



Securing Your Water Supply

Comprehensive Annual Financial Report



For the Fiscal Year Ended
June 30, 2018

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Western Municipal Water District of Riverside County, California

Comprehensive Annual Financial Report



Prepared by: The Western Municipal Water District Finance Department

For the Fiscal Year Ended • June 30, 2018

Securing Your Water Supply



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Western Municipal Water District

Comprehensive Annual Financial Report

For the Fiscal Year Ended **June 30, 2018**

TABLE OF CONTENTS

INTRODUCTORY SECTION

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

FINANCIAL SECTION

Independent Auditors' Report	1
Management's Discussion and Analysis	4
Basic Financial Statements:	
Statement of Net Position	13
Statement of Revenues, Expenses and Changes in Net Position	14
Statement of Cash Flows	15
Notes to the Basic Financial Statements	17
Required Supplementary Information	67

STATISTICAL SECTION

Statistical Section Contents	72
Financial Trends:	
Table I Net Position by Component	73
Table II Changes in Net Position	74
Table III Revenues by Sources	75
Table IV Expenses by Function	76
Chart I Revenues and Expenses	77



Table of Contents (continued)

Revenue Capacity:

Table V Water Accounts by Meter Size	78
Table VI Retail Water Accounts by Type and Retail Wastewater Accounts	79
Table VII Water and Sewer Rates	80
Table VIII Principal Retail Water Customers	81
Table IX Wholesale Water Customer Deliveries	82
Table X Summary of Imported Water Rates	83
Table XI Water Sources	84

Debt Capacity:

Table XII Ratio of Outstanding Debt by Type	85
Table XIII Revenue Bond Coverage	86
Table XIV Direct and Overlapping Debt	87
Chart II District and Contributed Capital Asset Additions	88
Chart III Total Debt to Assets	88

Demographic and Economic Information:

Table XV Demographic and Economic Statistics	89
Table XVI Principal Employers in the County of Riverside	90
Table XVII District Employees by Function	91

Operating Information:

Table XVIII Operating and Capital Indicators	92
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COMPLIANCE SECTION

Independent Auditors' 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 Auditing Standards</i>	93
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Introductory Section



Craig D. Miller
General Manager

Robert Stockton
Division 1

Thomas P. Evans
Division 2

Brenda Dennstedt
Division 3

Donald D. Galleano
Division 4

S.R. "Al" Lopez
Division 5



Securing Your Water Supply

December 7, 2018

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, 2018. 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 White Nelson Diehl Evans, 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, 2018, are free of material misstatement. The independent audit involves 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, 2018, 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.

A handwritten signature in blue ink, appearing to read "Craig Miller", is positioned above the footer.

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 of Jurupa Valley, 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 \$99 billion in this past fiscal year. Riverside County's population is approximately 2.4 million, of which the District serves approximately 963,710 (40 percent).



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 wastewater) 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; to use facilities or property or provision for service; and to fix in each fiscal year a water service standby or availability charge and a wastewater service standby or availability charge on land within the boundaries of the District to which water 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 143 full-time staff 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, and the San Bernardino groundwater basin area.

Water Services

The District serves more than 24,000 residential and business accounts and eight water agencies and cities with water from both the Colorado River and the State Water Project (purchased from MWD), and from local sources. In fiscal year 2018, the District delivered approximately 88,080 acre-feet of water in its retail and wholesale service area. (Please refer to Tables VIII and IX in the Statistical section for additional information.) This is equal to about 29 billion gallons. Approximately 68 percent of the water Western delivered was potable; the balance was non-potable or raw water. 72 percent 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, the cities of Corona, Norco, and Riverside, Eagle Valley Mutual Water Company, Elsinore Valley Municipal Water District, Temescal Valley 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 7.2-million-gallon-per-day (MGD) reverse osmosis water treatment plant that provided 4,505 acre-feet of high-quality potable water to the city of Norco and 500 acre-feet to the city of Corona for the fiscal year by removing millions of pounds of salts from brackish groundwater in the Arlington Basin. The salt-laden waste is sent to the Orange County Sanitation District for treatment and discharge to the ocean. The annual revenue budget for the Arlington Desalter for the fiscal year was \$4.7 million.

Retail Water Services

Western supplies water directly to about 24,000 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 its own local groundwater wells that supplement 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 1.2 MGD. The slowdown in growth in the Inland Empire over the last decade 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 1,700 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 60 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. Agencies and communities served by the plant include Jurupa Community Services District (JCSD); the cities of Norco and Corona; Home Gardens Sanitary District; and Western. The treatment plant has a total capacity of 14.0 MGD, and currently processes an average of 7.0 MGD from residential and commercial wastewater customers, some of which are in the District's retail service area. Of the total plant capacity of 14.0 MGD, the District owns capacity rights of 1.93 MGD. Wastewater flows from District customers average about 0.71 MGD, or 37 percent of the District's capacity right.



In order to better serve the needs of the steady growth in the region, the plant underwent a \$74 million upgrade and expansion to 14.0 MGD. Since the District's existing owned capacity is sufficient for its current and future customers, the District did not participate in the cost of the plant expansion, but participates in related costs that deal with odor control. WRCRWA received a change of use petition from the State Water Resources Control Board (SWRCB) in February of 2018, allowing WRCRWA to use some or all of its recycled water for beneficial use (ie. Irrigation, recharge).

La Sierra Service Area

The District provides wastewater collection and conveyance services to approximately 4,700 customers in the La Sierra area of Riverside. The collected wastewater, averaging about 0.71 MGD, flows to the WRCRWA plant for treatment with ultimate disposal of the tertiary treated wastewater into the Prado Basin. The collection system serving La Sierra is maintained by Western personnel who ensure lines are clear and functioning properly.

Santa Rosa Regional Resources Authority (SRRRA)

The District is one of the three member agencies comprising SRRRA, located in Murrieta. SRRRA is responsible for collecting, treating and safely disposing of or recycling wastewater for residents and businesses in the Temecula, Murrieta and Wildomar communities. The joint powers authority comprises Western, Rancho California Water District and Elsinore Valley Municipal Water District.

Wastewater flows originating in the SRRRA service area are treated at the Santa Rosa Water Reclamation Facility in Murrieta. The treatment plant has a capacity of 5 MGD. On average, the plant treats 2.5 MGD.

Murrieta Service Area

The Murrieta service area provides wastewater collection and conveyance services to approximately 2,100 customers surrounding the historic downtown area of the city of Murrieta. Treatment of approximately 524,000 gallons per day of wastewater from the Murrieta area is provided by SRRRA. Eastern Municipal Water District (EMWD) provides treatment services to 76 of Western's Murrieta commercial customers.



Inland Empire Brine Line

The Inland Empire Brine Line (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, the city of Corona, and other industrial commercial entities. The District is a member agency of SAWPA and is contracted by SAWPA for operation and maintenance of approximately 10 percent of the 73-mile Brine Line. The District operates a 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 water, (2) energy costs, and (3) property development.

For Western, 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 response to current legislation by the State (AB 1668 and SB 606), Western continues to work with the Department of Water Resources and the SWRCB to develop a long-term framework to make water conservation a California way of life. This framework will help to improve the resiliency of California supplies in times of drought.



Although Western seeks to increase local water supplies, it is heavily dependent upon 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 \$1,015 per acre-foot to \$1,050 per acre foot on January 1, 2019, a 3.5 percent increase. Western is limited to 28,777.7 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 \$86 higher than the Tier 1 rate.



Natural gas availability in Southern California is generally improved. On July 2, 2018, the California Public Utility Commission (CPUC) directed Southern California Gas (SoCalGas) to increase its working natural gas inventory at the Aliso Canyon storage facility to 34 billion cubic feet (Bcf), representing more than a 9 Bcf increase in overall capacity. The CPUC ordered the increase in working gas at SoCalGas's Aliso Canyon complex to increase natural gas supplies that may be required for the upcoming winter. This will tend to stabilize natural gas prices. Natural gas-



fired power plants generate about half of California's total in-state net electricity generation. Unseasonably warm weather continues to plague the region, causing an increase in demand for gas to supply electricity generating plants. Renewable electricity generation such as solar, wind, and hydro generation continues to climb, though it represents less than 30% of the overall generation. Hydro-generation will be limited by precipitation. California recently passed a law that will require 100% renewable energy generation by the year 2045. Electrical prices are projected to grow moderately as the system incorporates more renewable energy sources.



Residential meter connections per year remain low (approximately 200 connections in fiscal year 2017-2018); however, the trend has been increased connections. The District has noted an increase in residential, industrial, and commercial development activity in the planning stage. This is evidenced by an increase in requests for "will-serve" letters, entitlement inquiries, and projects submitting plans for review.

The assessed valuation of the District's services area in the past several years has increased from \$93.9 billion to \$99.4 billion. The District received \$21.8 million in property tax revenue for fiscal year 2018, up from \$20.1 million in fiscal year 2017. This increase is due to higher property values in the District's service area compared to values in fiscal year 2017.

The population of Riverside County remained at 2.4 million in fiscal year 2018 compared to fiscal year 2017. 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

Western Projects Underway to Boost Local Water Supply

Because there is not an adequate local water supply, Western must use water that is imported hundreds of miles. This is costly and could even be unreliable during an emergency, such as an earthquake. Western, however, is committed to an ambitious solution.

Through a series of projects and partnerships, Western is building a network that will significantly boost local water levels. These projects are putting Western on a path to better serving customers with locally-sourced water, which is more cost-effective and secure:

La Sierra Pipeline Project

Since June 2017, construction crews have been working on La Sierra Avenue to install a 30-inch diameter pipeline that will connect the Arlington and Chino Desalters to the Sterling Reservoir. This is Western's largest infrastructure project, and it is expected to be completed in early 2019.

