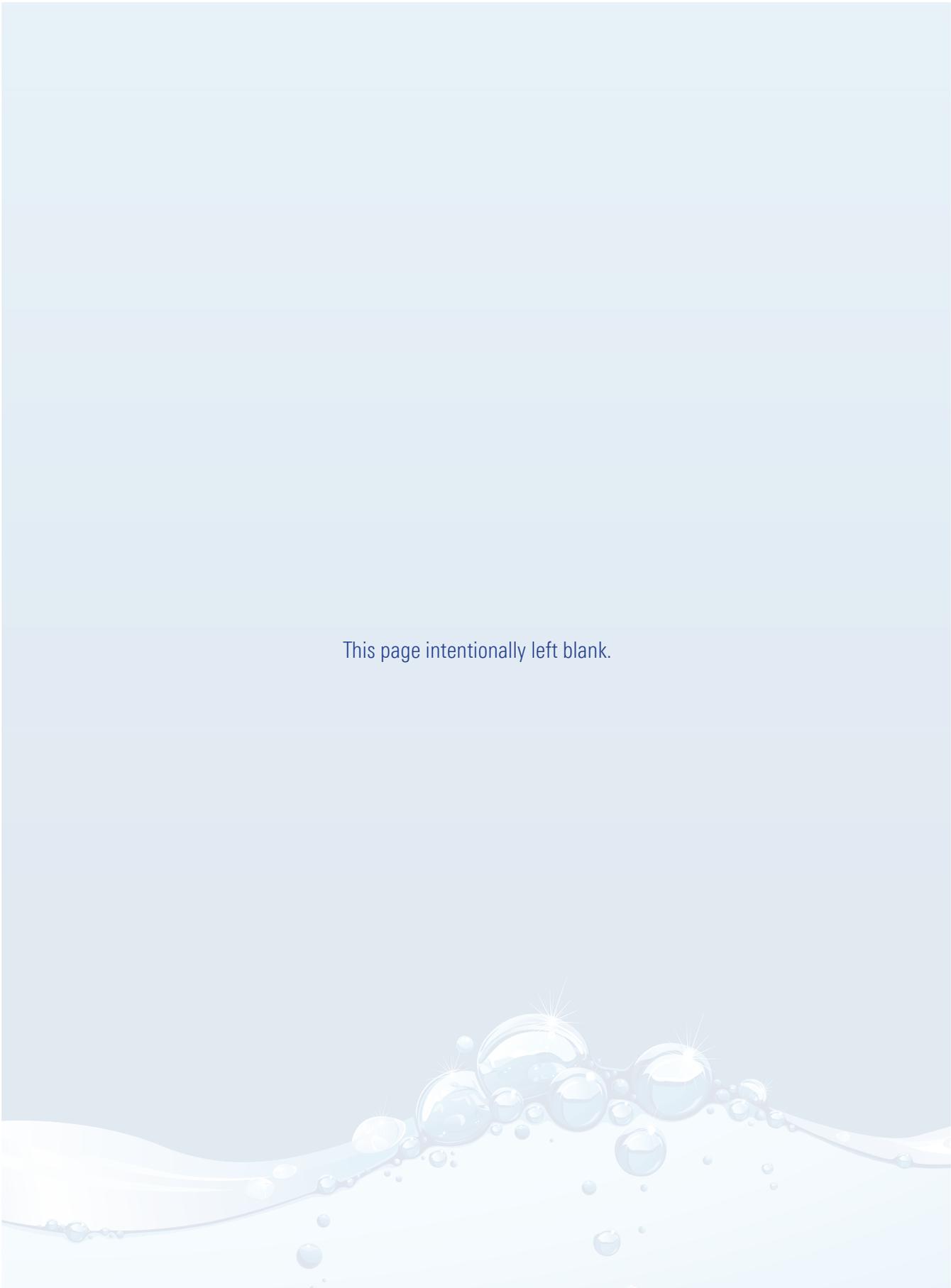
Consulting Engineer

Albert A. Webb Associates	58 years
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WESTERN MUNICIPAL WATER DISTRICT ORGANIZATIONAL CHART



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FINANCIAL SECTION





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
Scott W. Manno, CPA, CGMA
Leena Shanbhag, CPA, MST, CGMA
Jay H. Zercher, CPA (Partner Emeritus)
Phillip H. Waller, CPA (Partner Emeritus)

MANAGERS / STAFF

Bradferd A. Welebir, CPA, MBA
Jenny Liu, CPA, MST
Papa Matar Thiaw, CPA, MBA
Seong-Hyea Lee, CPA, MBA
Charles De Simoni, CPA
Yiann Fang, CPA
Nathan Statham, CPA, MBA
Brigitta Bartha, CPA
Gardenya Duran, CPA
Juan Romero, CPA
Ivan Gonzales, CPA, MSA
Brianna Pascoe, CPA

MEMBERS

American Institute of
Certified Public Accountants

*PCPS The AICPA Alliance
for CPA Firms*

*Governmental Audit
Quality Center*

California Society of
Certified Public Accountants

Board of Directors
Western Municipal Water District
Riverside, California

Report on the Financial Statements

We have audited the accompanying financial statements of Western Municipal Water District (the District) as of and for the years ended June 30, 2014 and 2013, and the related notes to the basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2014 and 2013, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

As discussed in Note 14 to the financial statements, in 2014 the District adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* and *Other Post-Employment Benefits Schedule of Funding Progress* 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 basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2014, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



San Bernardino, CA
December 10, 2014



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
ramscpa.net

INDEPENDENT AUDITOR'S 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

PARTNERS

Brenda L. Odle, CPA, MST
Terry P. Shea, CPA
Kirk A. Franks, CPA
Scott W. Manno, CPA, CGMA
Leena Shanbhag, CPA, MST, CGMA
Jay H. Zercher, CPA (Partner Emeritus)
Phillip H. Waller, CPA (Partner Emeritus)

MANAGERS / STAFF

Bradferd A. Welebir, CPA, MBA
Jenny Liu, CPA, MST
Papa Matar Thiaw, CPA, MBA
Seong-Hyea Lee, CPA, MBA
Charles De Simoni, CPA
Yiann Fang, CPA
Nathan Statham, CPA, MBA
Brigitta Bartha, CPA
Gardenya Duran, CPA
Juan Romero, CPA
Ivan Gonzales, CPA, MSA
Brianna Pascoe, CPA

MEMBERS

American Institute of
Certified Public Accountants

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Quality Center

California Society of
Certified Public Accountants

Board of Directors
Western Municipal Water District
Riverside, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Western Municipal Water District (District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 10, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Rogers Anderson Maloney & Scott, LLP

San Bernardino, CA
December 10, 2014

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, 2014 and 2013. 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

The 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 MWD 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 the 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 position, the statement of revenues, expenses and changes in net position, and the statement of cash flows.

The *statement of net position* presents information on the District's assets, deferred outflow of resources, liabilities, and deferred inflow of resources, and provides information about the nature and amounts of investments in resources and obligations to District creditors, with the difference between the two being reported as net position. Over time, increases and decreases in net position 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 position* 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 position 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 fiscal year 2014, this loss has been offset by net non-operating revenues, primarily from property tax revenue, investment earnings and sale of capacity in the Mills Gravity Line. In 2013 and 2012, 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 Position

The following tables compare the various categories of assets, deferred outflow of resources, liabilities, deferred inflow of resources and net position for each of the consecutive fiscal years:

Condensed Statements of Net Position as of June 30, 2014 and 2013

	<u>As of June 30,</u>		<u>Increase (Decrease)</u>	
	<u>2014</u>	<u>2013</u> <u>As Restated</u>	<u>\$ Change</u>	<u>% Change</u>
Assets				
Current	\$ 111,066,340	\$ 113,688,446	\$ (2,622,106)	-2.3%
Noncurrent:				
Capital	380,827,528	352,891,434	27,936,094	7.9%
Other	46,014,561	61,557,636	(15,543,075)	-25.2%
Total Assets	\$ 537,908,429	\$ 528,137,516	\$ 9,770,913	1.9%
Deferred Outflows of Resources				
Deferred outflow of resources - debt refunding	\$ 10,529,761	\$ 11,541,234	\$ (1,011,473)	-8.8%
Liabilities				
Current	\$ 29,168,581	\$ 29,433,271	\$ (264,690)	-0.9%
Noncurrent	158,205,283	162,342,665	(4,137,382)	-2.5%
Total Liabilities	\$ 187,373,864	\$ 191,775,936	\$ (4,402,072)	-2.3%
Deferred Inflows of Resources				
Deferred swap inflow	\$ 2,782,309	\$ 3,465,919	\$ (683,610)	-19.7%
Net Position				
Net investment in capital assets	\$ 246,394,006	\$ 228,280,884	\$ 18,113,122	7.9%
Restricted for debt service	144,619	144,619	-	0.0%
Restricted for capacity charges	24,525,261	23,697,955	827,306	3.5%
Unrestricted	87,218,131	92,313,437	(5,095,306)	-5.5%
Total Net Position	\$ 358,282,017	\$ 344,436,895	\$ 13,845,122	4.0%

Condensed Statements of Net Position as of June 30, 2013 and 2012

	As of June 30,		Increase (Decrease)	
	2013 As Restated	2012 As Restated	\$ Change	% Change
Assets				
Current	\$ 113,688,446	\$ 111,150,959	\$ 2,537,487	2.3%
Noncurrent:				
Capital	352,891,434	359,179,798	(6,288,364)	-1.8%
Other	<u>61,557,636</u>	<u>58,906,260</u>	<u>2,651,376</u>	4.5%
Total Assets	\$ <u>528,137,516</u>	\$ <u>529,237,017</u>	\$ <u>(1,099,501)</u>	-0.2%
Deferred Outflows of Resources				
Deferred loss on refunding	\$ <u>11,541,234</u>	\$ <u>12,538,597</u>	\$ <u>(997,363)</u>	-8.0%
Liabilities				
Current	\$ 29,433,271	\$ 26,845,158	\$ 2,588,113	9.6%
Noncurrent	<u>162,342,665</u>	<u>166,442,297</u>	<u>(4,099,632)</u>	-2.5%
Total Liabilities	\$ <u>191,775,936</u>	\$ <u>193,287,455</u>	\$ <u>(1,511,519)</u>	-0.8%
Deferred Inflows of Resources				
Deferred swap inflow	\$ <u>3,465,919</u>	\$ <u>253,623</u>	\$ <u>3,212,296</u>	1266.6%
Net Position				
Net investment in capital assets	\$ 228,280,884	\$ 232,667,339	\$ (4,386,455)	-1.9%
Restricted for debt service	144,619	144,619	-	0.0%
Restricted for capacity charges	23,697,955	23,298,893	399,062	1.7%
Unrestricted	<u>92,313,437</u>	<u>92,123,685</u>	<u>189,752</u>	0.2%
Total Net Position	\$ <u>344,436,895</u>	\$ <u>348,234,536</u>	\$ <u>(3,797,641)</u>	-1.1%

Assets

During the fiscal year ended June 30, 2014, total assets increased by \$9.8 million, or 1.9%. This increase is primarily due to construction deposits.

During the fiscal year ended June 30, 2013, total assets decreased by \$1.1 million, or 0.2%. This reduction is due to an increase in current assets of \$2.5 million, or 2.3%, offset by a decrease of non-current assets of \$3.6 million, or 1.1%. The increase in current assets was primarily due to an increase in cash and investments, and the offsetting decrease in non-current assets was primarily due to a significant increase in accumulated depreciation.

Deferred Outflows of Resources

During the fiscal years ended June 30, 2014 and 2013, total deferred outflows of resources decreased by \$1.0 million and \$1.0 million, or 8.8% and 8.0%, respectively. The reduction is due to normal amortization of the deferred loss on bond refunding.

Liabilities

During the year ended June 30, 2014, total liabilities decreased by \$4.4 million, or 2.3%. This decrease was primarily due to the pay-down from required annual debt service payments. Information on the District's long-term debt activity can be found in Note 7 of the notes to the basic financial statements.

During the year ended June 30, 2013, total liabilities decreased by \$1.5 million, or 0.8%. This decrease is primarily due to the pay-down from required annual debt service payments of \$3.1 million, offset by an increase of \$1.6 million in accounts payable and accrued expenses.

Deferred Inflows of Resources

During the fiscal years ended June 30, 2014 and 2013, the District's deferred swap inflow decreased by \$0.7 million and increased by \$3.2 million, or 19.7% and 1266.6%, respectively. Information on the District's deferred swap inflow can be found in Note 8 of the notes to the basic financial statements.

Net Position

Net position is the net from the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net position increased during fiscal year 2014 by \$13.8 million, or 4.0%. Net position is classified into four categories: 1) net investment in capital assets, 2) restricted for debt service, 3) restricted for capacity charges, and 4) unrestricted. During fiscal year 2013, the District's net position decreased by \$3.8 million, or 1.1%.

Net Investment in Capital Assets – 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, 2014 and 2013 was \$246.4 million and \$228.3 million, respectively. The \$18.1 million, or 7.9%, increase in fiscal year 2014, and \$4.4 million, or 1.9%, decrease in fiscal year 2013, are detailed in the next two tables.