Sterling Pump Station Project

In mid-2018, crews started building the Sterling Pump Station on Sterling Avenue in Riverside. It will ultimately connect to the La Sierra Pipeline, and help move water from the nearby desalters. This project is slated to be finished in late 2019.

Victoria Recharge Basin Project

The Victoria Recharge Basin, located at Victoria Avenue and Jackson Street in Riverside, will capture local stormwater and runoff – and will ultimately boost production at the nearby Arlington Desalter, which provides billions of gallons of drinking water to customers. This project is scheduled to be finished in Spring 2019.



Meter Replacement Program

After performing a study, Western determined that residential water meters tend to slow down and fall below the American Water Works Association's accuracy standard after 15 years of use. As a result, Western is replacing approximately half of its water meters (or 5,500) in its Riverside Service Area that exceed this age. The cost of water that is unbilled due to an under-registering meter is recovered in the rates paid by all customers. Therefore, ensuring each customer has an accurate meter promotes equitable cost-sharing. In addition, an accurate water meter helps a customer know how much water they are actually using and whether or not they are using water efficiently based on Western's water budget rate structure. The \$6.1 million meter replacement project began in May 2018 and is expected to be complete in April 2019.

City of Riverside/Western Partnership

Since executing a historic agreement in 2017, the City of Riverside (the City) and Western have made significant strides to boost the use of local water supplies instead of more expensive imported water. The cooperative agreement was possible thanks to the collaborative spirit of the leadership at both agencies.



Because of lower demands resulting from increased efficiencies in the areas served by Riverside Public Utilities (RPU), surplus supplies are available that can be sold to Western. The agreement also allows Western to transport groundwater through Riverside's system that it acquires through other arrangements in the basin.

In the next 20 years, this partnership is estimated to bring approximately \$100 million in new revenues to the City and a cost savings of approximately \$45 million to Western when compared to the cost of imported water. Western will purchase "surplus water" and transport other water supplies through the City and will pay for the use of Riverside's distribution and treatment system as well as the associated energy costs to move groundwater to the Western service area.

In its first calendar year, the Regional Water Partnership has resulted in a \$2.6 million savings for Western and \$4.5 million in revenue to the City, which will help keep water rates as low as possible in the years to come. It has also brought an additional 2.4 billion gallons of local groundwater to Western's customers, which is enough annual water supply for about 15,000 single-family homes.

Water Efficiency Projects Help Save Water, Money

As part of its commitment to a superior level of service, Western has many programs for its customers to save water and money:

SoCal Yard Transformation Guide

The SoCal Yard Transformation guidebook is free and available to Western customers, as well residents throughout the Santa Ana River Watershed. The guide comes in both English and Spanish.

This landscaping guide offers full-color illustrations covering topics such as water, planning, soil, planting, utilizing native plants, irrigation, and sustainability. It is written by experts in easy-to-understand language along with a dose of humor.

The guide is set up with a step-by-step roadmap to help homeowners increase landscape beauty in addition to creating beneficial environmental impacts.

The book was made possible by the Safe Drinking Water, Water Quality, and Supply, Flood Control, River and Coastal Protection Bond Act of 2006 (Proposition 84).

Landscape Contest

Since 2008, Western has coordinated the Inland Empire Landscape Contest. The contest is now held every other year, and is one of the largest in California covering western Riverside and San Bernardino Counties. The goal of the contest is to show the region that using less water can be beautiful. Winning entries, both current and past, can be found on the contest website at InlandEmpireLandscapeContest.com.

Master Gardeners

Western's commitment to providing water conservation landscaping to our customers is highlighted in our partnership with the UCCE Master Gardener Program of Riverside County. A partnership that began in 1989, formed a focused committee in 2010, now called the "Water Efficient Landscape Committee" offers nine workshops per year. The committee's mission is to provide workshops, events, and educational materials relating to native California and climate-appropriate gardening. In addition to workshops, the Committee holds an annual, "Ask the Experts" event wherein our customers discuss their gardening challenges with representatives in areas from bugs to trees, composting to irrigation, design to permaculture—all things water-efficient gardening.



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.

Debt and Financial Management Policy

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

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 of Directors 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 of Directors, along with explanations of significant variances.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Western Municipal Water District for its comprehensive annual financial report for the fiscal year ended June 30, 2017. This was the thirteenth 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 comprehensive annual financial report (CAFR). This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

We would like to express our appreciation to the Finance Department staff and the independent accounting firm of White Nelson Diehl Evans, 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,



Craig Miller
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**

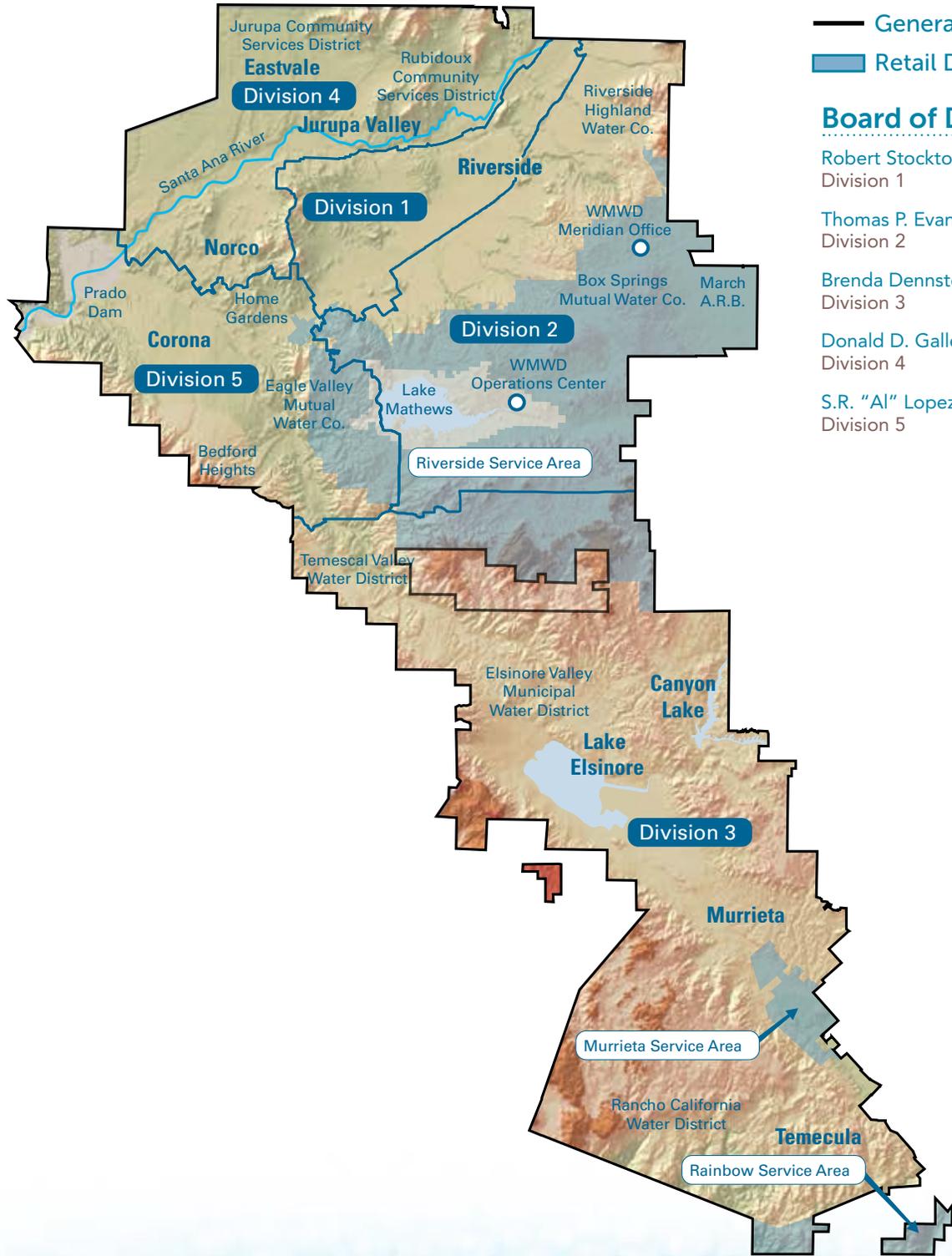
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Christopher P. Morill

Executive Director/CEO

Western Municipal Water District District Service Area Map



— General District

■ Retail District

Board of Directors

Robert Stockton
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, 2018

Elected Board of Directors

	Length of Service
Robert Stockton, Division 1, Vice President	3 years
Thomas P. Evans, Division 2	11 years
Brenda Dennstedt, Division 3, President	11 years
Donald D. Galleano, Division 4, Secretary-Treasurer	13 years
S. R. "Al" Lopez, Division 5	17 years

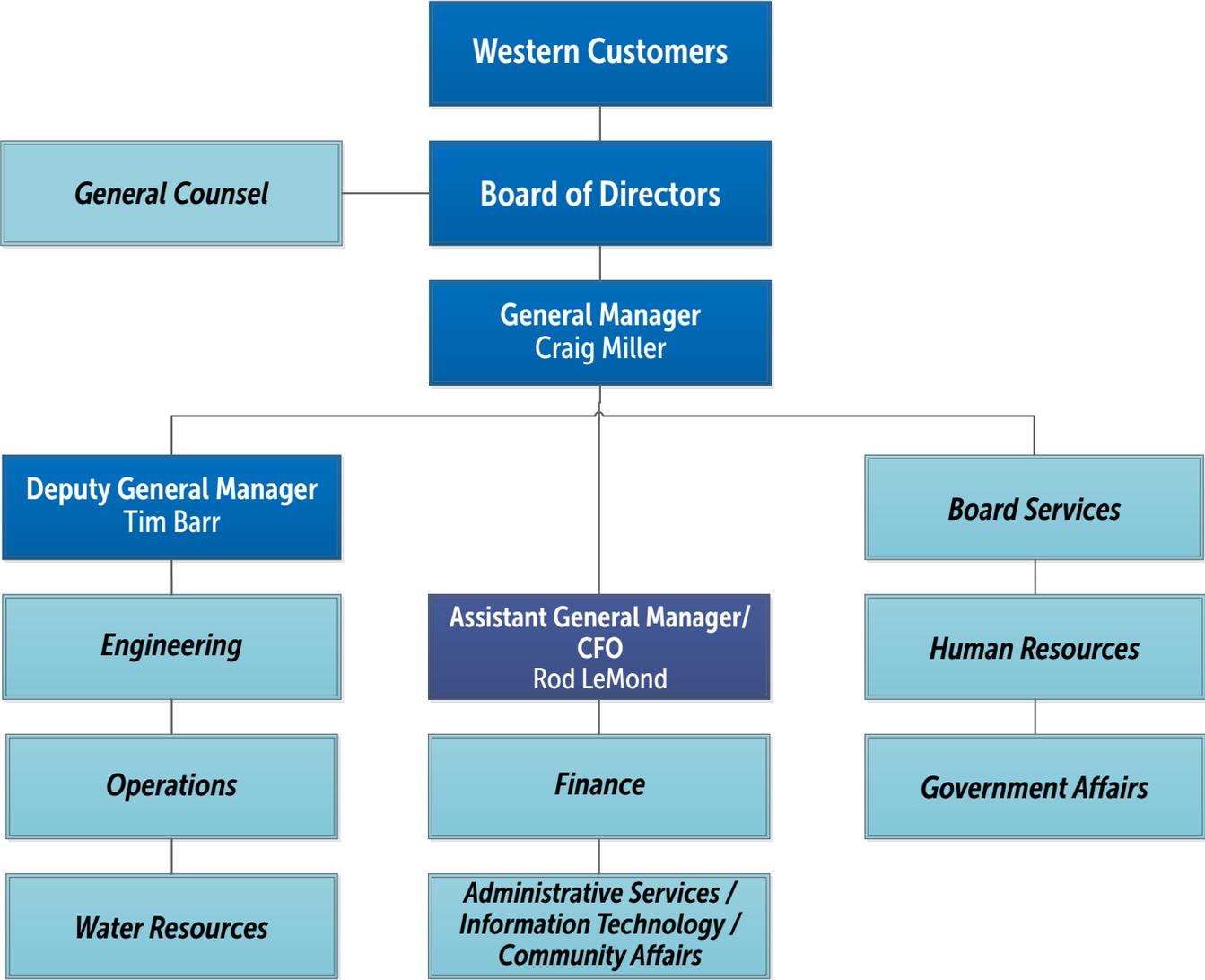
District Executive Management Team

Craig D. Miller, General Manager	4 years
Timothy T. Barr, Deputy General Manager	23 years
Rod LeMond, Assistant General Manager/CFO	9 years
Ryan Shaw, Director of Water Resources	1 year
Greg Duecker, Director of Administration	12 years
Derek Kawaii, Director of Engineering	12 years
Kevin C. Mascaro, Director of Finance	14 years
Paul Rugge, Director of Operations	13 years
Candi Judd, Director of Human Resources	2 years
Karl Francis, Deputy Director of Engineering	< 1 year
Christopher Fike, Deputy Director of Operations - Maintenance	3 years
Gary Miller, Deputy Director of Operations - System Operations	2 years

General Counsel

Best, Best & Krieger, LLP	62 years
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Western Municipal Water District Organizational Chart



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Financial Section



INDEPENDENT AUDITORS' REPORT

Board of Directors
Western Municipal Water District
Riverside, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Western Municipal Water District (District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the District'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 District'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 basic financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2018, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 1 and 14 to the financial statements, the District adopted Governmental Accounting Standards Board's Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*", which required retrospective application resulting in a reduction of previously reported net position. 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, the schedule of the District's proportionate share of the plan's net pension liability and related ratios as of the measurement date, the schedule of contributions - pension, the schedule of changes in the net other post-employment benefits (OPEB) liability and related ratios, and the schedule of contributions - OPEB, identified as Required Supplementary Information (RSI) in the accompanying 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 RSI 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 the audit of the basic financial statements. We do not express an opinion or provide any assurance on the RSI because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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.

White Nelson Dickel Evans LLP

Irvine, California
December 7, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Western Municipal Water District (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 year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with the preceding Independent Auditors' Report, and the accompanying basic financial statements and notes to the financial statements.

Overview

The District

Western Municipal Water District of Riverside County was formed in 1954 under the Municipal Water District Act of 1911 for the purpose of bringing supplemental water from the Metropolitan Water District of Southern California (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 Change in Net Position, and the Statement of Cash Flows.

The *Statement of Net Position* presents information on the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, and provides information about the nature and amounts of investments in resources and obligations to District creditors with the remaining balance 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 Change 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 the Basic 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. This operating loss is normally offset by net non-operating revenues. In fiscal year 2018, this loss has been offset by net non-operating revenues primarily from property tax revenues, and a gain on sale of the District's former headquarters building located on Alessandro Boulevard in Riverside. Explanations for significant changes from the prior year are provided in the discussion that follows.

Statements of Net Position

The following table compares the various categories of assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position between the current and prior fiscal year.

Condensed Statements of Net Position as of June 30, 2018 and 2017

	As of June 30,		Increase (Decrease)	
	2018	2017	\$ Change	% Change
Assets				
Current	\$ 166,877,525	\$ 148,976,570	\$ 17,900,955	12.0%
Noncurrent:				
Capital	406,791,422	384,247,672	22,543,750	5.9%
Other	29,409,396	28,426,811	982,585	3.5%
Total Assets	\$ 603,078,343	\$ 561,651,053	\$ 41,427,290	7.4%
Deferred Outflows of Resources				
Deferred outflow of resources - debt refunding	\$ 12,474,111	\$ 13,691,635	\$ (1,217,524)	-8.9%
Deferred outflow of resources - pension	6,879,829	6,231,986	647,843	10.4%
Deferred outflow of resources - OPEB	2,150,123	-	2,150,123	0.0%
Total Deferred Outflows of Resources	\$ 21,504,063	\$ 19,923,621	\$ 1,580,442	7.9%
Liabilities				
Current	\$ 38,105,742	\$ 31,538,699	\$ 6,567,043	20.8%
Noncurrent	184,777,646	174,105,043	10,672,603	6.1%
Total Liabilities	\$ 222,883,388	\$ 205,643,742	\$ 17,239,646	8.4%
Deferred Inflows of Resources				
Deferred inflow of resources - deferred swap inflow (note 8)	\$ 1,962,486	\$ 558,694	\$ 1,403,792	251.3%
Deferred inflow of resources - pension	782,930	684,657	98,273	14.4%
Deferred inflow of resources - OPEB	520,033	-	520,033	0.0%
Total Deferred Inflows of Resources	\$ 3,265,449	\$ 1,243,351	\$ 2,022,098	162.6%
Net Position				
Net investment in capital assets	\$ 264,247,599	\$ 252,235,082	\$ 12,012,517	4.8%
Restricted for capacity charges	12,425,740	8,748,405	3,677,335	42.0%
Unrestricted	121,760,230	113,704,094	8,056,136	7.1%
Total Net Position	\$ 398,433,569	\$ 374,687,581	\$ 23,745,988	6.3%

Assets

During the fiscal year ended June 30, 2018, total assets increased by \$41.4 million, or 7.4%. This increase is due to increases in 1) cash and investments, including restricted investments, totaling \$18.1 million, 2) capital assets of \$22.5 million, and 3) derivative instrument - interest rate swap of \$1.4 million, offset by decreases in notes receivable by \$0.3 million, and other current and noncurrent assets by \$0.3 million.

Deferred Outflows of Resources

Deferred outflows of resources are consumptions of net position that apply to future periods. During the fiscal year ended June 30, 2018, total deferred outflows of resources increased by \$1.6 million, or 7.9%. This net increase is due to a decrease of deferred outflow of resources related to debt refunding, in the amount of \$1.2 million, offset by an increase in deferred outflow of resources related to pension and other post-employment benefits (OPEB), in the amount of \$0.6 million and \$2.2 million, respectively. Information on the District's pension and OPEB can be found in Notes 10 and 11 of the Notes to the Basic Financial Statements.

Liabilities

During the fiscal year ended June 30, 2018, total liabilities increased by \$17.2 million, or 8.4%. This increase was primarily due to 1) an increase in accounts payable due to the timing of payments to vendors for construction projects in the amount of \$4.6 million, 2) an increase in due to other governments for the acquisition of capacity rights in the Santa Rosa Regional Resources Authority (SRRRA) in the amount of \$9.8 million, 3) an increase in net pension liability in the amount of \$2.7 million, and 4) the implementation of Governmental Accounting Standards Board (GASB) No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other than Pension*, resulting in the recognition of net OPEB liability of \$2.3 million, offset by long-term debt payments made during the fiscal year.

Deferred Inflows of Resources

Deferred inflows of resources are acquisitions of net position applicable to a future reporting period. During the fiscal year ended June 30, 2018, the District's deferred inflows of resources increased by \$2.0 million, or 162.6%. This increase is due to the increase of swap market value by \$1.4 million, an increase of deferred inflows of resources related to pension by \$0.1 million. In addition, \$0.5 million of deferred inflows related to OPEB was recognized in fiscal year 2017-2018 as a result of the implementation of GASB No. 75. Information on the District's swap can be found in Note 8 of the Notes to the Basic Financial Statements. Information on the District's pension and OPEB can be found in Notes 10 and 11 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 2018 by \$23.7 million, or 6.3%. Net position is classified into three categories: 1) net investment in capital assets, 2) restricted for capacity charges, and 3) unrestricted net position.