Continued on next page

Net Investment in Capital Assets as of June 30, 2014 and 2013

	<u>As of June 30,</u>		<u>Increase (Decrease)</u>	
	<u>2014</u>	<u>2013</u>	<u>\$ Change</u>	<u>% Change</u>
Plant, building and improvements	\$ 377,515,105	\$ 371,371,441	\$ 6,143,664	1.7%
Capacity rights	35,363,849	35,303,010	60,839	0.2%
Construction in progress	64,050,891	29,991,792	34,059,099	113.6%
Land and land improvements	11,730,643	11,730,643	-	0.0%
Equipment and vehicles	14,709,909	14,586,639	123,270	0.8%
Total capital assets	\$ 503,370,397	\$ 462,983,525	\$ 40,386,872	8.7%
Less accumulated depreciation	(122,542,869)	(110,092,091)	(12,450,778)	11.3%
Capital assets, net	\$ 380,827,528	\$ 352,891,434	\$ 27,936,094	7.9%
Less related debt:				
SAWPA brineline capacity use obligation	417,498	398,908	18,590	4.7%
WRCRWA State Water Resources Control Board	126,339	155,810	(29,471)	-18.9%
Assessment District 90-1	258,729	372,097	(113,368)	-30.5%
2009 Series B bonds	45,844,722	47,117,293	(1,272,571)	-2.7%
2010 Series A bonds	8,169,029	-	8,169,029	100.0%
2010 Series B bonds	42,539,688	38,844,014	3,695,674	9.5%
2012 Series A bonds	30,478,431	30,064,720	413,711	1.4%
Note on headquarters building	6,599,086	7,648,545	(1,049,459)	-13.7%
Note on CWMS software	-	9,163	(9,163)	-100.0%
Net investment in capital assets	<u>\$ 246,394,006</u>	<u>\$ 228,280,884</u>	<u>\$ 18,113,122</u>	7.9%

Net Investment in Capital Assets as of June 30, 2013 and 2012

	<u>As of June 30,</u>		<u>Increase (Decrease)</u>	
	<u>2013</u>	<u>2012</u>	<u>\$ Change</u>	<u>% Change</u>
Plant, building and improvements	\$ 371,371,441	\$ 367,349,159	\$ 4,022,282	1.1%
Capacity rights	35,303,010	34,679,018	623,992	1.8%
Construction in progress	29,991,792	29,965,201	26,591	0.1%
Land and land improvements	11,730,643	11,661,026	69,617	0.6%
Equipment and vehicles	14,586,639	13,062,049	1,524,590	11.7%
Total capital assets	\$ 462,983,525	\$ 456,716,453	\$ 6,267,072	1.4%
Less accumulated depreciation	(110,092,091)	(97,536,655)	(12,555,436)	12.9%
Capital assets, net	\$ 352,891,434	\$ 359,179,798	\$ (6,288,364)	-1.8%
Less related debt:				
SAWPA brineline capacity use obligation	398,908	381,369	17,539	4.6%
WRCRWA State Water Resources Control Board	155,810	184,477	(28,667)	-15.5%
Assessment District 90-1	372,097	475,465	(103,368)	-21.7%
2009 Series B bonds	47,117,293	48,210,176	(1,092,883)	-2.3%
2010 Series B bonds	38,844,014	38,832,835	11,179	-
2012 Series A bonds	30,064,720	29,638,420	426,300	1.4%
Note on Archer land	-	23,493	(23,493)	-100.0%
Note on headquarters building	7,648,545	8,656,264	(1,007,719)	-11.6%
Note on CWMS software	9,163	109,960	(100,797)	-91.7%
Net investment in capital assets	<u>\$ 228,280,884</u>	<u>\$ 232,667,339</u>	<u>\$ (4,386,455)</u>	-1.9%

Restricted for Debt Service – At June 30, 2014 and 2013, 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 \$24.5 million and \$23.7 million at June 30, 2014 and 2013, 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 position 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 capacity charges). Additional information related to 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 position that is not already classified in the above categories. The total amount of unrestricted funds at June 30, 2014 and 2013 was \$87.2 million and \$96.0 million, respectively. Although these funds are not restricted, the Board of Directors of the District has designated these funds for various construction projects, system improvements and operations.

Changes in Net Position

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

Condensed Statements of Revenues, Expenses and Changes in Net Position for the Fiscal Years Ended June 30, 2014 and 2013

	<u>Fiscal Years Ended June 30,</u>		<u>Increase (Decrease)</u>	
	<u>2014</u>	<u>2013</u> <u>As Restated</u>	<u>\$ Change</u>	<u>% Change</u>
Operating Revenue	\$ 105,675,122	\$ 98,793,243	\$ 6,881,879	7.0%
Operating Expenses	(120,416,071)	(118,408,651)	2,007,420	1.7%
Net Non-operating Revenue	16,810,158	12,952,893	3,857,265	29.8%
Net Income (Loss) Before Capital Contributions	2,069,209	(6,662,515)	8,731,724	-131.1%
Capital Contributions	11,775,913	2,864,874	8,911,039	311.0%
Change in Net Position	13,845,122	(3,797,641)	17,642,763	-464.6%
Net Position, July 1, as restated	344,436,895	348,234,536	(3,797,641)	-1.1%
Net Position, June 30	\$ 358,282,017	\$ 344,436,895	\$ 13,845,122	4.0%

**Condensed Statements of Revenues, Expenses and Changes in Net Position
for the Fiscal Years Ended June 30, 2013 and 2012**

	Fiscal Years Ended June 30,		Increase (Decrease)	
	2013	2012		
	As Restated	As Restated	\$ Change	% Change
Operating Revenue	\$ 98,793,243	\$ 91,100,463	\$ 7,692,780	8.4%
Operating Expenses	(118,408,651)	(109,473,041)	8,935,610	8.2%
Net Non-operating Revenue	12,952,893	14,956,215	(2,003,322)	-13.4%
Net Loss Before Capital Contributions	(6,662,515)	(3,416,363)	3,246,152	95.0%
Capital Contributions	2,864,874	5,061,665	(2,196,791)	-43.4%
Change in Net Position	(3,797,641)	1,645,302	(5,442,943)	-330.8%
Net Position, July 1, as restated	348,234,536	346,589,234	1,645,302	0.5%
Net Position, June 30	\$ 344,436,895	\$ 348,234,536	\$ (3,797,641)	-1.1%

Combined Revenue

The following table presents a comparison of revenues by category for the fiscal years ended June 30, 2014 and 2013:

Revenues by Category for the Fiscal Years Ended June 30, 2014 and 2013

Revenue Category	Fiscal Years Ended June 30,		Increase (Decrease)	
	2014	2013	\$ Change	% Change
Water sales	\$ 76,319,361	\$ 71,596,096	\$ 4,723,265	6.6%
Water service	15,969,208	14,290,510	1,678,698	11.7%
Wastewater disposal	10,002,414	9,875,780	126,634	1.3%
Contractual services	2,517,042	2,152,509	364,533	16.9%
Property taxes	16,327,069	16,695,696	(368,627)	-2.2%
Investment earnings	2,436,903	(3,831)	2,440,734	-637.1%
Capacity rights sales	6,260,725	1,915,041	4,345,684	226.9%
Intergovernmental revenue	847,549	920,749	(73,200)	-8.0%
Other	1,852,844	1,531,443	321,401	21.0%
Total revenues	\$ 132,533,115	\$ 118,973,993	\$ 13,559,122	11.4%
Capital contributions	11,775,913	2,864,874	8,911,039	311.0%
Total revenues and capital contributions	\$ 144,309,028	\$ 121,838,867	\$ 22,470,161	18.4%

Combined revenue (excluding capital contributions) for fiscal year 2014 totaled \$132.5 million, an increase of \$13.6 million, or 11.4%. The most significant variances from fiscal year 2014 to 2013 were in four revenue categories: water sales (\$4.7 million increase), water service (\$1.7 million increase), investment earnings (\$2.4 million increase), and capacity rights sales (\$4.3 million increase).

Water Sales – The \$4.7 million increase in water sales resulted from increased rates due to passing through the higher cost of imported water primarily from MWD during the fiscal year, and penalty revenue associated with the District’s new tiered retail water pricing structure within the Riverside and Murrieta service areas.

Water Service – The \$1.7 million increase in water service was mainly due to the scheduled increase in the water reliability charge rate, pass-through increases to the fixed system charge and the MWD readiness-to-serve charge (RTS charge), as well as an increase in the wholesale service rate.

Investment Earnings – The \$2.4 million increase in investment earnings was primarily due to a change in unrealized gains and losses on investments. In 2013 the District experienced an unrealized loss of \$3.6 million, whereas in 2014, the District experienced an unrealized loss of \$0.2 million. The District also experienced a decrease of \$0.7 million in interest income and a decrease in realized net gain on investments of \$0.3 million.

Capacity Rights Sales – The \$4.3 million increase is due to the Mills Gravity Line capacity rights sold to Lee Lake Water District for \$5.1 million.

The following table presents a comparison of revenues by category for the fiscal years ended June 30, 2013 and 2012:

Revenues by Category for the Fiscal Years Ended June 30, 2013 and 2012

<u>Revenue Category</u>	<u>Fiscal Years Ended June 30,</u>		<u>Increase (Decrease)</u>	
	<u>2013</u>	<u>2012</u>	<u>\$ Change</u>	<u>% Change</u>
Water sales	\$ 71,596,096	\$ 66,310,917	\$ 5,285,179	8.0%
Water service	14,290,510	12,479,514	1,810,996	14.5%
Wastewater disposal	9,875,780	10,364,865	(489,085)	-4.7%
Contractual services	2,152,509	1,945,167	207,342	10.7%
Property taxes	16,695,696	15,221,864	1,473,832	9.7%
Investment earnings	(3,831)	5,578,084	(5,581,915)	-100.1%
Capacity rights sales	1,915,041	828,459	1,086,582	131.2%
Intergovernmental revenue	920,749	844,020	76,729	9.1%
Other	1,531,443	700,798	830,645	118.5%
Total revenues	\$ 118,973,993	\$ 114,273,688	\$ 4,700,305	4.1%
Capital contributions	2,864,874	5,061,665	(2,196,791)	-43.4%
Total revenues and capital contributions	\$ <u>121,838,867</u>	\$ <u>119,335,353</u>	\$ <u>2,503,514</u>	2.1%

Combined revenue (excluding capital contributions) for fiscal year 2013 totaled \$119.0 million, an increase of \$4.7 million, or 4.1%. The most significant variances from fiscal year 2013 to 2012 were in five revenue categories: water sales (\$5.3 million increase), water service (\$1.8 million increase), property taxes (\$1.5 million increase), investment earnings (\$5.6 million decrease), and capacity rights sales (\$1.1 million increase).

Water Sales – The \$5.3 million increase in water sales resulted from increased rates due to passing through the higher cost of imported water primarily from MWD during the fiscal year, and penalty revenue associated with the District’s new tiered retail water pricing structure within the Riverside and Murrieta service areas.

Water Service – The \$1.8 million increase in water service was mainly due to the scheduled increase in the water reliability charge rate, pass-through increases to the fixed system charge, the new MWD RTS charge, as well as an increase in the wholesale water customer service rate.

Property Taxes – The \$1.5 million increase in property taxes was primarily due to one-time distributions from the dissolution of the redevelopment agencies in California.

Investment Earnings – The \$5.6 million decrease in investment earnings was primarily due to a change in unrealized gains and losses on investments. In 2012 the District experienced an unrealized gain of \$1.0 million, whereas in 2013, the District experienced an unrealized loss of \$3.6 million. The District also experienced a decrease in 2013 of \$0.4 million in interest income and a decrease in realized net gain on investments of \$0.6 million.

Capacity Rights Sales – The \$1.1 million increase is due to increased lease capacity revenue from Elsinore Valley in the Mills Gravity Line.

Capital Contributions

During fiscal year 2014, the District experienced an increase of \$8.9 million, or 311%, in capital contributions. Capital contributions include water and sewer connection fees (capacity charges), contributed assets from developers and grant proceeds. The variance is mainly due to an increase in grant proceeds related to the Chino Desalter Expansion Project. As a member of the CDA, the District, in collaboration with other members of the CDA, is a recipient of various grants. Refer to Note 13 of the notes to the basic financial statements for more information about the CDA.

During fiscal year 2013, the District experienced a decrease of \$2.2 million, or 43.4%, 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 in contributed assets from developers of \$3.2 million during fiscal year 2013 compared with 2012, offset by \$1.4 million more in capacity charges. Grant proceeds also decreased by \$0.4 million in fiscal year 2013, resulting in the variance of approximately \$2.2 million.

Combined Expenses

The following table presents a comparison of expenses by category for the fiscal years ended June 30, 2014 and 2013:

Expenses by Category for the Fiscal Years Ended June 30, 2014 and 2013

<u>Expense Category</u>	<u>Fiscal Years Ended June 30,</u>		<u>Increase (Decrease)</u>	
	<u>2014</u>	<u>2013</u>	<u>\$ Change</u>	<u>% Change</u>
Source of supply	\$ 1,654,296	\$ 2,191,479	\$ (537,183)	-24.5%
Purchased water	66,430,723	61,600,436	4,830,287	7.8%
Pumping - booster pumps	3,849,016	4,074,438	(225,422)	-5.5%
Water treatment	1,693,055	1,520,478	172,577	11.4%
Transmission and distribution	8,692,067	8,260,048	432,019	5.2%
Administrative and general	10,824,019	10,955,531	(131,512)	-1.2%
Contractual services	2,460,561	2,113,211	347,350	16.4%
Special studies and projects	167,694	147,927	19,767	13.4%
Wastewater disposal	9,047,386	8,700,330	347,056	4.0%
Depreciation and amortization	13,124,158	13,166,694	(42,536)	-0.3%
Interest expense	6,535,428	6,655,805	(120,377)	-1.8%
Other	5,985,503	6,250,131	(264,628)	-4.2%
Total expenses	\$ <u>130,463,906</u>	\$ <u>125,636,508</u>	\$ <u>4,827,398</u>	3.8%

Combined expenses for fiscal year 2014 totaled \$130.5 million, an increase of \$4.8 million, or 3.8%. The most significant variances from fiscal year 2014 to 2013 were in three expense categories: source of supply (\$0.5 million decrease), purchased water (\$4.8 million increase), and transmission and distribution (\$0.4 million increase).

Source of Supply – The \$0.5 million decrease in the source of supply expense from fiscal year 2013 to fiscal year 2014 is primarily due to the transition from annually drawing down a previously established reserve fund to pay for MWD’s RTS charge, to now passing through the RTS charge to the District’s wholesale and retail customers. The draw-down resulted in a source of supply expense to the reserve fund. Since the reserve fund was depleted in fiscal year 2013, beginning in fiscal year 2014, the majority of the RTS charge is initially recorded as a receivable from the District’s wholesale customers and therefore no longer recorded as an expense.

Purchased Water – The increase in purchased water expense of \$4.8 million resulted from the increased cost and volume of imported water during fiscal year 2014 from MWD.

Transmission and Distribution – The increase in transmission and distribution of \$0.4 million resulted from increased water deliveries.

The following table presents a comparison of expenses by category for the fiscal year ended June 30, 2013 and 2012:

Expenses by Category for the Fiscal Years Ended June 30, 2013 and 2012

<u>Expense Category</u>	<u>Fiscal Years Ended June 30,</u>		<u>Increase (Decrease)</u>	
	<u>2013</u>	<u>2012</u>	<u>\$ Change</u>	<u>% Change</u>
Source of supply	\$ 2,191,479	\$ 2,698,466	\$ (506,987)	-18.8%
Purchased water	61,600,436	57,873,634	3,726,802	6.4%
Pumping - booster pumps	4,074,438	3,820,373	254,065	6.7%
Water treatment	1,520,478	1,473,654	46,824	3.2%
Transmission and distribution	8,260,048	7,679,552	580,496	7.6%
Administrative and general	10,955,531	10,888,801	66,730	0.6%
Contractual services	2,113,211	1,867,917	245,294	13.1%
Special studies and projects	147,927	957,107	(809,180)	-84.5%
Wastewater disposal	8,700,330	8,978,903	(278,573)	-3.1%
Depreciation and amortization	13,166,694	10,740,215	2,426,479	22.6%
Interest expense	6,655,805	7,016,077	(360,272)	-5.1%
Other	6,250,131	3,695,352	2,554,779	69.1%
Total expenses	<u>\$ 125,636,508</u>	<u>\$ 117,690,051</u>	<u>\$ 7,946,457</u>	6.8%

Combined expenses for fiscal year 2013, presented in the above table, totaled \$125.7 million, an increase of \$7.9 million, or 6.8%. The most significant variances from fiscal year 2013 to 2012 were in four expense categories: purchased water (\$3.7 million increase), special studies and projects (\$0.8 million decrease), depreciation and amortization (\$2.4 million increase), and other expenses (\$2.6 million increase).