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, 2018 was \$264.3 million. The \$12.0 million, or 4.8% increase in fiscal year 2018, is detailed in the next table. Note that the amounts reported as “related debt” in the following table can either increase if debt proceeds are applied to fund capital assets, or decrease due to required annual debt service payments.

Net Investment in Capital Assets as of June 30, 2018 and 2017

	As of June 30,		Increase (Decrease)	
	2018	2017	\$ Change	% Change
Plant, building and improvements	\$ 393,487,588	\$395,498,287	\$ (2,010,699)	-0.5%
Capacity rights	45,900,092	34,631,769	11,268,323	32.5%
Construction in progress	103,324,449	83,274,050	20,050,399	24.1%
Land and land improvements	11,317,379	12,108,218	(790,839)	-6.5%
Equipment and vehicles	18,941,294	17,121,222	1,820,072	10.6%
Total capital assets	572,970,802	542,633,546	30,337,256	5.6%
Less accumulated depreciation	(166,179,380)	(158,385,874)	(7,793,506)	4.9%
Capital assets, net	406,791,422	384,247,672	22,543,750	5.9%
Less related debt:				
State Water Resources Control Board				
La Sierra Project	1,576,347	1,527,745	48,602	3.2%
WRCRWA State Water Resources Control Board	608,353	32,881	575,472	1750.2%
Santa Rosa Regional Resources Authority	9,802,441	-	9,802,441	0.0%
2010 Series A bonds	3,642,683	4,804,632	(1,161,949)	-24.2%
2010 Series B bonds	42,584,394	42,573,225	11,169	0.0%
2012 Series A bonds	30,449,643	31,604,835	(1,155,192)	-3.7%
2016 Series A bonds	46,278,468	45,917,425	361,043	0.8%
Note on vehicle leases	1,281,334	807,025	474,309	58.8%
Note on headquarters building	6,320,160	4,744,822	1,575,338	33.2%
Net investment in capital assets	<u>\$ 264,247,599</u>	<u>\$252,235,082</u>	<u>\$ 12,012,517</u>	4.8%

Restricted for Capacity Charges – The \$12.4 million restricted for capacity charges at June 30, 2018 reflects 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). Net assets becomes restricted when constraints placed on use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation. 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, 2018 was \$121.8 million. 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 table compares the various categories of revenues, expenses and changes in net position between the current and prior fiscal year:

Condensed Statements of Revenues, Expenses and Changes in Net Position for the Fiscal Years Ended June 30, 2018 and 2017

	<u>Fiscal Years Ended June 30,</u>		<u>Increase (Decrease)</u>	
	<u>2018</u>	<u>2017</u>	<u>\$ Change</u>	<u>% Change</u>
Operating Revenue	\$ 118,267,870	\$ 104,189,580	\$ 14,078,290	13.5%
Operating Expenses	(135,533,916)	(121,746,937)	(13,786,979)	11.3%
Net Non-operating Revenue	22,692,961	16,973,881	5,719,080	33.7%
Net Income (Loss) Before Capital Contributions	5,426,915	(583,476)	6,010,391	-1030.1%
Capital Contributions	18,890,172	16,216,272	2,673,900	16.5%
Change in Net Position	24,317,087	15,632,796	8,684,291	55.6%
Net Position, July 1, as restated ⁽¹⁾	374,116,482	359,054,785	15,061,697	4.2%
Net Position, June 30	<u>\$ 398,433,569</u>	<u>\$ 374,687,581</u>	<u>\$ 23,745,988</u>	6.3%

⁽¹⁾ Fiscal Year 2017 is not restated for GASB No. 75.

Combined Revenue

The following table presents a comparison of revenues by category for the fiscal years ended June 30, 2018 and 2017:

Revenues by Category for the Fiscal Years Ended June 30, 2018 and 2017

	<u>Fiscal Years Ended June 30,</u>		<u>Increase (Decrease)</u>	
	<u>2018</u>	<u>2017</u>	<u>\$ Change</u>	<u>% Change</u>
Water sales	\$ 81,720,213	\$ 70,698,068	\$ 11,022,145	15.6%
Water service	19,845,736	17,355,249	2,490,487	14.4%
Wastewater disposal	12,169,537	11,512,039	657,498	5.7%
Contractual services	3,966,995	4,007,195	(40,200)	-1.0%
Property taxes	21,728,238	20,053,770	1,674,468	8.3%
Investment earnings	(19,896)	(212,898)	193,002	-90.7%
Capacity rights sales	41,426	1,548,535	(1,507,109)	-97.3%
Intergovernmental revenue	859,898	857,677	2,221	0.3%
Other	6,667,053	1,640,324	5,026,729	306.4%
Total revenues	146,979,200	127,459,959	19,519,241	15.3%
Capital contributions	18,890,172	16,216,272	2,673,900	16.5%
Total revenues and capital contributions	<u>\$ 165,869,372</u>	<u>\$ 143,676,231</u>	<u>\$ 22,193,141</u>	15.4%

Combined revenue (excluding capital contributions) for fiscal year 2018 totaled \$147.0 million, an increase of \$19.5 million, or 15.3%. The most significant variances from fiscal year 2018 to 2017 were in three revenue categories: water sales (\$11.0 million increase), other (\$5.0 million increase), and water service (\$2.5 million increase).

Water Sales – The \$11.0 million increase in water sales is due to the increase in demand from both the District’s retail and wholesale agency customers.

Other – The \$5.0 million increase in this category was primarily due to a \$2.2 million return of reserves from the Santa Rosa Regional Resources Authority, a Joint Powers of Authority that the District is a member of, and a \$2.5 million net gain on disposal of capital assets, mainly from the sale of the District’s former headquarters building.

Water Service – The \$2.5 million increase in water service is due to the increase in System Charge revenues from retail customers, as well as the increase in wholesale water service charges and water reliability charge revenues resulting from the increase in volume of water sold to the District’s retail and wholesale customers.

Capital Contributions

During fiscal year 2018, the District experienced an increase of \$2.7 million, or 16.5%, in capital contributions. Capital contributions include water and sewer added facilities charges (capacity charges), contributed assets from developers and grant proceeds. The variance is mainly due to an increase in capital grants.

Combined Expenses

The following table presents a comparison of expenses by category for the fiscal year ended June 30, 2018 and 2017:

Expenses by Category for the Fiscal Years Ended June 30, 2018 and 2017

Expense Category	Fiscal Years Ended June 30,		Increase (Decrease)	
	2018	2017	\$ Change	% Change
Source of supply	\$ 1,529,726	\$ 1,764,783	\$ (235,057)	-13.3%
Purchased water	72,045,551	62,906,377	9,139,174	14.5%
Pumping - booster pumps	5,396,486	4,943,515	452,971	9.2%
Water treatment	1,756,714	2,112,687	(355,973)	-16.9%
Transmission and distribution	10,367,900	9,361,842	1,006,058	10.8%
Administrative and general	14,041,869	11,064,591	2,977,278	26.9%
Contractual services	3,559,405	3,508,952	50,453	1.4%
Wastewater disposal	10,254,410	10,746,113	(491,703)	-4.6%
Depreciation and amortization	12,735,181	12,722,189	12,992	0.1%
Interest expense	4,558,124	4,611,061	(52,937)	-1.2%
Other	5,306,919	4,301,325	1,005,594	23.4%
Total expenses	<u>\$ 141,552,285</u>	<u>\$ 128,043,435</u>	<u>\$ 13,508,850</u>	10.6%

Combined expenses for fiscal year 2018 totaled \$141.6 million, an increase of \$13.5 million, or 10.6%. The most significant variances from fiscal year 2017 to 2018 were in two expense categories: purchased water (\$9.1 million increase), and administrative and general (\$3.0 million increase).

Purchased Water – The increase in purchased water expense of \$9.1 million resulted primarily from the increase in volume of imported water during fiscal year 2018 from MWD due to increased demand from both retail and wholesale water agency customers.

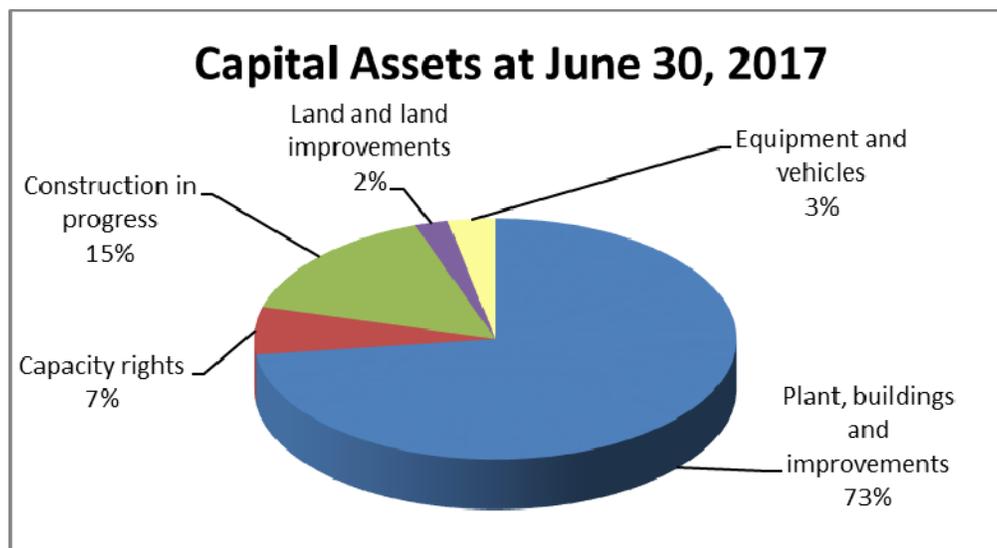
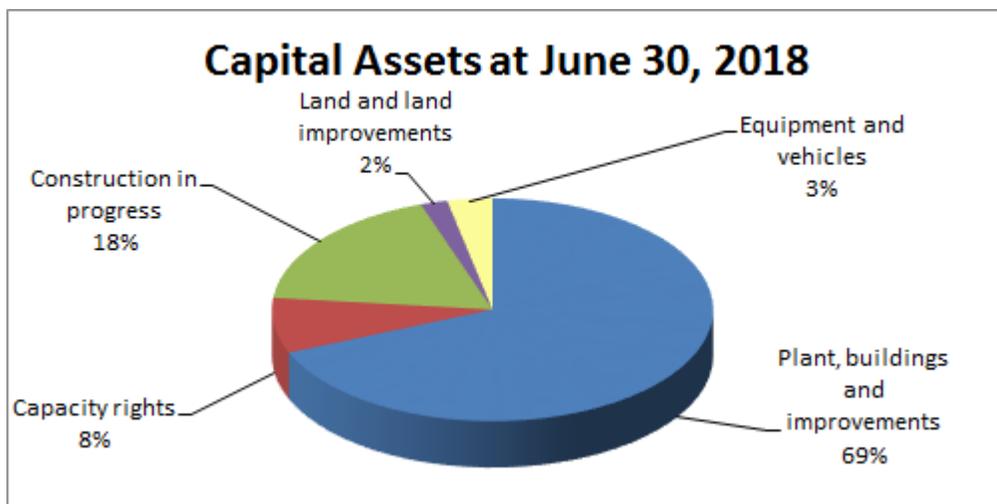
Administrative and General – The \$3.0 million increase in the administrative and general expense is due to an increase in pension and OPEB expense of \$1.9 million, labor and benefit costs of \$1.1 million, and contract services of \$0.5 million, offset by a decrease in legal costs of \$0.2 million and other administrative and general expenses of \$0.3 million.

Capital Assets

The District’s investment in capital assets as of June 30, 2018 was \$406.8 million (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:

	2018	2017
Plant, buildings and improvements	\$ 393,487,588	\$ 395,498,287
Capacity rights	45,900,092	34,631,769
Construction in progress	103,324,449	83,274,050
Land and land improvements	11,317,379	12,108,218
Equipment and vehicles	18,941,294	17,121,222
Total capital assets	<u>572,970,802</u>	<u>542,633,546</u>
Less accumulated depreciation	<u>(166,179,380)</u>	<u>(158,385,874)</u>
Total capital assets, net of accumulated depreciation	<u>\$ 406,791,422</u>	<u>\$ 384,247,672</u>



Long-term Liabilities

As of June 30, 2018, the District has outstanding long-term liabilities of \$191.7 million. Long-term liabilities include a swap liability, compensated absences, amounts due to other governments, bonds, lease, note payable, net pension and OPEB liabilities. Additional information regarding long-term debt can be found in Note 7, information regarding the swap liability can be found in Note 8, information regarding the net pension liability can be found in Note 10, and information regarding the net OPEB liability can be found in Note 11 of the Notes to the Basic Financial Statements.

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

	2018	2017
Compensated absences	\$ 2,654,339	\$ 2,575,904
Due to other governments	12,076,194	1,649,679
Bonds payable		
Revenue bonds	140,550,000	143,115,000
Unamortized discount	(242,848)	(258,597)
Unamortized premium	107,683	194,632
Swap liability	4,378,020	4,904,272
Note payable	10,197,212	11,347,212
Lease payable	1,281,334	807,025
Net pension liability	18,425,168	15,734,556
Net OPEB liability	2,281,068	-
Total long-term liabilities	<u>191,708,170</u>	<u>180,069,683</u>
Less current portion	<u>(6,930,524)</u>	<u>(5,964,640)</u>
Total long-term liabilities, net of current portion	<u>\$ 184,777,646</u>	<u>\$ 174,105,043</u>

Economic Factors and Next Year's Budgets and Rates

Anticipated growth will further create demand for water supply, wastewater treatment and disposal, and additional capital facilities. These demands have been incorporated 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 2019 fiscal year budget includes \$14.9 million in capital projects.

Rates for the three years beginning January 1, 2018, as recommended by a cost-of-service study, were adopted by the Board of Directors on October 4, 2017 and result in annual increases of 5.5% to an average bill for a residential customer in the Riverside service area, and 6.8% to customers in Murrieta and Rainbow service areas. A rate increase of 2.0% for most of the District's wastewater customers went into effect on October 1, 2018, 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
Statement of Net Position
June 30, 2018

	2018
<u>Assets and Deferred Outflows of Resources</u>	
Current assets:	
Cash (note 2)	\$ 12,290,375
Investments (note 2)	128,722,430
Receivables, net (note 4)	22,419,965
Stored groundwater inventory	1,525,095
Materials and supplies inventory	1,195,743
Other current assets	723,917
Total current assets	166,877,525
Non-current assets:	
Restricted investments (note 2, 3)	19,699,170
Notes receivable (note 4)	5,747,740
Assessments receivable (note 4)	2,000,000
Derivative instrument - interest rate swap (note 8)	1,962,486
Capital assets not being depreciated (note 6)	133,589,393
Capital assets being depreciated, net (note 6)	273,202,029
Total non-current assets	436,200,818
Total assets	603,078,343
Deferred outflows of resources:	
Deferred outflow of resources - debt refunding	12,474,111
Deferred outflow of resources - pension (note 10)	6,879,829
Deferred outflow of resources - OPEB (note 11)	2,150,123
Total deferred outflows of resources	21,504,063
<u>Liabilities, Deferred Inflows of Resources, and Net Position</u>	
Current liabilities:	
Accounts payable and accrued expenses	24,622,020
Customer deposits and unearned revenue	3,699,213
Construction advances	1,996,464
Accrued interest payable	857,521
Long-term liabilities - due in less than one year:	
Compensated absences (note 5)	2,258,660
Lease payable (note 7)	232,236
Due to other governments (note 7)	588,376
Note payable (note 7)	1,176,252
Bonds payable (note 7)	2,675,000
Total current liabilities	38,105,742
Non-current liabilities:	
Long-term liabilities - due in more than one year:	
Compensated absences (note 5)	395,679
Lease payable (note 7)	1,049,098
Due to other governments (note 7)	11,487,818
Note payable (note 7)	9,020,960
Bonds Payable (note 7)	142,117,855
Net pension (note 10)	18,425,168
Net OPEB liability (note 11)	2,281,068
Total non-current liabilities	184,777,646
Total liabilities	222,883,388
Deferred inflows of resources:	
Deferred inflow of resources - deferred swap inflow (note 8)	1,962,486
Deferred inflow of resources - pension (note 10)	782,930
Deferred inflow of resources - OPEB (note 11)	520,033
Total deferred inflows of resources	3,265,449
Net position:	
Net investment in capital assets (note 9)	264,247,599
Restricted for capacity charges (note 3)	12,425,740
Unrestricted	121,760,230
Total net position	\$ 398,433,569

See accompanying notes to the basic financial statements

Western Municipal Water District
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2018

	2018
Operating Revenues:	
Water sales	\$ 81,720,213
Water service	19,845,736
Wastewater disposal	12,169,537
Other charges and services	565,389
Contractual services	3,966,995
Total operating revenues	118,267,870
Operating Expenses:	
Source of supply	1,529,726
Purchased water	72,045,551
Pumping - booster pumps	5,396,486
Water treatment	1,756,714
Transmission and distribution	10,367,900
Customer accounts	1,406,058
Administrative and general	14,041,869
Contractual services	3,559,405
Wastewater disposal	10,254,410
Other operating expense	2,440,616
Total operating expenses before depreciation and amortization	122,798,735
Operating loss before depreciation and amortization	(4,530,865)
Depreciation and amortization	(12,735,181)
Operating loss	(17,266,046)
Non-operating revenues (expenses):	
Property taxes and assessments	21,728,238
Investment earnings	(19,896)
Interest expense	(4,558,124)
Capacity rights sales	41,426
Intergovernmental revenue	859,898
Other revenues	3,601,211
Other expenses	(1,460,245)
Gain on disposal of assets, net	2,500,453
Total net non-operating revenues	22,692,961
Net income before capital contributions	5,426,915
Capital contributions:	
Capacity charges	6,151,071
Developer capital contributions	164,768
Federal, state and local capital grants	12,574,333
Total capital contributions	18,890,172
Change in net position	24,317,087
Net position, beginning of year, as restated (note 14)	374,116,482
Net position, end of year	\$ 398,433,569

See accompanying notes to the basic financial statements

**Western Municipal Water District
Statement of Cash Flows
For the Year Ended June 30, 2018**

	2018
Cash flows from operating activities:	
Cash receipts from customers for water sales and services	\$ 118,840,131
Cash paid to employees for salaries and wages	(17,799,403)
Cash paid to vendors and suppliers for materials and services	(98,851,612)
Net cash provided by operating activities	2,189,116
Cash flows from non-capital financing activities:	
Proceeds from property taxes and assessments	21,722,930
Proceeds from intergovernmental revenue	859,898
Deposit returned for swap collateral requirement	790,000
Net cash provided by non-capital financing activities	23,372,828
Cash flows from capital and related financing activities:	
Proceeds from capacity rights sales	47,508
Proceeds from notes receivable	298,326
Acquisition and construction of capital assets	(23,025,599)
Proceeds from disposal of capital assets	2,796,029
Proceeds from capital contributions	20,059,394
Return of reserve funds from Santa Rosa Regional Resources Authority	1,038,676
Principal paid on long-term debt	(4,432,855)
Interest paid on long-term debt	(4,007,025)
Net cash (used in) capital and related financing activities	(7,225,546)
Cash flows from investing activities:	
Investment earnings	2,541,403
Purchase of investments	(129,361,502)
Proceeds from sale of investments	109,889,470
Net cash (used in) investing activities	(16,930,629)
Net increase in cash	1,405,769
Cash, beginning of year	10,884,606
Cash, end of year	\$ 12,290,375