Purchased Water – The increase in purchased water expense of \$3.7 million resulted from the increased cost and volume of imported water during fiscal year 2013 from MWD and the City of Riverside.

Special Studies and Projects – The decrease in special studies and projects of \$0.8 million is primarily due to the deferral of projects during fiscal year 2013. Special studies and projects are generally one-time in nature and cannot be treated as a capital asset.

Depreciation and Amortization – The increase in depreciation and amortization of \$2.4 million resulted primarily from placing in service the completed \$62.1 million WWRF expansion at the end of fiscal year 2012.

Other Expenses – The increase in other operating expenses of \$2.6 million compared to last year was primarily due to the \$3.1 million write-off of a portion of Riverside-Corona Feeder (RCF) project expenditures. In prior years, the entire project was expected to result in a capital asset, and expenditures were therefore charged to construction in progress. However, in fiscal year 2013, it was determined that a portion of the project, as configured, was no longer economically feasible and therefore was charged to operating expense as of June 30, 2013.

Capital Assets

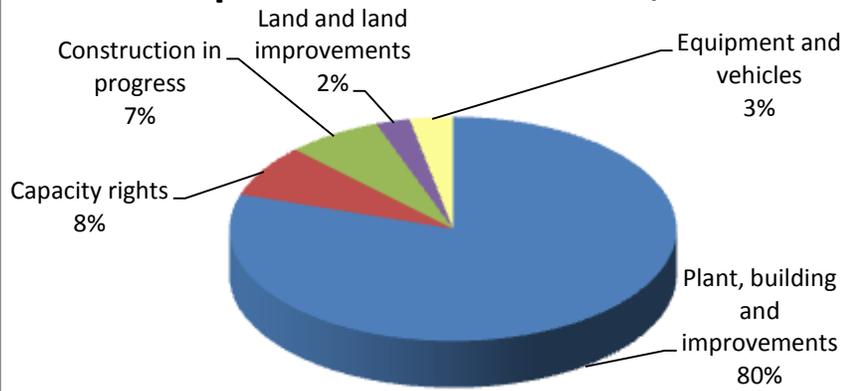
The District’s investment in capital assets as of June 30, 2014 and 2013 was \$380.8 million and \$352.9 million, respectively (net of accumulated depreciation). This includes investment in buildings, building improvements, capacity rights, land, land improvements, equipment, vehicles, and plant assets such as supply sources, pumping stations, water treatment plant, transmission and distribution pipelines, 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:

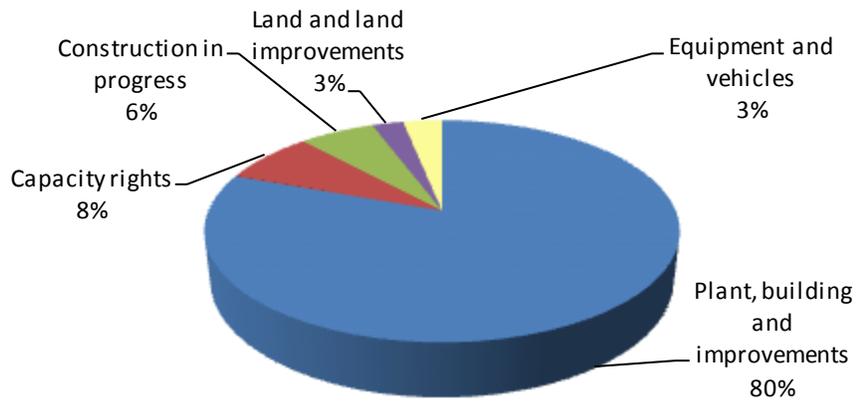
Capital Assets, Net of Accumulated Depreciation as of June 30

	2014	2013	2012
Plant, buildings and improvements	\$ 377,515,105	\$ 371,371,441	\$ 367,349,159
Capacity rights	35,363,849	35,303,010	34,679,018
Construction in progress	64,050,891	29,991,792	29,965,201
Land and land improvements	11,730,643	11,730,643	11,661,026
Equipment and vehicles	14,709,909	14,586,639	13,062,049
Total capital assets	\$ 503,370,397	\$ 462,983,525	\$ 456,716,453
Less accumulated depreciation	(122,542,869)	(110,092,091)	(97,536,655)
Total capital assets, net of accumulated depreciation	\$ 380,827,528	\$ 352,891,434	\$ 359,179,798

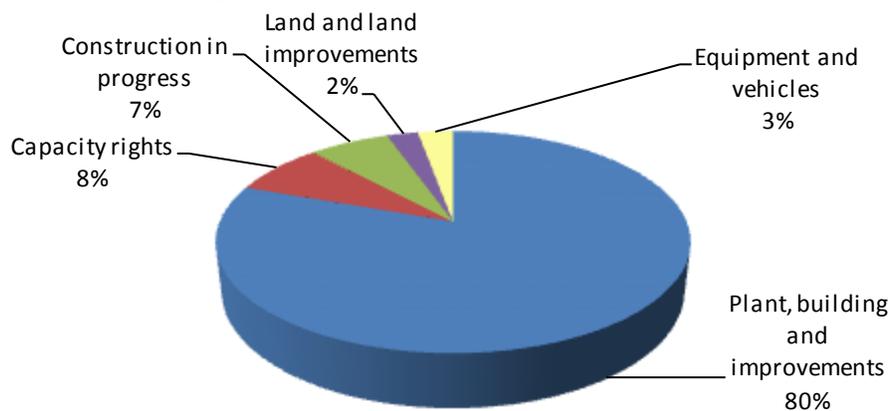
Capital Assets at June 30, 2014



Capital Assets at June 30, 2013



Capital Assets at June 30, 2012



Long-term Liabilities

As of June 30, 2014 and 2013, the District has outstanding long-term liabilities of \$163.2 million and \$167.1 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:

Long-term Liabilities as of June 30

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Compensated absences	\$ 2,239,652	\$ 2,220,529	\$ 2,263,129
Due to other government agencies	2,423,071	2,851,450	3,261,488
Bonds payable			
Improvement bonds	260,000	375,000	480,000
Unamortized bond discount	(1,271)	(2,903)	(4,535)
Revenue bonds	145,220,000	146,820,000	147,500,000
Unamortized discount	(719,840)	(758,403)	(797,368)
Unamortized premium	594,030	769,976	959,644
Swap liability	6,596,744	7,194,510	7,765,573
Note payable	<u>6,599,086</u>	<u>7,657,709</u>	<u>8,789,717</u>
Total long-term liabilities ⁽¹⁾	163,211,472	167,127,868	170,217,648
Less current portion	<u>(5,006,189)</u>	<u>(4,785,203)</u>	<u>(3,775,351)</u>
Total long-term liabilities, net of current portion	<u>\$ 158,205,283</u>	<u>\$ 162,342,665</u>	<u>\$ 166,442,297</u>

⁽¹⁾Deferred loss on bond refunding reclassified to deferred outflows of resources per GASB 65 implementation.

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 create further 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 2015 fiscal year budget includes \$14.1 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 rate increase of about 6% for most of the District's residential water customers will go into effect on January 1, 2015 to accommodate rising imported water costs and costs to operate and maintain the water system. A wastewater rate increase of 8% for most of the District's customers went into effect on September 14, 2014 to accommodate rising costs to operate and maintain the wastewater system.

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.

Western Municipal Water District
Statements of Net Position
June 30, 2014 and 2013

<i>Assets and Deferred Outflows of Resources</i>	2014	2013 As Restated
Current assets:		
Cash and cash equivalents (note 2)	\$ 21,228,301	\$ 18,109,788
Investments (note 2)	67,354,399	72,710,509
Receivables, net (note 4)	19,588,101	20,055,026
Stored groundwater inventory	1,525,095	1,525,095
Materials and supplies inventory	1,059,840	948,111
Other current assets	310,604	339,917
Total current assets	111,066,340	113,688,446
Non-current assets:		
Restricted investments (note 2, 3)	33,163,436	47,160,535
Notes receivable (note 4)	7,887,762	8,389,839
Property taxes and assessments receivable	2,008,827	2,375,000
Other noncurrent assets	172,227	166,343
Derivative instrument - interest rate swap (note 8)	2,782,309	3,465,919
Capital assets not being depreciated (note 6, 13)	94,962,878	60,903,779
Capital assets being depreciated, net (note 6)	285,864,650	291,987,655
Total non-current assets	426,842,089	414,449,070
Total assets	537,908,429	528,137,516
Deferred outflows of resources:		
Deferred outflow of resources-debt refunding	10,529,761	11,541,234
Total deferred outflows of resources	10,529,761	11,541,234
<i>Liabilities, Deferred Inflows of Resources, and Net Position</i>		
Current liabilities:		
Accounts payable and accrued expenses	19,535,704	20,163,640
Customer deposits and unearned revenue	1,479,569	1,421,370
Construction advances	1,645,181	1,523,302
Accrued interest payable	1,501,938	1,539,756
Long-term liabilities - due in less than one year:		
Compensated absences (note 5)	1,695,467	1,583,201
Due to other governments payable (note 7)	447,795	428,380
Notes payable (note 7)	1,092,927	1,058,622
Bonds payable (note 7)	1,770,000	1,715,000
Total current liabilities	29,168,581	29,433,271
Non-current liabilities:		
Long-term liabilities - due in more than one year:		
Compensated absences (note 5)	544,185	637,328
Due to other governments payable (note 7)	1,975,276	2,423,070
Notes payable (note 7)	5,506,159	6,599,087
Bonds payable (note 7)	150,179,663	152,683,180
Total non-current liabilities	158,205,283	162,342,665
Total liabilities	187,373,864	191,775,936
Deferred inflows of resources:		
Deferred swap inflow (note 8)	2,782,309	3,465,919
Total deferred inflows of resources	2,782,309	3,465,919
Commitments and contingencies (note 13)		
Net Position:		
Net investment in capital assets (note 9)	246,394,006	228,280,884
Restricted for debt service (note 3)	144,619	144,619
Restricted for capacity charges (note 3)	24,525,261	23,697,955
Unrestricted	87,218,131	92,313,437
Total net position	\$ 358,282,017	\$ 344,436,895

See accompanying notes to the basic financial statements

Western Municipal Water District
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u> <u>As Restated</u>
Operating revenues:		
Water sales	\$ 76,319,361	\$ 71,596,096
Water service	15,969,208	14,290,510
Wastewater disposal	10,002,414	9,875,780
Other charges and services	867,097	878,348
Contractual services	<u>2,517,042</u>	<u>2,152,509</u>
Total operating revenues	<u>105,675,122</u>	<u>98,793,243</u>
Operating expenses:		
Source of supply	1,654,296	2,191,479
Purchased water	66,430,723	61,600,436
Pumping - booster pumps	3,849,016	4,074,438
Water treatment	1,693,055	1,520,478
Transmission and distribution	8,692,067	8,260,048
Customer accounts	921,347	683,484
Administrative and general	10,824,019	10,955,531
Contractual services	2,460,561	2,113,211
Special studies and projects	167,694	147,927
Wastewater disposal	9,047,386	8,700,330
Other operating expense	<u>1,551,749</u>	<u>4,994,595</u>
Total operating expenses before depreciation and amortization	<u>107,291,913</u>	<u>105,241,957</u>
Operating loss before depreciation and amortization	(1,616,791)	(6,448,714)
Depreciation and amortization	<u>(13,124,158)</u>	<u>(13,166,694)</u>
Operating loss	<u>(14,740,949)</u>	<u>(19,615,408)</u>
Non-operating revenues (expenses):		
Property taxes and assessments	16,327,069	16,695,696
Investment earnings (loss)	2,436,903	(3,831)
Interest expense	(6,535,428)	(6,655,805)
Capacity rights sales	6,260,725	1,915,041
Intergovernmental revenue	847,549	920,749
Other revenues	985,747	653,095
Other expenses	(3,481,399)	(540,136)
Loss on disposal of assets, net	<u>(31,008)</u>	<u>(31,916)</u>
Total net non-operating revenues	<u>16,810,158</u>	<u>12,952,893</u>
Net income (loss) before capital contributions	<u>2,069,209</u>	<u>(6,662,515)</u>
Capital contributions:		
Capacity charges	916,830	1,699,352
Developer capital contributions	445,176	293,051
Federal, state and local capital grants	<u>10,413,907</u>	<u>872,471</u>
Total capital contributions	<u>11,775,913</u>	<u>2,864,874</u>
Change in net position	13,845,122	(3,797,641)
Net position, beginning of year, as restated	<u>344,436,895</u>	<u>348,234,536</u>
Net position, end of year	<u>\$ 358,282,017</u>	<u>\$ 344,436,895</u>

See accompanying notes to the basic financial statements

Western Municipal Water District
Statements of Cash Flows
For the Years Ended June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Cash receipts from customers for water sales and services	\$ 108,109,229	\$ 97,902,405
Cash paid to employees for salaries and wages	(14,164,845)	(13,268,484)
Cash paid to vendors and suppliers for materials and services	(94,420,276)	(88,943,247)
Net cash used in operating activities	(475,892)	(4,309,326)
Cash flows from non-capital financing activities:		
Proceeds from property taxes and assessments	16,608,928	16,955,908
Proceeds from notes receivable	73,691	70,569
Issuance of notes receivable	(8,545)	-
Proceeds from intergovernmental revenue	847,549	920,749
Net cash provided by non-capital financing activities	17,521,624	17,947,226
Cash flows from capital and related financing activities:		
Proceeds from capacity rights sales	5,622,091	1,035,085
Proceeds from notes receivable	436,930	428,890
Acquisition and construction of capital assets	(39,889,741)	(3,860,168)
Proceeds from disposal of capital assets	-	26,692
Proceeds from capital contributions	7,858,465	3,162,528
Principal paid on long-term debt	(3,202,002)	(2,327,047)
Interest paid on long-term debt	(6,543,074)	(6,776,348)
Net cash used in capital and related financing activities	(35,717,331)	(8,310,368)
Cash flows from investing activities:		
Investment earnings	2,603,956	3,625,267
Purchase of investments	(115,504,155)	(76,792,635)
Proceeds from sale of investments	134,690,312	72,364,597
Net cash provided by (used in) investing activities	21,790,113	(802,771)
Net increase in cash and cash equivalents	3,118,513	4,524,761
Cash and cash equivalents, beginning of year	18,109,788	13,585,027
Cash and cash equivalents, end of year	\$ 21,228,301	\$ 18,109,788

Continued on next page

See accompanying notes to the basic financial statements

Western Municipal Water District
Statements of Cash Flows, continued
For the Years Ended June 30, 2014 and 2013

	2014	2013
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (14,740,949)	\$ (19,615,408)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	12,876,374	12,834,295
Amortization	247,784	332,399
Other revenues	1,624,381	1,533,051
Other expenses	(555,956)	(540,136)
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	2,375,909	(1,174,319)
Materials and supplies inventory	(111,729)	(38,548)
Prepaid expense	-	140,391
Other current assets	29,313	(5,252)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(2,298,340)	2,096,279
Customer deposits and deferred revenue	58,198	170,522
Compensated absences	19,123	(42,600)
Total adjustments	14,265,057	15,306,082
Net cash (used in) operating activities	\$ (475,892)	\$ (4,309,326)
Non-cash investing, capital and financing transactions:		
Change in fair value of investments	\$ (167,053)	\$ (3,629,098)
Capital contributions	183,510	90,699
Acquisition and construction of capital assets in accounts payable	1,058,367	104,632
Write-down of construction in progress	-	3,420,319

See accompanying notes to the basic financial statements

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2014 and 2013

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Western Municipal Water District of Riverside County 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 91% of its water from MWD. Approximately 27% of the purchased water comes from the Colorado River aqueduct and approximately 73% 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, 2014 and 2013**

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

C. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflow of Resources, and Net Position

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 position 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 liquidation or sale of investments.