Continued on next page

See accompanying notes to the basic financial statements

**Western Municipal Water District
Statement of Cash Flows, continued
For the Year Ended June 30, 2018**

	2018
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (17,266,046)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	12,735,181
Other revenues	2,562,535
Other expenses	(1,182,455)
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:	
(Increase) in assets:	
Accounts receivable	(476,767)
Materials and supplies inventory	(106,516)
Other current assets	(42,375)
(Increase) in deferred outflow of resources:	
Deferred outflow of resources - pension	(647,843)
Deferred outflow of resources - OPEB	(2,150,123)
Increase in liabilities:	
Accounts payable and accrued expenses	3,546,713
Customer deposits and unearned revenue	119,490
Compensated absences	78,435
Net pension liability	2,690,612
Net OPEB liability	2,208,871
Increase in deferred inflow of resources:	
Deferred inflow of resources - pension	98,273
Deferred inflow of resources - OPEB	21,131
Total adjustments	19,455,162
Net cash provided by operating activities	\$ 2,189,116
Non-cash investing, capital and financing transactions:	
Change in fair value of investments	\$ (2,775,059)
Capital assets acquired through capital contributions	8,282
Acquisition and construction of capital assets in accounts payable	2,530,458
Acquisition of capital assets by long-term debt	11,628,693

See accompanying notes to the basic financial statements

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2018

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

Western Municipal Water District of Riverside County (District) was formed in 1954 and created for the purpose of importing and delivering water to wholesale and retail customers within its service area. The District is governed by a five-member Board of Directors who serve overlapping four-year terms. The District purchases approximately 84% of its water from the Metropolitan Water District of Southern California. Approximately 35% of the purchased water comes from the Colorado River aqueduct and approximately 65% 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 comprising 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 between 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 a special-purpose government engaged in only business-type activities using the economic resources measurement focus, 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, 2018**

(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. Investments

Investments are generally reported in the accompanying statement of net position at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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.

2. Receivables, net 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 creditor's ability to pay. The allowance for doubtful accounts is deducted against receivables on the statement of net position. The allowance for doubtful accounts is \$118,506 for the fiscal year ended June 30, 2018.

3. 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 10 - 1st Installment April 10 - 2nd Installment

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2018

(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

4. Hedge Accounting

The District applies the provisions of Governmental Accounting Standards Board (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.

5. Inventory

Inventory consists primarily of materials and supplies used in the construction and maintenance of the District's ongoing operations and are valued at weighted-average cost.

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 \$10,000 and an estimated useful life of more than two years. Donated assets are recorded at acquisition cost 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	30 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 lives are amortized over the life of the agreements.

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2018

(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

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, 2018.

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. Gross interest expense amounts for Build America Bonds 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. Sick leave accrues at a rate of eight hours per month up to a maximum of 1,600 hours. Compensated absences are accrued when earned and most are expected to be paid at 100% of the employee's current hourly pay.

8. Deferred Outflow of Resources and Deferred Inflow of Resources

The District applies the provisions of GASB 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. The impact of deferred outflow of resources and deferred inflow of resources on net position are explained in the following paragraphs.

At June 30, 2018, the District has three items reported as deferred outflow of resources. The first item relates to the deferred outflow of resources on debt refunding of \$12,474,111 at June 30, 2018. This amount relates to previous debt refundings in 2012 and 2016. It represents the difference in the carrying value of refunded debts and their reacquisition prices, net of amortization. The deferred outflow of resources on refunding are amortized as a component of interest expense over the life of the old debt or the new debt, whichever is shorter. The second and third items are the deferred outflow of resources related to pension and OPEB in the amount of \$6,879,829 and \$2,150,123, respectively. These amounts include the pension contributions made after the measurement date of the net pension liability, differences between expected and actual experience for both pension and OPEB, changes in assumption for both pension and OPEB, net difference between projected and actual earnings on pension plan investments, an adjustment due to differences in proportions for pension, and differences between the employer's contributions and the employer's proportionate share of contributions for pension. Refer to Notes 10 D and 11 D for additional information.

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2018**

(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

8. Deferred Outflow of Resources and Deferred Inflow of Resources, continued

At June 30, 2018, the District has three items reported as deferred inflow of resources. The first item relates to the deferred swap inflow of \$1,962,486. This amount would be recognized as an investment gain upon the early termination of the swap as it represents the fair value or marked-to-market value of the swap at June 30, 2018. The District currently has no intention of terminating its interest rate swap agreement in advance. The second and third items relate to pension and OPEB, in the amount of \$782,930 and \$520,033, respectively. These amounts include the deferred inflow resulting from differences between expected and actual experience for both pension and OPEB, changes of assumption for pension, net difference between projected and actual earnings on OPEB plan investments, an adjustment due to differences in proportions for pension and differences between the employer's contributions and the employer's proportionate share of contributions for pension. Refer to Notes 10 D and 11 D for additional information.

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 then increased by debt refunding related to deferred outflow of resources reduced by any outstanding debt associated with the acquisition, construction or improvement of those assets.
- **Restricted for 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 do not meet the definition of *restricted* or *invested in capital assets*.

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.

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.

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2018

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

D. Revenues, continued

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 change in net position when the cash or capital assets are received.

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 change in net position.

E. Pensions

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

F. Other Post-Employment Benefits (OPEB)

For purposes of measuring the net OPEB liability (asset) and deferred outflows/inflows of resources related to OPEB, and OPEB expense (income), information about the fiduciary net position of the District's OPEB Plan and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the District's OPEB Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value.

G. Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflow of resources, liabilities, 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.

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2018**

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

H. 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.

(2) Cash and Investments

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

	2018
Cash	\$ 12,290,375
Investments	128,722,430
Restricted investments	19,699,170
Total investments	148,421,600
Total cash and investments	\$ 160,711,975

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

	2018
Petty cash	\$ 16,200
Deposits with financial institutions	12,274,175
Total cash	12,290,375
Money Market Funds	57,217
California Local Agency Investment Fund	9,285,329
U.S. Treasury Notes	26,324,661
Government-Sponsored Agency Securities	51,907,567
Corporate Medium-Term Notes	37,615,404
Asset-Backed Securities	11,186,739
Collateralized Mortgage Obligations	1,506,013
Supranationals	6,625,199
Held by fiscal agent:	
Money Market Funds	344,291
Negotiable Certificates of Deposit	1,527,518
Corporate Medium-Term Notes	2,041,662
Total investments	148,421,600
Total cash and investments	\$ 160,711,975

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

The following table 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, 2018

(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
Municipal Securities	5 years	30%	5%
California State and Local Agency Obligations			
Notes or Bonds of any of the other 49 states			
U.S. Treasury Obligations	10 years	No limit	No limit
U.S. Government Agency Securities Obligations	10 years	No limit	25%
Banker's Acceptances	180 days	40%	5%
Prime Commercial Paper	270 days	25%	5%
Federally Insured Time Deposits (Non-negotiable CDs)	5 years	20% (combined with collateralized Time Deposits)	FDIC Limit
Collateralized Time Deposits (Non-negotiable CDs)	5 years	20% (combined with Federally- insured Time Deposits)	No limit
Certificate of Deposit Placement Services (CDARS)	5 years	30% (combined with CDs)	No limit
Negotiable Certificates of Deposit (NCDs)	5 years	30% (combined with CDARS)	5%
Repurchase Agreements	90 days	No limit	5%
Corporate Medium-Term Notes	5 years	30%	5%
Supranational	5 years	10%	10%
California State Local Agency Investment Fund (LAIF)	N/A	\$50 million	No limit
Mutual Funds	N/A	20% (combined with Money Market Mutual Funds)	10%
Money Market Mutual Funds	N/A	20% (combined with Mutual Funds)	No limit
Mortgage Pass-Through Securities	5 years	20%	5%
Asset-Backed Securities	5 years	20%	5%
Collateralized Mortgage Obligations	5 years	20%	5%
County Pooled Investment Funds	N/A	No limit	No limit
CalTrust Pooled Investment Funds	N/A	No limit	No limit

The Board has approved all investments with a maturity in excess of five years.

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2018

(2) Cash and Investments, continued

Investments Authorized by Debt Agreements

Investments of debt proceeds held by a bond trustee are governed by provisions of the debt agreement rather than the general provisions of the California Government Code or the District's investment policy. The table below identifies the investment types that are authorized for investments held by a bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk 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
Local Agency Investment Fund	N/A	\$50 million	No limit

Custodial Credit Risk

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

At June 30, 2018, the carrying amount of the District's deposits was \$12,274,175, and the corresponding bank balance was \$12,889,402. The difference of \$615,227 was principally due to outstanding checks, wires and/or deposits in transit. Of the bank balance, 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.

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2018

(2) Cash and Investments, continued

Investment in State Investment Pool

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District's investment policy provides limits on investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates.