3. Receivables, Net of Allowance for Uncollectible Accounts

The District extends credit to customers in the normal course of operations. Account write-offs are based on management's evaluation of customer accounts and the creditor's ability to pay. The allowance for doubtful accounts is deducted against receivables on the statements of net position. The allowance for doubtful accounts is \$241,461 and \$225,542 for the fiscal years ended June 30, 2014 and 2013, 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 XIII A of the State Constitution at one percent (1%) of countywide assessed valuations.

Property taxes receivable at year-end are related to property taxes collected by the County of 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

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2014 and 2013

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

C. Assets, Deferred Outflow of Resources, Liabilities, Deferred Inflow of Resources, and Net Position, continued

5. 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 risk exposure on its variable-rate debt is a hedging derivative instrument. Under hedge accounting, the fair values of a hedging derivative instrument are reported as either an asset and deferred swap inflow or deferred swap outflow and a liability in a government's statement of net position.

6. 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 when debt is outstanding. 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.

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 - 75 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, 2014 or 2013.

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2014 and 2013

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

C. Assets, Deferred Outflow of Resources, Liabilities, Deferred Inflow of Resources, and Net Position, continued

6. Capital Assets, continued

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.

7. 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. The compensated absences is accrued at 100% of the employee's current hourly pay.

8. Deferred Inflow of Resources and Deferred Outflow of Resources

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. The Statement requires that the difference between assets, deferred outflow of resources, liabilities, and deferred inflow of resources be reported as net position. In addition, the impact of deferred outflow of resources and deferred inflow of resources on net position must be explained as is done in the following paragraphs. The District implemented GASB Statement No. 63 in the fiscal year ended June 30, 2013.

The deferred outflow of resources of \$10,529,761 and \$11,541,234 at June 30, 2014 and 2013, respectively, is relating to previous debt refunding. The deferred losses on refunding are amortized as a component of interest expense over the life of the old debt or the net debt, whichever is shorter.

The deferred swap inflows of \$2,782,309 and \$3,465,919 at June 30, 2014 and 2013, respectively, would be recognized as an investment gain upon the early termination of the swaps. The District currently has no intention of terminating its interest rate swap agreements in advance. The deferred inflow would also be recognized as an investment gain if the swap was determined to no longer be an effective hedge. Finally, if the bond associated with a swap is refunded, the deferred gain or loss on refunding would be amortized as a component of interest expense over the life of the old debt or the new debt, whichever is shorter.

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2014 and 2013

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

C. Assets, Deferred Outflow of Resources, Liabilities, Deferred Inflow of Resources, and Net Position, continued

9. Net Position

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

- **Net investment in capital assets** – This component of net position consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt associated with the acquisition, construction or improvement of those assets.
- **Restricted for debt service and capacity charges** – Restricted net position has 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 position consists of net position that does not meet the definition of *restricted* or *invested in capital assets*.

D. Revenues

1. 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 recognized at year-end.

2. 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 position when the capital asset is placed in service.

3. Grants

When a grant agreement is approved and eligibility requirements are met, the amount is recorded as a receivable on the statement of net position and as capital grant contribution or non-operating grant revenue, as appropriate, on the statement of revenues, expenses and changes in net position.

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, 2014 and 2013

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

E. Use of Estimates

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflow of resources, liabilities, and deferred inflow of resources and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in net position during the reporting period. Actual results could differ from those estimates.

F. Budgetary Policies

The District adopts a biennial 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.

G. Reclassifications

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:

	2014	2013
Cash and cash equivalents	\$ 21,228,301	\$ 18,109,788
Investments	67,354,399	72,710,509
Restricted investments	33,163,436	47,160,535
Total investments	100,517,835	119,871,044
Total cash and investments	\$ 121,746,136	\$ 137,980,832

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2014 and 2013

(2) Cash and Investments, continued

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

	<u>2014</u>	<u>2013</u>
Petty cash	\$ 23,327	\$ 23,327
Deposits with financial institutions	<u>21,204,974</u>	<u>18,086,461</u>
Total cash and cash equivalents	<u>21,228,301</u>	<u>18,109,788</u>
Money market funds	176,544	4,197,832
California Local Agency Investment Fund (LAIF)	8,116,044	3,307,144
U.S. Treasury notes	18,547,218	17,841,786
Government-sponsored agency securities	39,086,821	46,660,653
Corporate bonds	19,103,326	23,498,559
Commercial paper	3,747,592	1,847,207
Asset-backed securities	5,413,287	2,839,499
Collateralized mortgage obligations	1,283,010	-
Held by fiscal agent:		
Money market funds	278,242	3,012,289
Government-sponsored agency securities	3,990,744	3,525,076
California LAIF	-	12,510,289
Local Agency Bonds	<u>775,007</u>	<u>630,710</u>
Total investments	<u>100,517,835</u>	<u>119,871,044</u>
Total cash and investments	<u>\$ 121,746,136</u>	<u>\$ 137,980,832</u>

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

The table on the following page 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 and concentration of credit risk.

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2014 and 2013

(2) Cash and Investments, continued

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

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	No limit	No limit
State-Registered Obligations	5 years	10%	No limit
Notes or Bonds of any of the other 49 states	5 years	10%	No limit
Other Local California Agency Obligations	5 years	No limit	No limit
U.S. Agency Securities	10 years	No limit	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
LAIF	N/A	\$50 million	No limit
Money Market Mutual Funds & Mutual Funds	5 years	20%	No limit
Collateralized Bank Deposits	5 years	No limit	No limit
Mortgage Pass-Through Securities	5 years	20%	No limit
County Pooled Investment Funds	N/A	No limit	No limit
CalTrust Pooled Investment Funds	N/A	No limit	No limit

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 and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
Government Obligations	No limit	No limit	No limit
Local Agency Bonds	No limit	No limit	No limit
U.S. Agency Securities	No limit	No limit	No limit
Certificates of Deposit	365 days	10%	No limit
Money Market Funds	N/A	No limit	No limit
LAIF ⁽¹⁾	N/A	No limit	No limit

(1) Money in the Bond Reserve Fund may not be invested in LAIF.

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2014 and 2013

(2) Cash and Investments, continued

Custodial Credit Risk

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

At June 30, 2014 and 2013, the carrying amounts of the District's deposits were \$21,204,974 and \$18,086,461, respectively, and the corresponding bank balances were \$21,354,279 and \$18,178,018, respectively. The differences of \$149,305 and \$91,557 at June 30, 2014 and 2013, respectively, were principally due to outstanding checks, wires and/or deposits in transit. Of the bank balances, up to \$250,000 is federally insured under the Federal Deposit Insurance Corporation (FDIC), with balances in excess of \$250,000 collateralized in accordance with the California Government Code; however, the collateralized securities are not held in the name of the District.

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.

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2014 and 2013

(2) Cash and Investments, continued

Interest Rate Risk, continued

Maturities of investments at June 30, 2014 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.S. Treasury Notes	\$ 18,547,218	\$ -	\$ 4,133,093	\$ 14,414,125
Government-Sponsored Agency Securities	43,077,565	3,096,220	22,300,136	17,681,209
Corporate Bonds	19,103,326	7,071,812	12,031,514	-
Commercial Paper	3,747,592	3,747,592	-	-
Asset-Backed Securities	5,413,287	-	5,413,287	-
Collateralized Mortgage Obligations	1,283,010	-	1,283,010	-
Local Agency Bonds	775,007	-	775,007	-
California LAIF	8,116,044	8,116,044	-	-
Money Market Funds	454,786	454,786	-	-
Total	<u>\$ 100,517,835</u>	<u>\$ 22,486,454</u>	<u>\$ 45,936,047</u>	<u>\$ 32,095,334</u>

Maturities of investments at June 30, 2013 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.S. Treasury Notes	\$ 17,841,786	\$ 3,345,181	\$ 4,074,601	\$ 10,422,004
Government-Sponsored Agency Securities	50,185,729	2,497,862	28,183,832	19,504,035
Corporate Bonds	23,498,559	5,512,166	17,986,393	-
Commercial Paper	1,847,207	1,847,207	-	-
Asset-Backed Securities	2,839,499	-	2,839,499	-
Local Agency Bonds	630,710	-	630,710	-
California LAIF	15,817,433	15,817,433	-	-
Money Market Funds	7,210,121	7,210,121	-	-
Total	<u>\$ 119,871,044</u>	<u>\$ 36,229,970</u>	<u>\$ 53,715,035</u>	<u>\$ 29,926,039</u>

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2014 and 2013

(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, 2014 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	\$ 18,547,218	N/A	\$ 18,547,218	\$ -	\$ -	\$ -	\$ -
Government-Sponsored Agency Securities	43,077,565	None	-	-	42,957,932	-	119,633
Corporate Bonds	19,103,326	A	-	-	9,963,701	9,139,625	-
Commercial Paper	3,747,592	A	-	-	-	3,747,592	-
Asset-Backed Securities	5,413,287	AAA	-	5,413,287	-	-	-
Collateralized Mortgage Obligations	1,283,010	AAA	-	1,283,010	-	-	-
Local Agency Bonds	775,007	None	-	-	775,007	-	-
California LAIF	8,116,044	None	-	-	-	-	8,116,044
Money Market Funds	454,786	AA	-	39,414	-	-	415,372
	<u>\$ 100,517,835</u>		<u>\$ 18,547,218</u>	<u>\$ 7,510,718</u>	<u>\$ 52,921,633</u>	<u>\$ 12,887,217</u>	<u>\$ 8,651,049</u>

Credit ratings of investments as of June 30, 2013 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	\$ 17,841,786	N/A	\$ 17,841,786	\$ -	\$ -	\$ -	\$ -
Government-Sponsored Agency Securities	50,185,729	None	-	-	50,068,970	-	116,759
Corporate Bonds	23,498,559	A	-	-	9,361,996	14,136,563	-
Commercial Paper	1,847,207	A	-	-	-	1,847,207	-
Asset-Backed Securities	2,839,499	AAA	-	2,839,499	-	-	-
Local Agency Bonds	630,710	None	-	630,710	-	-	-
California LAIF	15,817,433	None	-	-	-	-	15,817,433
Money Market Funds	7,210,121	AA	-	40,766	-	-	7,169,355
	<u>\$ 119,871,044</u>		<u>\$ 17,841,786</u>	<u>\$ 3,510,975</u>	<u>\$ 59,430,966</u>	<u>\$ 15,983,770</u>	<u>\$ 23,103,547</u>

Concentration of Credit Risk

The District's investment policy contains no 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 6.67% and 11.46% of the District's total depository and investment portfolio as of June 30, 2014 and 2013, respectively. Investments in any one issuer, other than U.S. Treasury securities, mutual funds and external investment pools, that represent 5% or more of total District investments are as follows:

Issuer	Investment Type	2014 Reported Amount	2013 Reported Amount	2014 % of Total Investments	2013 % of Total Investments
Federal Farm Credit Bank	Government-Sponsored Agency Securities	\$ 5,291,038	\$ 8,426,337	5%	7%
Federal Home Loan Bank	Government-Sponsored Agency Securities	7,767,408	11,220,580	8%	9%
Federal National Mortgage Association	Government-Sponsored Agency Securities	11,266,638	12,022,858	11%	10%
Tennessee Valley Authority	Government-Sponsored Agency Securities	6,094,061	6,062,247	6%	5%
Federal Home Loan Mortgage Corp.	Government-Sponsored Agency Securities	12,658,420	12,453,707	13%	10%

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2014 and 2013

(3) Restricted Investments

Restricted investments at June 30 are as follows:

	2014	2013
Capacity charges	\$ 24,525,261	\$ 23,697,955
SARI capacity use loan from SAWPA	639,709	953,758
Reserve for Assessment District AD 90-1	144,619	144,619
Customer deposits	1,242,864	1,240,728
Construction advances	1,566,990	1,445,111
2009 Series B Water Revenue Bonds Reserve Fund and Debt Service Fund	5,041,440	6,150,611
2010 Series A Water Revenue Bonds Service Fund	1	1
2010 Series A Water Revenue Bonds Construction Fund	-	9,744,405
2010 Series B Water Revenue Bonds Service Fund	9	19
2010 Series B Water Revenue Bonds Construction Fund	-	3,778,605
2012 Series A Water Revenue Bonds Service Fund	2,543	4,723
	\$ 33,163,436	\$ 47,160,535

(4) Receivables

Current Receivables, Net

Current receivables at June 30 consisted of the following:

	2014	2013
Utility services - wholesale	\$ 11,821,352	\$ 12,447,162
Utility services - retail	5,881,042	6,069,772
Allowance for doubtful accounts	(241,461)	(225,542)
Accrued interest	536,728	655,862
Property taxes and assessments	948,730	864,416
Other	641,710	243,356
	\$ 19,588,101	\$ 20,055,026

Notes Receivable, Non-current

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

	2014	2013
Note receivable from EVMWD	\$ 588,331	\$ 766,712
Note receivable from Jurupa	7,219,480	7,478,029
Other	79,951	145,098
	\$ 7,887,762	\$ 8,389,839

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2014 and 2013**

(4) Receivables, continued

Notes Receivable, Non-current, continued

On January 12, 1999, the District sold 0.8 MGD of pipeline capacity to 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 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 and currently at 3.305%.

(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.

The changes to compensated absences balances at June 30 were as follows:

<u>Balance</u> <u>2013</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance</u> <u>2014</u>	<u>Current</u> <u>Portion</u>	<u>Long-term</u> <u>Portion</u>
\$ 2,220,529	\$ 1,862,099	\$ (1,842,976)	\$ 2,239,652	\$ 1,695,467	\$ 544,185
<u>Balance</u> <u>2012</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance</u> <u>2013</u>	<u>Current</u> <u>Portion</u>	<u>Long-term</u> <u>Portion</u>
\$ 2,263,129	\$ 1,802,524	\$ (1,845,124)	\$ 2,220,529	\$ 1,583,201	\$ 637,328

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2014 and 2013

(6) Capital Assets

The balance in capital assets for the year ended June 30, 2014 was as follows:

	<u>Balance 2013</u>	<u>Additions</u>	<u>Deletions / Transfers</u>	<u>Balance 2014</u>
Capital assets not being depreciated:				
Land	\$ 7,663,581	\$ -	\$ -	\$ 7,663,581
Capacity rights	23,248,406	-	-	23,248,406
Construction in progress (note 13)	29,991,792	40,670,229	(6,611,130)	64,050,891
Total capital assets not being depreciated	<u>60,903,779</u>	<u>40,670,229</u>	<u>(6,611,130)</u>	<u>94,962,878</u>
Capital assets being depreciated:				
Land improvements	4,067,062	-	-	4,067,062
Plant	893,219	-	-	893,219
Source of supply - plant	1,064,308	-	(6,190)	1,058,118
Pumping plant	30,486,058	-	(148,303)	30,337,755
Water treatment plant	7,531,643	284,793	(28,987)	7,787,449
Transmission and distribution plant	196,418,509	5,941,362	(16,042)	202,343,829
Wastewater treatment plant	105,308,076	300,081	(34,441)	105,573,716
Buildings	29,669,628	-	(148,609)	29,521,019
Furniture, fixtures and office equipment	2,173,828	-	(11,189)	2,162,639
Vehicles	4,348,339	-	-	4,348,339
Construction and maintenance equipment	783,081	14,388	(57,107)	740,362
Computer equipment	6,264,942	173,885	-	6,438,827
Miscellaneous equipment	1,016,449	9,029	(5,736)	1,019,742
Capacity rights	12,054,604	60,839	-	12,115,443
Total capital assets being depreciated	<u>402,079,746</u>	<u>6,784,377</u>	<u>(456,604)</u>	<u>408,407,519</u>
Less accumulated depreciation:				
Land improvements	(2,098,279)	(161,595)	-	(2,259,874)
Plant	(785,364)	(15,722)	-	(801,086)
Source of supply - plant	(991,953)	(16,296)	6,190	(1,002,059)
Pumping plant	(12,868,422)	(1,320,058)	148,052	(14,040,428)
Water treatment plant	(4,694,791)	(493,154)	28,987	(5,158,958)
Transmission and distribution plant	(62,501,467)	(4,515,071)	16,042	(67,000,496)
Wastewater treatment plant	(11,384,865)	(3,797,936)	3,684	(15,179,117)
Buildings	(5,195,376)	(1,007,076)	148,609	(6,053,843)
Furniture, fixtures and office equipment	(1,180,482)	(336,640)	11,189	(1,505,933)
Vehicles	(3,468,932)	(197,548)	-	(3,666,480)
Construction and maintenance equipment	(719,104)	(15,355)	57,107	(677,352)
Computer equipment	(928,975)	(589,320)	-	(1,518,295)
Miscellaneous equipment	(388,053)	(91,208)	5,736	(473,525)
Capacity rights	(2,886,028)	(319,395)	-	(3,205,423)
Total accumulated depreciation	<u>(110,092,091)</u>	<u>(12,876,374)</u>	<u>425,596</u>	<u>(122,542,869)</u>
Total capital assets being depreciated, net	<u>291,987,655</u>	<u>(6,091,997)</u>	<u>(31,008)</u>	<u>285,864,650</u>
Total capital assets, net	<u>\$ 352,891,434</u>	<u>\$ 34,578,232</u>	<u>\$ (6,642,138)</u>	<u>\$ 380,827,528</u>

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2014 and 2013

(6) Capital Assets, continued

The balance in capital assets for the year ended June 30, 2013 was as follows:

	<u>Balance 2012</u>	<u>Additions</u>	<u>Deletions / Transfers</u>	<u>Balance 2013</u>
Capital assets not being depreciated:				
Land	\$ 7,663,581	\$ -	\$ -	\$ 7,663,581
Capacity rights	23,248,406	-	-	23,248,406
Construction in progress (note 13)	<u>29,965,201</u>	<u>10,995,056</u>	<u>(10,968,465)</u>	<u>29,991,792</u>
Total capital assets not being depreciated	<u>60,877,188</u>	<u>10,995,056</u>	<u>(10,968,465)</u>	<u>60,903,779</u>
Capital assets being depreciated:				
Land improvements	3,997,445	69,617	-	4,067,062
Plant	893,219	-	-	893,219
Source of supply - plant	1,064,308	-	-	1,064,308
Pumping plant	30,328,853	309,088	(151,883)	30,486,058
Water treatment plant	7,296,111	287,690	(52,158)	7,531,643
Transmission and distribution plant	192,832,428	3,586,081	-	196,418,509
Wastewater treatment plant	105,264,612	43,464	-	105,308,076
Buildings	29,669,628	-	-	29,669,628
Furniture, fixtures and office equipment	2,161,261	12,567	-	2,173,828
Vehicles	4,566,462	-	(218,123)	4,348,339
Construction and maintenance equipment	783,081	-	-	783,081
Computer equipment	4,578,844	1,686,098	-	6,264,942
Miscellaneous equipment	972,401	44,048	-	1,016,449
Capacity rights	<u>11,430,612</u>	<u>623,992</u>	<u>-</u>	<u>12,054,604</u>
Total capital assets being depreciated	<u>395,839,265</u>	<u>6,662,645</u>	<u>(422,164)</u>	<u>402,079,746</u>
Less accumulated depreciation:				
Land improvements	(1,939,190)	(159,089)	-	(2,098,279)
Plant	(769,208)	(16,156)	-	(785,364)
Source of supply - plant	(975,564)	(16,389)	-	(991,953)
Pumping plant	(11,623,291)	(1,338,406)	93,275	(12,868,422)
Water treatment plant	(4,172,103)	(574,846)	52,158	(4,694,791)
Transmission and distribution plant	(58,068,452)	(4,433,015)	-	(62,501,467)
Wastewater treatment plant	(7,466,723)	(3,918,142)	-	(11,384,865)
Buildings	(4,154,741)	(1,040,635)	-	(5,195,376)
Furniture, fixtures and office equipment	(843,958)	(336,524)	-	(1,180,482)
Vehicles	(3,440,700)	(246,355)	218,123	(3,468,932)
Construction and maintenance equipment	(700,433)	(18,671)	-	(719,104)
Computer equipment	(499,908)	(429,067)	-	(928,975)
Miscellaneous equipment	(293,641)	(94,412)	-	(388,053)
Capacity rights	<u>(2,588,743)</u>	<u>(297,285)</u>	<u>-</u>	<u>(2,886,028)</u>
Total accumulated depreciation	<u>(97,536,655)</u>	<u>(12,918,992)</u>	<u>363,556</u>	<u>(110,092,091)</u>
Total capital assets being depreciated, net	<u>298,302,610</u>	<u>(6,256,347)</u>	<u>(58,608)</u>	<u>291,987,655</u>
Total capital assets, net	<u>\$ 359,179,798</u>	<u>\$ 4,738,709</u>	<u>\$ (11,027,073)</u>	<u>\$ 352,891,434</u>

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2014 and 2013

(6) Capital Assets, continued

Construction in Progress

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

	<u>2014</u>		<u>2013</u>		<u>2012</u>
Chino Basin Desalter Expansion	\$ 54,897,220	\$	17,978,305	\$	11,909,349
Mockingbird Pump Station Improvements	1,181,242		-		-
2320 Pressure Zone Reach 1 Pipeline	-		3,745,921		2,433,049
Recycled Water Distribution System	-		-		1,995,740
River Road Bridge Pipelines	-		-		1,258,968
Computerized Work Management System Implementation	-		-		1,163,155
Various projects	<u>7,972,429</u>		<u>8,267,566</u>		<u>11,204,940</u>
Construction in progress	<u>\$ 64,050,891</u>	\$	<u>29,991,792</u>	\$	<u>29,965,201</u>

At June 30, 2014 and 2013, interest cost of \$546,564 and \$555,182, respectively, was capitalized in relation to debt financing of construction projects.

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2014 and 2013

(7) Long-term Debt

Long-term debt activities for the year ended June 30, 2014 were as follows:

	<u>Balance 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2014</u>	<u>Current Portion</u>	<u>Long-term Portion</u>
Due to other local government agencies:						
SAWPA:						
SARI capacity use rights	\$ 2,695,640	\$ -	\$ (398,908)	\$ 2,296,732	\$ 417,498	\$ 1,879,234
WRCRWA:						
State Water Resources Control Board	<u>155,810</u>	<u>-</u>	<u>(29,471)</u>	<u>126,339</u>	<u>30,297</u>	<u>96,042</u>
Total due to other government agencies	<u>2,851,450</u>	<u>-</u>	<u>(428,379)</u>	<u>2,423,071</u>	<u>447,795</u>	<u>1,975,276</u>
Bonds payable:						
Improvement Bonds	375,000	-	(115,000)	260,000	125,000	135,000
Unamortized discount	(2,903)	-	1,632	(1,271)	-	(1,271)
2009 Series B bonds	51,805,000	-	(690,000)	51,115,000	700,000	50,415,000
Unamortized discount	(531,922)	-	27,394	(504,528)	-	(504,528)
2010 Series A bonds	8,485,000	-	(910,000)	7,575,000	945,000	6,630,000
2010 Series B bonds	42,755,000	-	-	42,755,000	-	42,755,000
Unamortized premium	769,976	-	(175,946)	594,030	-	594,030
Unamortized discount	(226,481)	-	11,169	(215,312)	-	(215,312)
2012 Series A bonds	43,775,000	-	-	43,775,000	-	43,775,000
Swap liability ⁽¹⁾	7,194,510	-	(597,766)	6,596,744	-	6,596,744
Total bonds payable	<u>\$ 154,398,180</u>	<u>\$ -</u>	<u>\$ (2,448,517)</u>	<u>\$ 151,949,663</u>	<u>\$ 1,770,000</u>	<u>\$ 150,179,663</u>
Notes payable:						
Note payable - headquarters building	7,648,546	-	(1,049,460)	6,599,086	1,092,927	5,506,159
Note payable - other	<u>9,163</u>	<u>-</u>	<u>(9,163)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total notes payable	<u>7,657,709</u>	<u>-</u>	<u>(1,058,623)</u>	<u>6,599,086</u>	<u>1,092,927</u>	<u>5,506,159</u>
Total long-term debt	<u>\$ 164,907,339</u>	<u>\$ -</u>	<u>\$ (3,935,519)</u>	<u>\$ 160,971,820</u>	<u>\$ 3,310,722</u>	<u>\$ 157,661,098</u>

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

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2014 and 2013

(7) Long-term Debt, continued

Long-term debt activities for the year ended June 30, 2013 were as follows if the 2012 Series A bonds are successfully remarketed and the underlying credit facility is renewed over the original terms of the bonds:

	<u>Balance 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2013</u>	<u>Current Portion</u>	<u>Long-term Portion</u>
Due to other local government agencies:						
SAWPA:						
SARI capacity use rights	\$ 3,077,011	\$ -	\$ (381,371)	\$ 2,695,640	\$ 398,908	\$ 2,296,732
WRCRWA:						
State Water Resources Control Board	184,477	-	(28,667)	155,810	29,472	126,338
Total due to other government agencies	<u>3,261,488</u>	<u>-</u>	<u>(410,038)</u>	<u>2,851,450</u>	<u>428,380</u>	<u>2,423,070</u>
Bonds payable:						
Improvement Bonds	480,000	-	(105,000)	375,000	115,000	260,000
Unamortized discount	(4,535)	-	1,632	(2,903)	-	(2,903)
2009 Series B bonds	52,485,000	-	(680,000)	51,805,000	690,000	51,115,000
Unamortized discount	(559,708)	-	27,786	(531,922)	-	(531,922)
2010 Series A bonds	8,485,000	-	-	8,485,000	910,000	7,575,000
2010 Series B bonds	42,755,000	-	-	42,755,000	-	42,755,000
Unamortized premium	959,644	-	(189,668)	769,976	-	769,976
Unamortized discount	(237,660)	-	11,179	(226,481)	-	(226,481)
2012 Series A bonds	43,775,000	-	-	43,775,000	-	43,775,000
Swap liability ⁽¹⁾	7,765,573	-	(571,063)	7,194,510	-	7,194,510
Total bonds payable	<u>\$ 155,903,314</u>	<u>\$ -</u>	<u>\$ (1,505,134)</u>	<u>\$ 154,398,180</u>	<u>\$ 1,715,000</u>	<u>\$ 152,683,180</u>
Notes payable:						
Note payable - land	23,493	-	(23,493)	-	-	-
Note payable - headquarters building	8,656,264	-	(1,007,718)	7,648,546	1,049,459	6,599,087
Note payable - other	109,960	-	(100,797)	9,163	9,163	-
Total notes payable	<u>8,789,717</u>	<u>-</u>	<u>(1,132,008)</u>	<u>7,657,709</u>	<u>1,058,622</u>	<u>6,599,087</u>
Total long-term debt	<u>\$ 167,954,519</u>	<u>\$ -</u>	<u>\$ (3,047,180)</u>	<u>\$ 164,907,339</u>	<u>\$ 3,202,002</u>	<u>\$ 161,705,337</u>

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

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2014 and 2013**

(7) Long-term Debt, continued

The 2012 Series A bond principal of \$43,775,000, along with any accrued interest, would be due in 2018 if the underlying credit facility, which matures in October 2017, is not renewed and the remarketing agent is unable to resell bonds that are tendered for redemption.

The future annual maturities of all long-term borrowing as of June 30, 2014 are as follows if the 2012 Series A bonds are successfully remarketed and the underlying credit facility is renewed over the original terms of the bonds:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest ⁽¹⁾</u>	<u>Total</u>
2015	\$ 3,310,722	\$ 7,030,913	\$ 10,341,635
2016	3,451,545	6,880,577	10,332,122
2017	3,440,451	6,721,363	10,161,814
2018	5,067,553	6,585,978	11,653,531
2019	5,239,270	6,378,505	11,617,775
2020-2024	19,862,616	29,442,007	49,304,623
2025-2029	22,655,000	25,474,561	48,129,561
2030-2034	27,420,000	20,318,796	47,738,796
2035-2039	35,780,000	12,637,534	48,417,534
2040-2044	<u>28,275,000</u>	<u>2,570,520</u>	<u>30,845,520</u>
Total	154,502,157	<u>\$ 124,040,754</u>	<u>\$ 278,542,911</u>
Unamortized discount	(721,111)		
Unamortized premium	594,030		
Swap liability	<u>6,596,744</u>		
Total	<u>160,971,820</u>		
Less current portion	<u>(3,310,722)</u>		
Total non-current	<u>\$ 157,661,098</u>		

(1) The 2012 Series A bonds have an assumed interest rate of 2.715% based on the swap.

Due to Other Governmental Agencies

SAWPA 2.0 MGD Brine Line Pipeline Capacity

On January 12, 1999, the District entered into an 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 in 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 brine line capacity use rights to EVMWD and 1.2 MGD of brine line capacity to the City of Corona. EVMWD issued a note for \$3,060,000 for its purchases. For additional information on the note, refer to Note 4. The City of Corona paid \$4.6 million in cash for its purchases. As of June 30, 2014, there is \$0.6 million in cash restricted for repayment to SAWPA.