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

Investment Type	Fair Value	Investment Maturities (in Years)		
		Less Than 1	1 - 5	6 - 10
U.S. Treasury Notes	\$ 26,324,661	\$ -	\$ 15,702,144	\$ 10,622,517
Government-Sponsored Agency Securities	51,907,567	-	39,786,545	12,121,022
Corporate Medium-Term Notes	39,657,066	7,576,430	32,080,636	-
Asset-Backed Securities	11,186,739	-	11,186,739	-
Collateralized Mortgage Obligations	1,506,013	459,728	1,046,285	-
Supranationals	6,625,199	-	6,625,199	-
Negotiable Certificates of Deposit	1,527,518	1,527,518	-	-
Money Market Funds	401,508	401,508	-	-
Total	\$ 139,136,271	\$ 9,965,184	\$ 106,427,548	\$ 22,743,539

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.

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2018**

(2) Cash and Investments, continued

Credit Risk, continued

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

Investment Type	Carrying Amount	Minimum Policy Rating	Exempt From Disclosure	Ratings as of Year-End			Not Rated
				AAA	AA	A	
U.S. Treasury Notes	\$ 26,324,661	N/A	\$ 26,324,661	\$ -	\$ -	\$ -	\$ -
Government-Sponsored Agency Securities	51,907,567	None	-	-	51,907,567	-	-
Corporate Medium-Term Notes	39,657,066	A	-	978,088	11,243,742	27,435,236	-
Asset-Backed Securities	11,186,739	AA	-	11,186,739	-	-	-
Collateralized Mortgage Obligations	1,506,013	AA	-	1,506,013	-	-	-
Supranationals	6,625,199	AAA	-	6,625,199	-	-	-
Negotiable Certificates of Deposit	1,527,518	None	-	-	-	-	1,527,518
California Local Agency Investment Fund	9,285,329	None	-	-	-	-	9,285,329
Money Market Funds	401,508	*	-	57,217	-	-	344,291
	<u>\$148,421,600</u>		<u>\$ 26,324,661</u>	<u>\$ 20,353,256</u>	<u>\$ 63,151,309</u>	<u>\$ 27,435,236</u>	<u>\$ 11,157,138</u>

* Highest rating by at least two nationally recognized statistical rating agencies.

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, other than the \$50 million limitation on LAIF, as stipulated by the California Government Code. The District's investment with LAIF is 5.78% of the District's total depository and investment portfolio as of June 30, 2018. 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	2018 Reported Amount	2018 % of Total Investments
Federal Home Loan Bank	Government-Sponsored Agency Securities	\$ 15,091,790	10%
Federal National Mortgage Association	Government-Sponsored Agency Securities	21,995,563	15%
Federal Home Loan Mortgage Corp.	Government-Sponsored Agency Securities	10,189,360	7%

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2018

(2) Cash and Investments, continued

Fair Value Measurements

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of investments. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant observable inputs. When quoted prices in active markets are not readily available, fair values are based on pricing models or matrices maximizing the use of observable inputs for similar securities as received by the District's investment advisor from a third party service provider. For the District's derivative instrument - interest rate swap, it is valued based on applying a standard interest rate swap valuation methodology and by taking into account certain observable interest curves. Level 3 inputs are significant unobservable inputs.

The District has the following recurring fair value measurements as of June 30, 2018:

Investment Type	Fair Value or Amortized Cost	Quoted Prices in Active Markets for Identical Assets Level (1)	Significant Other Observable Inputs Level (2)	Significant Unobservable Inputs Level (3)
U.S. Treasury Notes	\$ 26,324,661	\$ -	\$ 26,324,661	\$ -
Government Sponsored Agency Securities	51,907,567	-	51,907,567	-
Corporate Medium-Term Notes	39,657,066	-	39,657,066	-
Asset-Backed Securities	11,186,739	-	11,186,739	-
Collateralized Mortgage Obligations	1,506,013	-	1,506,013	-
Supranational	6,625,199	-	6,625,199	-
Negotiable Certificates of Deposits	1,527,518	-	1,527,518	-
Money Market Funds	401,508	401,508	-	-
Investments at fair value	139,136,271	401,508	138,734,763	-
California Local Agency Investment Fund	9,285,329	-	-	-
Investment at amortized cost	9,285,329	-	-	-
Total	\$ 148,421,600	\$ 401,508	\$ 138,734,763	\$ -
Derivative Instrument - interest rate swap	\$ 1,962,486	\$ -	\$ 1,962,486	\$ -

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2018

(3) Restricted Investments

Restricted investments at June 30 are restricted as follows:

	<u>2018</u>
Capacity charges	\$ 12,425,740
Customer deposits	1,393,495
Construction advances	1,966,464
2010 Series B Water Revenue Bonds Service Fund	68
2012 Series A Water Revenue Bonds Service Fund	36,337
2016 Series A Water Revenue Bonds Service Fund	15
HQ Building Refinancing Project Fund	3,877,051
	<u>\$ 19,699,170</u>

(4) Receivables

Current Receivables, net

Current receivables at June 30 consisted of the following:

	<u>2018</u>
Utility services - wholesale	\$ 15,093,237
Utility services - retail	5,704,228
Allowance for doubtful accounts	(118,506)
Accrued interest	832,816
Property taxes and assessments	839,213
Other	68,977
	<u>\$ 22,419,965</u>

Notes Receivable, Non-current

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

	<u>2018</u>
Note receivable from Jurupa Community Services District	<u>\$ 5,747,740</u>

In May 2004, the District sold 3.0 million gallons per day (MGD) of its capacity rights in Western Riverside County Regional Wastewater Authority (WRCRWA) to Jurupa Community Services District (Jurupa) for \$9,486,754, for which a note was received. The note requires Jurupa to pay the District 29 annual principal payments ranging from \$198,884 to \$517,098 beginning January 1, 2005. The interest rate is variable and currently at 3.305%.

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2018**

(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:

Balance 2017	Earned	Taken	Balance 2018	Current Portion	Long-term Portion
\$ 2,575,904	\$ 2,653,135	\$ (2,574,700)	\$ 2,654,339	\$ 2,258,660	\$ 395,679

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2018

(6) Capital Assets

The balance in capital assets for the year ended June 30, 2018 was as follows:

	Balance 2017	Additions	Deletions / Transfers	Balance 2018
Capital assets not being depreciated:				
Land	\$ 8,041,156	\$ -	\$ (92,842)	\$ 7,948,314
Capacity rights	22,316,630	-	-	22,316,630
Construction-in-progress	83,274,050	23,876,182	(3,825,783)	103,324,449
Total capital assets not being depreciated	<u>113,631,836</u>	<u>23,876,182</u>	<u>(3,918,625)</u>	<u>133,589,393</u>
Capital assets being depreciated:				
Land improvements	4,067,062	-	(697,997)	3,369,065
Plant	893,219	-	(406,791)	486,428
Source of supply - plant	1,056,579	-	-	1,056,579
Pumping plant	32,543,762	609,606	(58,931)	33,094,437
Water treatment plant	8,067,289	113,971	-	8,181,260
Transmission and distribution plant	209,979,149	420,616	(520,241)	209,879,524
Wastewater treatment plant	113,443,070	752,140	(61,125)	114,134,085
Buildings	29,515,219	274,771	(3,134,715)	26,655,275
Furniture, fixtures and office equipment	1,867,124	15,502	(223,662)	1,658,964
Vehicles	5,664,493	972,962	(181,137)	6,456,318
Construction and maintenance equipment	969,137	747,183	-	1,716,320
Computer equipment	7,345,287	462,358	(20,715)	7,786,930
Miscellaneous equipment	1,275,181	74,279	(26,698)	1,322,762
Capacity rights	12,315,139	11,268,323	-	23,583,462
Total capital assets being depreciated	<u>429,001,710</u>	<u>15,711,711</u>	<u>(5,332,012)</u>	<u>439,381,409</u>
Less accumulated depreciation:				
Land improvements	(2,727,625)	(134,479)	669,403	(2,192,701)
Plant	(831,086)	(6,938)	406,791	(431,233)
Source of supply - plant	(1,037,834)	(9,355)	-	(1,047,189)
Pumping plant	(17,519,970)	(922,687)	58,931	(18,383,726)
Water treatment plant	(5,871,129)	(261,731)	-	(6,132,860)
Transmission and distribution plant	(80,630,590)	(4,853,477)	262,142	(85,221,925)
Wastewater treatment plant	(26,502,918)	(3,991,406)	12,593	(30,481,731)
Buildings	(8,846,336)	(875,440)	3,080,762	(6,641,014)
Furniture, fixtures and office equipment	(1,864,863)	(2,262)	223,662	(1,643,463)
Vehicles	(3,835,560)	(451,700)	181,137	(4,106,123)
Construction and maintenance equipment	(461,288)	(60,229)	-	(521,517)
Computer equipment	(3,336,068)	(747,018)	19,556	(4,063,530)
Miscellaneous equipment	(749,811)	(92,859)	26,698	(815,972)
Capacity rights	(4,170,796)	(325,600)	-	(4,496,396)
Total accumulated depreciation	<u>(158,385,874)</u>	<u>(12,735,181)</u>	<u>4,941,675</u>	<u>(166,179,380)</u>
Total capital assets being depreciated, net	<u>270,615,836</u>	<u>2,976,530</u>	<u>(390,337)</u>	<u>273,202,029</u>
Total capital assets, net	<u>\$ 384,247,672</u>	<u>\$ 26,852,712</u>	<u>\$ (4,308,962)</u>	<u>\$ 406,791,422</u>

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2018**

(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 compose the construction-in-progress balance at June 30 are as follows:

	2018
Chino Basin Desalter Expansion	\$ 71,324,360
La Sierra Project	18,079,767
Meter Replacement Program	2,841,668
Arlington Basin Recharge	2,486,855
Various projects	8,591,799
Construction-in-progress	\$ 103,324,449

For the year ended June 30, 2018, interest cost of \$1,369,582 was capitalized in relation to debt financing of construction projects, and \$4,558,124 was charged to expense.