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2014 and 2013**

(7) Long-Term Debt, continued

Due to Other Governmental Agencies, continued

SAWPA 2.0 MGD Brine Line Pipeline Capacity, continued

As of June 30, 2014, the future annual maturities of the District's obligation are as follows:

Fiscal Year	Principal	Interest	Total
2015	\$ 417,498	\$ 111,086	\$ 528,584
2016	437,204	91,380	528,584
2017	458,093	70,491	528,584
2018	480,235	48,349	528,584
2019	503,702	24,880	528,582
Total	2,296,732	\$ 346,186	\$ 2,642,918
Less current portion	(417,498)		
Total non-current	\$ 1,879,234		

State Water Resources Control Board – Contracts 3 and 4

On March 27, 1996, the District entered into an agreement with 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.

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2014 and 2013

(7) Long-Term Debt, continued

Due to Other Governmental Agencies, continued

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

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, 2014, the future annual maturities of the District's obligation are as follows:

Fiscal Year	Principal	Interest	Total
2015	\$ 30,297	\$ 3,537	\$ 33,834
2016	31,145	2,689	33,834
2017	32,017	1,817	33,834
2018	<u>32,880</u>	<u>921</u>	<u>33,801</u>
Total	126,339	<u>\$ 8,964</u>	<u>\$ 135,303</u>
Less current portion	<u>(30,297)</u>		
Total non-current	<u>\$ 96,042</u>		

Bonds Payable

Improvement Bonds

The Improvement Bonds were used to pay for the construction and acquisition of water system and sewer system improvements. The bonds are payable from 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 mature 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, 2014, the future annual maturities of the District's obligation are as follows:

Fiscal Year	Principal	Interest	Total
2015	\$ 125,000	\$ 14,072	\$ 139,072
2016	<u>135,000</u>	<u>4,809</u>	<u>139,809</u>
Total	260,000	<u>\$ 18,881</u>	<u>\$ 278,881</u>
Less current portion	<u>(125,000)</u>		
Total non-current	<u>\$ 135,000</u>		

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2014 and 2013**

(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 issue 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 issue 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, 2014, the future annual maturities of the District's obligation are as follows:

Year Ending June 30,	Fixed-Rate Bonds		
	Principal	Interest	Total
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	755,000	2,392,594	3,147,594
2019	775,000	2,354,844	3,129,844
2020-2024	4,150,000	11,223,469	15,373,469
2025-2029	4,585,000	10,303,438	14,888,438
2030-2034	8,300,000	9,169,550	17,469,550
2035-2039	24,675,000	5,254,250	29,929,250
2040-2044	5,720,000	286,000	6,006,000
Total	51,115,000	\$ 48,328,077	\$ 99,443,077
Less current portion	(700,000)		
Total non-current	\$ 50,415,000		

2010 Series A Bonds

In October 2010, the Authority issued \$8,485,000 of 2010 Series A Water Revenue Bonds with original issue 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. 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.

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2014 and 2013

(7) Long-term Debt, continued

Bonds Payable, continued

2010 Series A Bonds, continued

As of June 30, 2014, the future annual maturities of the District's obligation are as follows:

Year Ending June 30,	Fixed-Rate Bonds		
	Principal	Interest	Total
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	1,075,000	206,950	1,281,950
2019	1,125,000	153,200	1,278,200
2020-2024	2,410,000	157,400	2,567,400
Total	7,575,000	\$ 1,408,250	\$ 8,983,250
Less current portion	(945,000)		
Total non-current	\$ 6,630,000		

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 issue discount of \$255,745, to finance the acquisition and construction of certain water and wastewater facilities, such as the expansion of WWRF. Interest on the bonds is paid semiannually at stated rates ranging from 4.528% to 6.510%. The original issue 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. 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.

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2014 and 2013**

(7) Long-term Debt, continued

Bonds Payable, continued

2010 Series B Bonds, continued

As of June 30, 2014, the future annual maturities of the District's obligation are as follows:

Year Ending June 30,	Fixed-Rate Bonds		
	Principal	Interest	Total
2015	\$ -	\$ 2,630,711	\$ 2,630,711
2016	-	2,630,711	2,630,711
2017	-	2,630,711	2,630,711
2018	-	2,630,711	2,630,711
2019	-	2,630,711	2,630,711
2020-2024	3,930,000	12,972,676	16,902,676
2025-2029	7,505,000	11,375,281	18,880,281
2030-2034	9,085,000	8,904,077	17,989,077
2035-2039	11,105,000	5,832,340	16,937,340
2040-2044	11,130,000	1,285,400	12,415,400
Total	42,755,000	\$ 53,523,329	\$ 96,278,329
Less current portion	-		
Total non-current	\$ 42,755,000		

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 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 that expires in October 2017 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.

The principal of \$43,775,000, along with any accrued interest, would be due in 2018 if the underlying credit facility, which matures in October 2017, is not renewed and the remarketing agent is unable to resell bonds that are tendered for redemption.

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2014 and 2013

(7) Long-term Debt, continued

Bonds Payable, continued

2012 Series A Bonds, continued

As of June 30, 2014, the future annual maturities of the District's obligation are as follows if the bonds are successfully remarketed and the underlying credit facility is renewed over the original terms of the bonds:

Year Ending June 30,	Variable-Rate Bonds		Total
	Principal	Interest ⁽¹⁾	
2015	\$ -	\$ 1,188,491	\$ 1,188,491
2016	-	1,188,491	1,188,491
2017	-	1,188,491	1,188,491
2018	1,490,000	1,188,491	2,678,491
2019	1,550,000	1,148,038	2,698,038
2020-2024	8,710,000	5,074,878	13,784,878
2025-2029	10,565,000	3,795,842	14,360,842
2030-2034	10,035,000	2,245,169	12,280,169
2035-2039	-	1,550,944	1,550,944
2040-2044	11,425,000	999,120	12,424,120
Total	43,775,000	\$ <u>19,567,955</u>	\$ <u>63,342,955</u>
Less current portion	<u>-</u>		
Total non-current	\$ <u>43,775,000</u>		

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

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%.

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2014 and 2013**

(7) Long-term Debt, continued

Note Payable – Headquarters Building, continued

As of June 30, 2014, the future annual maturities of the District’s obligation are as follows:

Fiscal Year	Principal	Interest	Total
2015	\$ 1,092,927	\$ 259,472	\$ 1,352,399
2016	1,138,196	214,203	1,352,399
2017	1,185,341	167,059	1,352,400
2018	1,234,438	117,962	1,352,400
2019	1,285,568	66,832	1,352,400
2020-2024	662,616	13,584	676,200
Total	6,599,086	\$ 839,112	\$ 7,438,198
Less current portion	(1,092,927)		
Total non-current	\$ 5,506,159		

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.

(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 of \$7,765,573 from the prior agreement. The swap liability is amortized as a component of interest expense over the life of the old debt or the new debt, whichever is shorter. 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%.

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2014 and 2013

(8) Interest Rate Swap, continued

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 below summarizes the significant swap payment terms:

Summary of Swap Payment Terms		
Description	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, 2014 and 2013. 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 (imputed at market rate of 1.424%) as of June 30, 2014 and 2013, as amended and restated, is \$2,782,309 and \$3,465,919, respectively, which is the amount the District would receive as of this date should the swap be terminated. The increase or (decrease) in fair value of \$(683,610) and \$3,212,296 as of June 30, 2014 and 2013, respectively, was recorded as a change in deferred amount on the statements of net position.

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2014 and 2013

(8) Interest Rate Swap, continued

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, 2014 against their threshold rating for termination:

Counterparty	Moody's	S&P
Senior Debt	Baa2	NR
Threshold Amount	A3	A-
Counterparty Guarantor	Moody's	S&P
Senior Debt	Aa3	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. For the fiscal years ended June 30, 2014 and 2013, the District's 2012 Series A Bonds, which are hedged by the amended swap, had a weighted-average variable rate of 0.05% and 0.12%, respectively. Over the same periods, the weighted average of 67% of one-month LIBOR was 0.11% and 0.14%, respectively. As of June 30, 2014 and 2013, the current rate on the 2012 Series A Bonds were 0.06% and 0.04%, respectively, and the current rate of 67% of one-month USD LIBOR were 0.10% and 0.13%, respectively, resulting in a basis gain of 0.04% and 0.09%, respectively, 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.

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2014 and 2013

(9) Net Investment in Capital Assets

The balance at June 30 consists of the following:

	2014	2013
Capital assets not being depreciated	\$ 94,962,878	\$ 60,903,779
Capital assets being depreciated, net	285,864,650	291,987,655
Due to other governmental agencies	(543,837)	(554,718)
Bonds payable	(127,290,599)	(116,398,124)
Notes payable	(6,599,086)	(7,657,708)
Net investment in capital assets	\$ 246,394,006	\$ 228,280,884

(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 the following contributions required of District employees on their behalf, as follows:

- 1) For employees hired prior to December 16, 2012, the District pays the 8% employee contribution on behalf of the employees. The District is required to contribute the actuarially determined remaining amounts necessary to fund the 2.5% at age 55 retirement plan with CalPERS, with the pension benefit based on the monthly average of the highest twelve consecutive month's salary.
- 2) For employees hired on or after December 16, 2012, the District modified its employee pension benefit by requiring employees to participate in the 2.0% at 55 retirement plan with CalPERS, with the pension benefit based on the monthly average of the highest thirty-six consecutive month's salary. 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.
- 3) For employees hired on or after January 1, 2013 who are defined as "New Members" under the California Employees' Pension Reform Act provisions, essentially those individuals who have not previously been members of a public agency retirement system, they can participate in the statutorily required 2.0% at 62 retirement plan with CalPERS, with the pension benefit based on the monthly average of the highest thirty-six consecutive month's salary. Employees in this benefit plan are required to pay 50% of the "normal cost" of their retirement benefits as required by state law, which equates to 6.25% of salary.

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2014 and 2013**

(10) Defined Benefit Pension Plans, continued

Funding Policy, continued

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, 2014, 2013 and 2012 were 14.151%, 12.741% and 12.572%, 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
2013-2014	\$ 1,465,434	100%
2012-2013	1,461,281	100%
2011-2012	1,325,997	100%

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, the 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 were \$0 at June 30, 2014 and 2013.

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.

(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 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. Separate financial statements of the VEBA trust may be obtained at Western Municipal Water District, 14205 Meridian Parkway, Riverside, CA 92518.

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2014 and 2013**

(11) Other Post-Employment Benefits, continued

Plan Description, continued

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

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

As of the fiscal year ended June 30, 2014, there were 33 employees and 5 Board members who had retired and were eligible for Medical Plan benefits.

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.

The District has funded 100% of the annual OPEB cost (ARC) of \$469,436 for the fiscal year ended June 30, 2014, and \$590,992 for each of the fiscal years ended June 30, 2013 and 2012, resulting in a zero net obligation to the Medical Plan. The VEBA trust paid insurance premiums on behalf of retired participants in the amounts of \$363,312, \$361,505 and \$227,765 for the fiscal years ended June 30, 2014, 2013 and 2012, respectively.

Funding Status and Funding Progress

The funded status of the Medical Plan as of the last actuarial valuation date of June 30, 2013 was as follows:

Actuarial accrued liability (AAL)	\$ 11,091,974
Actuarial value of plan assets	<u>11,017,749</u>
Unfunded actuarial accrued liability (UAAL)	\$ 74,225
Funded ratio (actuarial value of plan assets/AAL)	99.3%
Covered payroll (active plan members)	\$ 11,546,684
UAAL as a percentage of covered payroll	0.6%

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2014 and 2013

(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.

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information regarding the actuarial value of plan assets, compared to the AAL of benefits.

Actuarial Methods and Assumptions

In the June 30, 2013 actuarial valuation, the projected unit credit cost method was used, in which assets are valued at fair value. The actuarial assumptions included a 5.0% investment rate of return compounded annually (net of administrative expenses) and a healthcare inflation rate of 7.0% per annum, graded down each year in 0.5% increments to an ultimate rate of 4.5%. The UAAL is amortized over the maximum allowable (closed) 30-year period, based on the level dollar amortization method. 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 insurance programs for California water agencies. The purpose of the ACWA/JPIA is to arrange and administer insurance programs where loss is retained and shared amongst members, and to purchase excess or specialty-insurance coverage above retained limits. At June 30, 2014, the District participated in the liability, property and workers' compensation programs of the ACWA/JPIA as follows:

- General and auto liability, public officials and employees' errors and omissions: limits of \$2,000,000 per occurrence.
- Employee dishonesty coverage up to \$500,000 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.
- 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.

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2014 and 2013**

(12) Risk Management, continued

- 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, 2014 and 2013.

(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:

CDA

The District joined the 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 \$134 million project. The District's total share of the project is expected to be \$58 million, reduced by \$28 million in grant funding, for a net cost of \$30 million. The District's share of cost incurred to date is \$54.9 million as of June 30, 2014. The District's participation in the CDA is accounted for as a joint venture without an equity interest. The District's share of the expansion cost is being capitalized throughout construction, and capacity rights to 3,534 acre-feet of water annually will be recognized upon completion.

Separate financial statements of the CDA may be obtained at Inland Empire Utilities Agency, 6075 Kimball Avenue, Chino, CA 91708.

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

	<u>2014</u>	<u>2013</u>
Total assets	\$ 275,341,391	\$ 186,862,890
Total liabilities	\$ 170,845,368	\$ 103,296,736
Total net position	\$ 104,496,023	\$ 83,566,154
Total revenues	\$ 60,027,190	\$ 45,205,126
Total expenses	(35,183,099)	(40,519,580)
Net change in net position	\$ 24,844,091	\$ 4,685,546

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2014 and 2013**

(13) Commitments and Contingencies, continued

Joint Ventures, continued

WRCRWA

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, the City of Corona 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 an 8.0 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	MGD
Western Municipal Water District	1.93
Jurupa Community Services District	3.25
City of Norco	2.20
Home Gardens Sanitary District	0.62
City of Corona	0.00
	8.00

WRCRWA is currently undergoing a plant expansion from 8 MGD to 14 MGD to be launched by all member agencies other than the District. Upon completion, the plant capacity will be reallocated.

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

	2014	2013
Total assets	\$ <u>52,852,950</u>	\$ <u>54,738,921</u>
Total liabilities	\$ <u>4,142,773</u>	\$ <u>5,203,121</u>
Total deferred inflow of resources	\$ <u>350,000</u>	\$ <u>-</u>
Total net position	\$ <u>48,710,177</u>	\$ <u>49,535,800</u>
Total revenues	\$ 6,849,703	\$ 12,053,243
Total expenses	<u>(7,675,327)</u>	<u>(6,334,800)</u>
Net change in net position	\$ <u>(825,624)</u>	\$ <u>5,718,443</u>

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2014 and 2013**

(13) Commitments and Contingencies, continued

Joint Ventures, continued

WRCRWA, continued

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: EMWD, the Orange County Water District, the San Bernardino Valley Municipal Water District, the District and the Inland Empire Utilities Agency. Each participating agency appoints two commissioners to SAWPA to form an oversight committee of ten. 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>2014</u>	<u>2013</u>
Total assets	\$ 177,105,556	\$ 185,324,677
Total liabilities	\$ 110,861,818	\$ 117,951,098
Total net position	\$ 66,243,738	\$ 67,373,579
Total revenues	\$ 14,329,188	\$ 15,502,734
Total expenses	(15,463,424)	(14,948,890)
Net change in net position	\$ (1,134,236)	\$ 553,844

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2014 and 2013

(13) Commitments and Contingencies, continued

Murrieta Service Area

Wastewater treatment within the Murrieta service area is provided by RCWD's 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 informed RCWD that it wishes to participate in the expansion provided a joint-governance arrangement can be established for the Santa Rosa Facility. The District is evaluating its obligations with respect to cost overruns. Any obligations incurred by the District for 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

In June 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement No. 65 requires debt issuance costs (except prepaid insurance costs) to be recognized as an expense in the period incurred. Previously, these costs were amortized over the life of the related debt issuance. The District implemented GASB Statement No. 65 in the fiscal year ended June 30, 2014 and restated its basic financial statements in the fiscal year ended June 30, 2013. The cumulative impact of the implementation of GASB Statement No. 65 was a decrease of \$1,300,096 on beginning net position and an increase of \$84,697 to the change in net position during the fiscal year ended June 30, 2013. It also resulted in a reclass of deferred outflow of resources—debt refunding of \$11,541,234 as of June 30, 2013 from the liabilities section to the deferred outflow of resources section in the statement of net position.

The GASB has issued Statement No. 66, *Technical Corrections – 2012: an Amendment of GASB Statements No. 10 and No. 62*. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 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, 2014 and 2013

(15) GASB Statements Issued, Not Yet Effective

GASB Statement No. 68

The GASB has issued Statement No. 68, *Accounting and Financial Reporting for Pensions: an Amendment of GASB Statement No. 27*. This Statement replaces the requirements of GASB Statements No. 27 and No. 50, related to pension plans that are administered through trusts or equivalent arrangements. The requirements of GASB Statements No. 27 and No. 50 remain applicable for pensions that are not administered as trusts or equivalent arrangements. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2014. The District will need to account for its share of the CALPERS underfunded plan as a liability and the amount has not yet been determined.

GASB Statement No. 69

The GASB has issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The requirements of this Statement are effective for financial statements for fiscal years beginning after December 15, 2013. The impact of the implementation of this Statement on the District's financial statements has not been assessed at this time.

GASB Statement No. 71

The GASB has issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date: an Amendment of GASB Statement No. 68*. This Statement is to address an issue regarding application of the transition provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The requirements of this Statement are effective for financial statements for the fiscal years beginning after June 15, 2014. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The impact of the implementation of this Statement on the District's financial statements has not been assessed at this time.

(16) Subsequent Events

In October 2014, the underlying credit facility, for the 2012 Series A Bonds, that provides liquidity and security for redemption should remarketing efforts not provide sufficient funds, was extended from June 2015 to scheduled expiration date to October 2017.

**Western Municipal Water District
Required Supplementary Information
June 30, 2014 and 2013**

Other Post-Employment Benefits Plan

The following table (dollar amounts in millions) shows a three-year history for the funded status of the District's single-employer defined benefit OPEB plan:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (AVA)</u>	<u>AAL</u>	<u>UAAL</u>	<u>Funded Ratio (AVA/AAL)</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
6/30/2007	\$ 6,280,781	\$ 7,207,526	\$ 926,745	87.1%	\$ 5,627,438	16.5%
6/30/2010	7,529,501	9,223,686	1,694,185	81.6%	8,091,122	20.9%
6/30/2013 ⁽¹⁾	11,017,749	11,091,974	74,225	99.3%	11,546,684	0.6%

(1) 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.

STATISTICAL SECTION



Statistical Section

This part of the District's CAFR 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 POSITION BY COMPONENT
Last Ten 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>	<u>2013</u>	<u>2014</u>
Net investment in capital assets	\$ 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	\$ 226,413,476	\$ 246,394,006
Restricted for debt service	6,650,184	6,463,109	-	155,331	144,619	144,619	144,619	144,619	144,619	144,619
Restricted for capacity charges	38,685,499	40,153,846	31,698,838	26,556,373	28,974,102	29,118,573	26,151,035	23,298,893	23,697,955	24,525,261
Unrestricted	<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>84,375,034</u>	<u>92,123,685</u>	<u>94,180,845</u>	<u>87,218,131</u>
Total net position	<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>\$ 346,589,234</u> ⁽²⁾	<u>\$ 348,234,536</u> ⁽²⁾	<u>\$ 344,436,895</u> ⁽²⁾	<u>\$ 358,282,017</u>
Percentage increase (decrease)	8%	12%	5%	6%	5%	7%	0%	0%	-1%	4%

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

⁽²⁾ Fiscal years 2011, 2012 and 2013 balances have been retrospectively restated for the implementation of GASB Statement No. 65.

Source: Western Municipal Water District

TABLE II – CHANGES IN NET POSITION
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 Position
2014	\$ 105,675,122	\$ 120,416,071	\$ (14,740,949)	\$ 16,810,158	\$ 2,069,209	\$ 11,775,913	\$ 13,845,122
2013	98,793,243	118,408,651 ⁽⁵⁾	(19,615,408)	12,952,893	(6,662,515)	2,864,874	(3,797,641)
2012	91,100,463	109,473,041 ⁽⁵⁾	(18,372,578)	14,956,215	(3,416,363)	5,061,665	1,645,302
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 ⁽³⁾	(21,687,380)	21,652,217	(35,163)	14,293,816	14,258,653
2008	72,005,893	90,548,426 ⁽³⁾	(18,542,533)	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

⁽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.

⁽⁵⁾ Balance has been retrospectively restated for the implementation of GASB Statement No. 65.

Source: Western Municipal Water District

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

Fiscal Year	Operating Revenues					Total Operating Revenues	Non-Operating Revenues					Total Non-Operating Revenues	Combined Revenues
	Water Sales	Water Service	Wastewater Disposal	Contractual Services	Other Operating		Property Taxes	Investment Earnings	Capacity Rights Sales	Other Non-Operating			
2014	\$76,319,361	\$15,969,208	\$10,002,414	\$2,517,042	\$ 867,097	\$105,675,122	\$ 16,327,069	\$2,436,903	\$ 6,260,725	\$1,833,296	\$ 26,857,993	\$ 132,533,115	
2013	71,596,096	14,290,510	9,875,780	2,152,509	878,348	98,793,243	16,695,696	(3,831)	1,915,041	1,573,844	20,180,750	118,973,993	
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	

⁽¹⁾ All categories, with the exception of contractual services and capacity rights sales, have been impacted due to the consolidation of MCWD into the District effective November 27, 2005, and the transfer of the Arlington Desalter from SAWPA 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 and Distribution	Admin and General	Contractual Services	Depreciation	Other	Wastewater Disposal	Total Operating		
2014	\$ 66,430,723	\$3,849,016	\$ 8,692,067	\$ 10,824,019	\$2,460,561	\$ 13,124,158	\$5,988,141	\$9,047,386	\$ 120,416,071	\$ 10,047,835	\$ 130,463,906
2013	61,600,436	4,074,438	8,260,048	10,955,531	2,113,211	13,166,694 ⁽⁴⁾	9,537,963	8,700,330	118,408,651	7,227,857	125,636,508
2012	57,873,634	3,820,373	7,679,552	10,888,801	1,867,917	10,740,215 ⁽⁴⁾	7,623,646	8,978,903	109,473,041	8,217,010	117,690,051
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	51,859,715	3,495,685	6,533,961	10,714,044	2,745,281	8,410,181	7,503,236	9,018,894	100,280,997	7,779,319 ⁽³⁾	108,060,316
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

⁽¹⁾ All categories, with the exception of contractual services, have been impacted due to the consolidation of MCWD into the District effective November 27, 2005, and the transfer of the Arlington Desalter from SAWPA 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.

⁽⁴⁾ Balance has been retrospectively restated for the implementation of GASB Statement No. 65.

Source: Western Municipal Water District

CHART I – REVENUES AND EXPENSES
Last Ten Fiscal Years

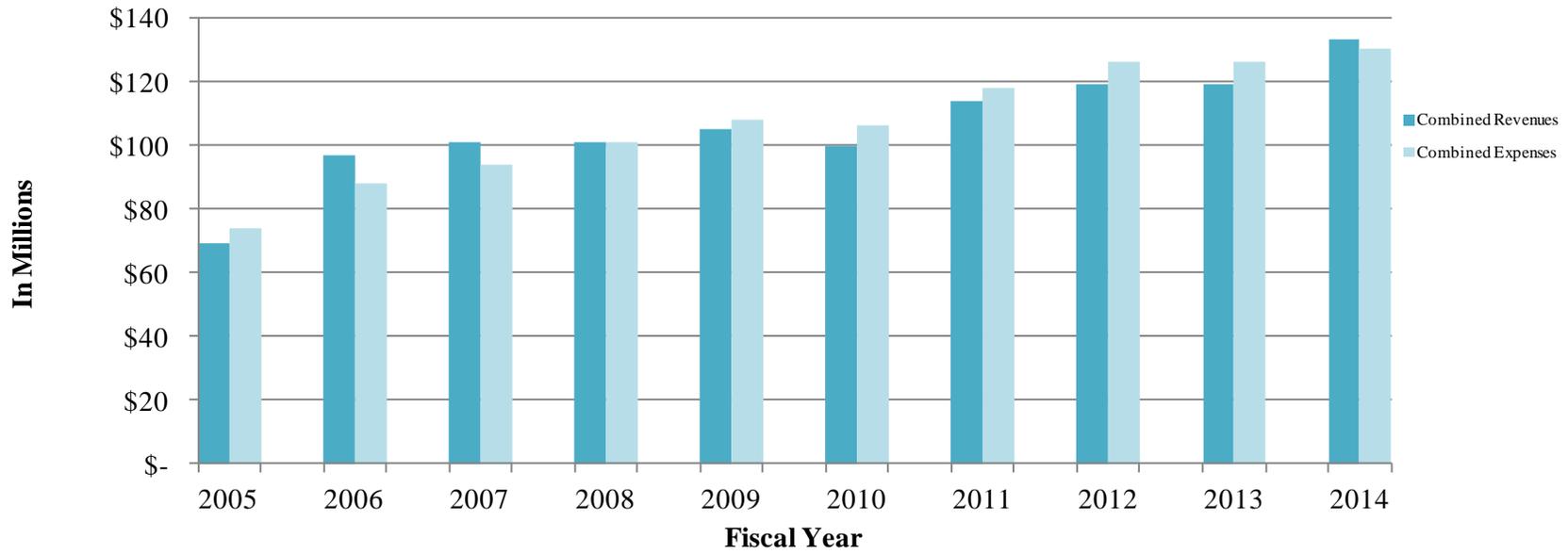


TABLE V – ACTIVE WATER ACCOUNTS BY METER SIZE
Last Ten Fiscal Years

Fiscal Year	¾-Inch	1-Inch	1½-Inch	2-Inch	3-Inch	4-Inch	6-Inch	8-Inch & Greater	Total
2014	18,220	4,362	392	511	51	42	19	24	23,621
2013	18,143	4,358	391	507	52	47	20	26	23,544
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

Notes: 2,547 of the 3,985 additional water accounts during fiscal year 2006 were due to the consolidation of MCWD with the 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	
2014	23,508	113	23,621	8,278
2013	23,417	127	23,544	8,232
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

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 MCWD with the 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		
2014 ⁽³⁾	\$ 24.18	\$ 39.11	\$ 78.23	\$ 96.86	\$ 117.35	\$ 135.94	\$ 154.59	\$ 175.06	\$ 74.93	\$ 38.11
2013	23.14	37.43	74.87	92.69	112.30	130.09	147.94	167.53	70.31	35.29
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	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

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, 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 \$102.39 per month (\$28.08 fixed + \$74.31 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, 2014 and October 1, 2013, respectively.

Source: Western Municipal Water District

TABLE VIII – PRINCIPAL RETAIL WATER CUSTOMERS
 Fiscal Year Ended June 30, 2014 and Nine Years Prior

Fiscal Year 2013-2014		
Customer Name	Water Deliveries in Acre-Feet	Percentage of Water Deliveries
Altman Plants	1,036	3.7%
Riverside National Cemetery	912	3.3%
Village Nurseries	575	2.1%
Air Force 452 Air Mobility Wing	532	1.9%
Fresh & Easy Neighborhood Market Inc.	489	1.8%
Pepsi-Cola Plant	476	1.7%
General Old Golf Course	378	1.4%
City of Riverside	361	1.3%
Riverside Unified School District	328	1.2%
The Kroger Company	320	1.1%
Total Principal Customers	5,407	19.4%
Other Customers	22,505	80.6%
Total Retail Water Deliveries	27,912	100.0%

Fiscal Year 2004-2005		
Customer Name	Water Deliveries in Acre-Feet	Percentage of Water Deliveries
John Gless / Gless Ranch	739	3.1%
Pepsi-Cola Plant	692	2.9%
Air Force 452 Air Mobility Wing	634	2.7%
Riverside National Cemetery	525	2.2%
Ralphs Grocery and Creamery	448	1.9%
City of Riverside	349	1.5%
Riverside Unified School District	310	1.3%
General Old Golf Course	228	1.0%
Lake Hills Maintenance Corp.	186	0.8%
Victoria Grove	179	0.8%
Total Principal Customers	4,290	18.0%
Other Customers	19,540	82.0%
Total Retail Water Deliveries	23,830	100.0%

Source: Western Municipal Water District

TABLE IX – WHOLESALE WATER CUSTOMER DELIVERIES
 Fiscal Year Ended June 30, 2014

Water Agency	Water Deliveries in Acre-Feet	Percentage of Water Deliveries
Rancho California Water District	19,164	30.5%
Elsinore Valley Municipal Water District	18,400	29.2%
City of Corona	16,779	26.7%
City of Norco	4,936	7.8%
Lee Lake Water District	3,053	4.9%
Eagle Valley Mutual Water District	528	0.8%
Box Springs Mutual Water Company	89	0.1%
Total Wholesale Deliveries	<u>62,949</u>	<u>100.0%</u>

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, 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	687	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
Jan. 1, 2013 Tier 1	847	593	n/a	n/a	n/a	n/a
Jan. 1, 2013 Tier 2	997	743	n/a	n/a	n/a	n/a
Jan. 1, 2014 Tier 1	890	593	n/a	n/a	n/a	n/a
Jan. 1, 2014 Tier 2	1032	735	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	Domestic			Purchased Agriculture			Purchased Total	Wells	Desalter	Recycled Water	Grand Total
	Treated	Untreated	Total	Treated	Untreated	Total					
	2014	61,843	21,537	83,380	-	-					
2013	56,128	19,615	75,743	3,854	2,086	5,940	81,683	1,074	5,736	769	89,262
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

⁽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⁾
2014	\$ 151,690,934	\$ 258,729	\$ 9,022,157	\$ 160,971,820	\$ 176.99
2013 ⁽²⁾	154,026,083	372,097	10,509,159	164,907,339	183.33
2012 ⁽²⁾	155,427,849	475,465	12,051,205	167,954,519	188.46
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

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.

⁽²⁾ GASB 65 implementation reclassified deferred loss on bond refunding to deferred outflows of resources.

Source: Western Municipal Water District

TABLE XIII – REVENUE BOND COVERAGE
Last Ten Fiscal Years

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
GROSS REVENUE										
Water Sales	\$ 35,915,647	\$ 43,191,741	\$ 53,192,559	\$ 53,588,433	\$ 55,667,804	\$ 56,223,768	\$ 56,473,710	\$ 66,310,917	\$ 71,596,096	\$ 76,319,361
Water Service	3,997,064	4,934,235	6,074,097	6,711,049	7,776,582	9,127,539	10,477,058	12,479,514	14,290,510	15,969,208
Wastewater Service	4,485,883	6,525,941	8,652,596	7,931,271	8,161,485	10,723,639	10,862,351	10,364,865	9,875,780	10,002,414
Ad Valorem Taxes ⁽¹⁾	4,898,836	7,442,255	16,271,059	17,622,207	17,789,635	16,254,320	15,048,059	15,161,942	16,651,925	16,532,506
Interest Income	7,523,894	4,578,251	6,612,647	9,292,695	6,337,190	6,685,940	3,671,725	5,437,782	(98,679)	2,348,100
Connection Fees - Water	3,774,690	4,296,543	3,100,050	1,454,500	896,624	290,477	236,080	188,491	924,589	553,954
Connection Fees - Wastewater	4,018,926	4,001,963	1,219,750	2,395,553	1,316,970	6,153,635	276,856	98,670	774,762	362,876
Federal, State and Local Capital Grants	-	192,010	500,785	626,083	1,551,562	3,149,581	3,284,896	1,268,694	872,471	10,413,907
Other Revenue	7,217,832	5,399,382	5,456,943	5,282,096	5,004,122	5,367,200	5,042,186	3,474,424	5,598,993	10,630,611
Total	71,832,772	80,562,321	101,080,486	104,903,887	104,501,974	113,976,099	105,372,921	114,785,299	120,486,447	143,132,937
MAINTENANCE AND OPERATION COSTS										
Administration	6,074,707	6,274,755	8,469,239	10,234,890	11,328,694	10,714,044	11,456,106	10,888,801	10,955,531	10,824,019
Purchased Water	34,442,427	40,303,646	49,496,922	50,897,920	51,655,168	51,859,715	51,890,617	57,873,634	61,600,436	66,430,723
Water Operations	6,043,360	8,744,569	8,810,775	10,809,412	12,941,548	14,452,967	14,832,096	16,039,860	16,729,927	16,809,781
Wastewater Operations	3,286,164	6,721,367	7,754,861	7,810,818	8,074,817	9,018,894	9,086,468	8,978,903	8,700,330	9,047,386
Other Expenses	4,388,684	4,273,745	5,625,607	5,918,202	7,951,851	8,718,326	5,013,535	6,109,216	4,398,861	7,612,211
Contract Resource Obligations	903,466	1,922,681	1,986,239	1,974,146	829,532	1,223,458	731,894	1,110,776	535,527	1,591,625
Total	55,138,808	68,240,763	82,143,643	87,645,388	92,781,610	95,987,404	93,010,716	101,001,190	102,920,612	112,315,745
Net Revenues	16,693,964	12,321,558	18,936,843	17,258,499	11,720,364	17,988,695	12,362,205	13,784,109	17,565,835	30,817,192
Series of 2002 A Bonds ⁽²⁾	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	3,213,871	3,084,773
Series of 2010 A&B Bonds ⁽²⁾	-	-	-	-	-	-	1,337,200	2,086,248	1,954,846	3,044,580
Series of 2012 A Bonds ⁽²⁾	-	-	-	-	-	-	-	10,085	1,208,538	1,188,832
Total	2,041,545	2,145,227	2,513,341	3,041,456	2,640,029	5,967,575	7,090,946	7,714,853	6,377,255	7,318,185
DEBT SERVICE COVERAGE	8.18	5.74	7.53	5.67	4.44	3.01	1.74	1.79	2.75	4.21

⁽¹⁾ Fiscal years 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 2013.

Source: Western Municipal Water District

TABLE XIV – DIRECT AND OVERLAPPING DEBT
As of June 30, 2014

2013-14 Assessed Valuation: \$67,832,319,807 (1)

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable (2)</u>	<u>Debt 6/30/14</u>
Metropolitan Water District	3.08%	\$4,068,779
Riverside City Community College District	79.253	182,451,948
Alvord Unified School District	99.99	227,537,477
Corona-Norco Unified School District	96.649	251,357,443
Jurupa Unified School District	99.807	46,597,864
Murrieta Valley Unified School District	11.488	18,305,351
Riverside Unified School District	99.991	139,302,462
Other School Districts	Various	5,630,403
City of Riverside	98.082	14,020,822
Western Municipal Water District	100	0
Western Municipal Water District Community Facilities Districts	100	7,245,000
Western Municipal Water District Assessment District No. 90-1 (Lake Hills)	100	260,000
Riverside County Flood Control District, Zone No. 3 Benefit Assessment District	62.571	1,066,836
Community Facilities Districts	Various	987,878,770
City and Special District 1915 Act Bonds	Various	<u>37,224,486</u>
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$1,922,947,641
 <u>OVERLAPPING GENERAL FUND DEBT:</u>		
Riverside County General Fund Obligations	32.36%	\$224,171,290
Riverside County Pension Obligations	32.364	108,262,435
Riverside County Board of Education Certificates of Participation	32.364	873,828
Alvord Unified School District Certificates of Participation	99.99	2,026,858
Corona-Norco Unified School District Certificates of Participation	96.649	26,945,741
Jurupa Unified School District Certificates of Participation	99.807	6,412,600
Lake Elsinore Unified School District Certificates of Participation	54.797	19,619,882
Murrieta Unified School District General Fund Obligations	11.488	2,412,480
Riverside Unified School District Certificates of Participation	99.991	11,878,931
Other School District General Fund Obligations	Various	3,952,688
City of Corona General Fund Obligations	99.997	53,601,600
City of Lake Elsinore General Fund Obligations	73.69	10,239,226
City of Moreno Valley General Fund Obligations	0.775	536,389
City of Murrieta General Fund Obligations	12.758	1,143,117
City of Riverside General Fund Obligations	98.082	194,774,981
City of Riverside Pension Obligations	98.082	113,554,436
Other City and Special District General Fund Obligations	Various	<u>65,747</u>
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT		\$780,472,229
Less: Riverside County supported obligations		<u>3,004,464</u>
TOTAL NET OVERLAPPING GENERAL FUND DEBT		\$777,467,765
 <u>OVERLAPPING TAX INCREMENT DEBT (Successor Agencies):</u>		 \$887,390,304
TOTAL DIRECT DEBT		\$0
TOTAL GROSS OVERLAPPING DEBT		\$3,590,810,174
TOTAL NET OVERLAPPING DEBT		\$3,587,805,710
 GROSS COMBINED TOTAL DEBT		 \$3,590,810,174
NET COMBINED TOTAL DEBT		\$3,587,805,710

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

(2) The percentage of overlapping debt applicable to the district is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the district divided by the district's total taxable assessed value.

(3) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations. Qualified Zone Academy Bonds are included based on principal due at maturity.

Ratios to 2013-14 Assessed Valuation:

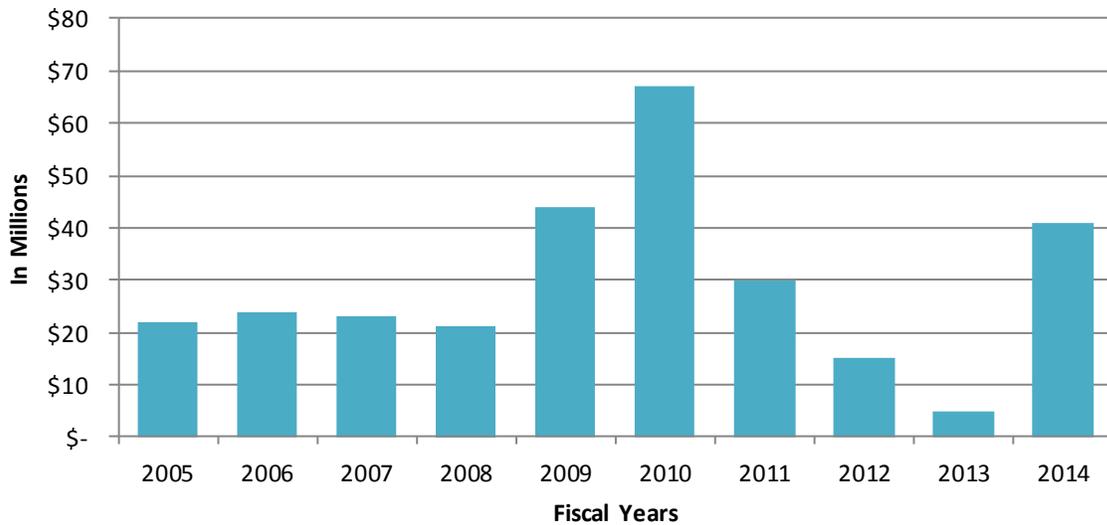
Direct Debt	0.00%
Total Direct and Overlapping Tax and Assessment Debt	2.83%
Gross Combined Total Debt	5.29%
Net Combined Total Debt	5.29%

Ratio to Redevelopment Incremental Valuation (\$16,205,985,841):

Total Overlapping Tax Increment Debt	5.48%
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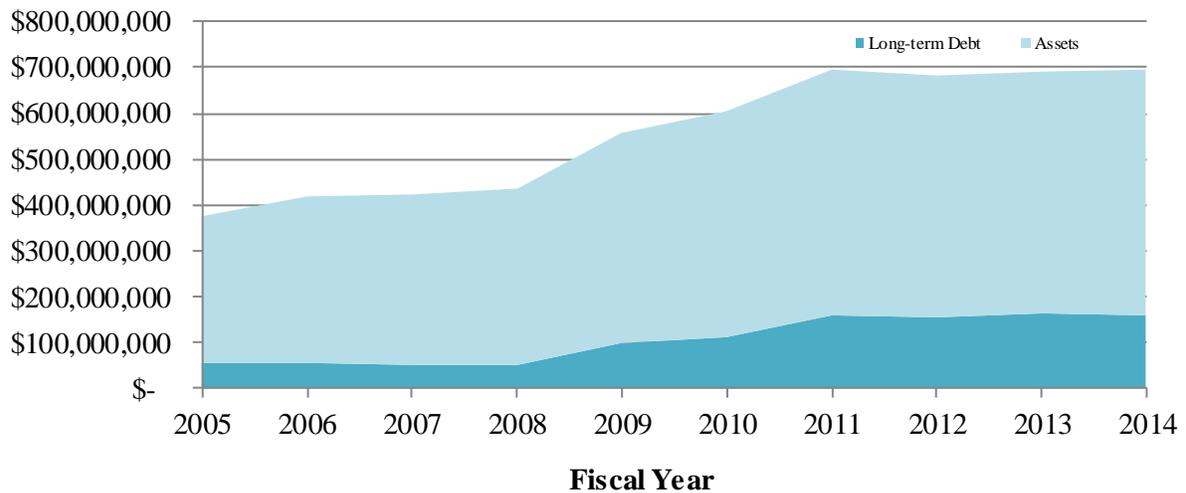
Source: California Municipal Statistics, Inc.

**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)
2014	\$ 78,774,941,220	909,500	2,279,967	\$ 28.5	\$ 31,344	8.4%
2013	76,058,192,604	899,500	2,255,059	26.9	30,815	10.2%
2012	76,093,889,073	891,200	2,234,193	26.7	29,986	12.6%
2011	76,380,473,323	879,900	2,205,731	26.3	29,333	14.4%
2010	78,547,029,366	878,800	2,202,978	25.5	29,035	14.5%
2009	87,194,859,529	883,400	2,107,653	25.5	29,664	14.0%
2008	86,370,022,705	875,300	2,088,322	27.0	30,609	8.3%
2007	74,392,832,042	853,100	2,034,840	26.2	31,863	5.9%
2006	60,883,470,483	825,800	1,966,607	24.8	32,212	5.1%
2005	51,998,800,542	797,900	1,885,627	22.8	27,416	5.4%

⁽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, 2014

Employer Name	Fiscal Year 2014	
	No. of Employees	Percentage of Total County Labor Force
County of Riverside	17,766	1.9%
March Air Reserve Base	9,000	1.0%
Stater Bros. Markets	6,900	0.7%
Wal-Mart	5,681	0.6%
University of California, Riverside	5,497	0.6%
Riverside Unified School District	5,000	0.5%
Corona-Norco Unified School District	4,633	0.5%
Kaiser Permanente Medical Center	4,500	0.5%
Moreno Valley Unified School District	3,355	0.4%
Hemet Unified School District	3,270	0.3%
Total	65,602	6.9%
 Total Labor Force		 945,400

Notes: Data is for the County of Riverside. The District is located within the County.
Data nine years prior is not available.

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>	<u>2013</u>	<u>2014</u>
Management	4	5	5	5	5	7	7	7	8
Human Resources & Administration	7	9	10	11	13	8	8	10	9
Engineering	14	13	15	14	15	12	10	9	12
Finance	7	7	8	8	6	8	11	12	12
Billing/Customer Service	3	5	5	6	8	5	6	7	8
Public Affairs	5	5	5	5	4	4	6	5	5
Water Resources	1	2	2	3	5	5	6	6	6
Operations	55	59	60	60	59	56	59	63	65
Legislative Affairs	1	1	1	1	2	1	1	-	1
Information Systems	3	5	5	6	5	6	6	6	7
Total	<u>100</u>	<u>111</u>	<u>116</u>	<u>119</u>	<u>122</u>	<u>112</u>	<u>120</u>	<u>125</u>	<u>133</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 Ten Fiscal Years

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Number of Employees	88	100	111	116	122	122	120	120	125	133
Service Area (in acres)	326,000	337,000	337,000	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	527	527
Assessed Valuation (billion)	\$ 61	\$ 74	\$ 86	\$ 87	\$ 79	\$ 76	\$ 76	\$ 76	\$ 76	\$ 79
Population Served (approx.)	800,000	826,000	853,000	875,000	879,000	880,000	891,000	889,000	900,000	910,000
Miles of Water Pipeline	536	588	591	591	623	623	621	622	638	638
Number of Storage Tanks	34	38	38	38	38	36	36	35	35	35
Max Storage Capacity (million gal.)	76.5	80.2	80.2	80.7	87.3	93.7	93.7	92.7	92.7	92.7
Sewer Treatment Plants Owned	1	1	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	3.0	3.0	3.0
Avg. Flows into Sewer Plant (MGD)	0.5	0.5	0.5	0.8	0.8	0.8	0.9	0.8	0.8	0.8
Number of Lift Stations	13	18	18	20	22	22	20	20	20	20

Source: Western Municipal Water District

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