Capital Leases

The District leases certain vehicles classified as capital leases. Total assets under capital leases and total accumulated amortization are \$1,612,831 and \$293,756, respectively, at June 30, 2018.

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2018

(7) Long-term Debt

Long-term debt activities for the year ended June 30, 2018 were as follows:

	Balance 2017	Additions	Deletions	Balance 2018	Current Portion	Long-term Portion
Due to other governments:						
Santa Ana Watershed Project Authority:						
SARI capacity use rights	\$ 89,053	\$ -	\$ -	\$ 89,053	\$ 89,053	\$ -
Western Riverside County Regional Wastewater Authority:						
State Water Resources Control Board	32,881	-	(32,881)	-	-	-
State Water Resources Control Board - Plant Expansion	-	608,353	-	608,353	25,344	583,009
Santa Rosa Regional Resources Authority						
SRRRA 2017 Bond Issuance	-	9,947,758	(523,684)	9,424,074	473,979	8,950,095
SRRRA SRF Loan	-	378,367	-	378,367	-	378,367
State Water Resources Control Board						
La Sierra Project	1,527,745	48,602	-	1,576,347	-	1,576,347
Total due to other governments	<u>1,649,679</u>	<u>10,983,080</u>	<u>(556,565)</u>	<u>12,076,194</u>	<u>588,376</u>	<u>11,487,818</u>
Bonds payable:						
2010 Series A bonds	4,610,000	-	(1,075,000)	3,535,000	1,125,000	2,410,000
2010 Series B bonds	42,755,000	-	-	42,755,000	-	42,755,000
Unamortized premium	194,632	-	(86,949)	107,683	-	107,683
Unamortized discount	(181,775)	-	11,169	(170,606)	-	(170,606)
2012 Series A bonds	43,775,000	-	(1,490,000)	42,285,000	1,550,000	40,735,000
2016 Series A bonds	51,975,000	-	-	51,975,000	-	51,975,000
Unamortized discount	(76,822)	-	4,580	(72,242)	-	(72,242)
Swap liability ⁽¹⁾	4,904,272	-	(526,252)	4,378,020	-	4,378,020
Total bonds payable	<u>147,955,307</u>	<u>-</u>	<u>(3,162,452)</u>	<u>144,792,855</u>	<u>2,675,000</u>	<u>142,117,855</u>
Note payable:						
Note payable - headquarters building	11,347,212	-	(1,150,000)	10,197,212	1,176,252	9,020,960
Total note payable	<u>11,347,212</u>	<u>-</u>	<u>(1,150,000)</u>	<u>10,197,212</u>	<u>1,176,252</u>	<u>9,020,960</u>
Lease payable:						
Lease payable - vehicle lease	807,025	671,299	(196,990)	1,281,334	232,236	1,049,098
Total lease payable	<u>807,025</u>	<u>671,299</u>	<u>(196,990)</u>	<u>1,281,334</u>	<u>232,236</u>	<u>1,049,098</u>
Total long-term debt	<u>\$ 161,759,223</u>	<u>\$ 11,654,379</u>	<u>\$ (5,066,007)</u>	<u>\$ 168,347,595</u>	<u>\$ 4,671,864</u>	<u>\$ 163,675,731</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, 2018**

(7) Long-term Debt, continued

Scheduled future debt service requirements of long-term debt, other than lease payable, for years subsequent to June 30, 2018 are as follows, assuming that the 2012 Series A is remarketed and the liquidity agreement is renewed, and the 2016 Series A is reissued over their scheduled maturities of the debt as disclosed below. If the 2016 Series A is not reissued prior to the bonds' mandatory tender in October 2020, amounts due in fiscal year 2021 will increase by \$51,975,000 greater than the amount reported below, and if the liquidity agreement for 2012 Series A is not renewed in October 2022, amounts due in fiscal year 2023 will increase by \$33,900,000, greater than the amount reported below.

Fiscal Year	Principal	Interest ⁽¹⁾	Total
2019	\$ 4,671,864	\$ 5,339,253	\$ 10,011,117
2020	5,043,600	5,218,796	10,262,396
2021	5,196,892	5,047,796	10,244,688
2022	6,179,656	6,180,563	12,360,219
2023	6,188,210	5,976,586	12,164,796
2024-2028	30,413,407	26,649,464	57,062,871
2029-2033	31,991,480	20,818,108	52,809,588
2034-2038	36,755,218	13,548,016	50,303,234
2039-2043	36,912,095	4,222,457	41,134,552
2044-2048	309,283	18,906	328,189
2049-2053	64,668	970	65,638
Total	163,726,373	\$ 93,020,915	\$ 256,747,288
Unamortized discount	(242,848)		
Unamortized premium	107,683		
SWAP liability	4,378,020		
SRRRA SRF loan	378,367		
Total	168,347,595		
Less current portion	(4,671,864)		
Total non-current	\$ 163,675,731		

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

Due to Other Governments

Santa Ana Watershed Project Authority (SAWPA) 2.0 MGD Brine Line Pipeline Capacity

On January 12, 1999, the District entered into an agreement (Agreement) with SAWPA to purchase brine line capacity use rights of 2.0 MGD in the Brine Line for \$7,500,000 with an annual interest rate of 4.0%. The terms of the Agreement require annual payments of interest and principal of \$528,584 for 20 years beginning in July 1999 with final payment in July 2018.

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2018**

(7) Long-term Debt, continued

Due to Other Governments, continued

Santa Ana Watershed Project Authority (SAWPA) 2.0 MGD Brine Line Pipeline Capacity, continued

As of June 30, 2018, the future annual maturities of the District's obligation are as follows:

Fiscal Year	Principal	Interest	Total
2019	\$ 89,053	\$ -	\$ 89,053
Total	89,053	-	89,053
Less current portion	-		
Total non-current	<u>\$ 89,053</u>		

Western Riverside County Regional Wastewater Authority – State Water Resources Control Board – Plant Expansion

This loan with WRCRWA is in connection with odor control improvements at the WRCRWA Plant, bears interest at 1.9% with a 20-year repayment term starting with the first annual debt service payment in December 2018. The District's loan amount as of June 30, 2018 is \$608,353. This balance may increase after final reconciliation.

As of June 30, 2018, the estimated future annual maturities of the District's obligation are as follows:

Fiscal Year	Principal	Interest	Total
2019	\$ 25,344	\$ 11,500	\$ 36,844
2020	25,766	11,077	36,843
2021	26,256	10,588	36,844
2022	26,755	10,089	36,844
2023	27,263	9,580	36,843
2024-2028	144,284	39,933	184,217
2029-2033	158,522	25,695	184,217
2034-2038	174,163	10,052	184,215
Total	608,353	\$ 128,514	\$ 736,867
Less current portion	(25,344)		
Total non-current	<u>\$ 583,009</u>		

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2018**

(7) Long-term Debt, continued

Due to Other Governments, continued

Santa Rosa Regional Resources Authority (SRRRA)

SRRRA 2017 Bonds

On August 1, 2017, the District entered into a Capacity Funding Agreement with SRRRA in connection with the issuance of the 2017A and 2017B revenue bonds by SRRRA (collectively referred herein as SRRRA Bonds) to finance the acquisition of the Santa Rosa Water Reclamation Facility (SRWRF) and plant upgrades. Series 2017A tax-exempt, fixed-rate revenue bonds were issued in the amount of \$24,040,000 with interest ranging from 3.00% to 5.00% maturing on August 1, 2034. Series 2017B taxable fixed-rate revenue bonds were issued in the amount of \$31,190,000 with interest ranging from 1.5% to 3.65% maturing on August 1, 2031. Under the Capacity Funding Agreement, the District's share of the 2017A and 2017B revenue bonds is \$4,195,469 and \$5,752,289, respectively, which is approximately 18% of the total SRRRA Bonds based on the District's ownership of the treatment capacity in the SRWRF. The District's annual obligation ranges between \$760,000 and \$1,015,000 over the term of the bonds.

As of June 30, 2018, the future annual maturities of the District's obligation are as follows:

Fiscal Year	Principal	Interest	Total
2019	\$ 473,979	\$ 306,739	\$ 780,718
2020	717,422	298,065	1,015,487
2021	703,590	281,900	985,490
2022	498,876	261,412	760,288
2023	488,732	245,939	734,671
2024-2028	2,566,342	974,214	3,540,556
2029-2033	3,010,577	487,233	3,497,810
2034-2038	964,556	28,937	993,493
Total	9,424,074	\$ 2,884,439	\$ 12,308,513
Less current portion	(473,979)		
Total non-current	\$ 8,950,095		

SRRRA SRF Loan

On January 2, 2018, the District entered into a Funding Agreement with SRRRA for the SRRRA State Revolving Fund (SRF) Loan with the State Water Resources Control Board in order to finance the costs of rehabilitation projects with respect to the SRWRF. The District expects that its total share of debt service will be approximately 18%, or \$5,000,000, with interest at 1.8% and a 30-year repayment term. Principal and interest will not be due until one year from the completion of the rehabilitation projects. As of June 30, 2018, the District's share is \$378,367. An amortization schedule is not yet available for the amounts drawn to date.

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2018**

(7) Long-term Debt, continued

Due to Other Governments, continued

State Water Resources Control Board – La Sierra Project

On April 17, 2015, the District entered into an agreement with the State Water Resources Control Board for a Clean Water State Revolving Fund Loan to finance the construction of the La Sierra Project. The maximum loan amount is \$24,000,000 with interest at 1.5%. The District’s annual repayment, including principal and interest, is projected to be \$999,341, should the loan amount be fully utilized. The repayment term is 30 years beginning one year after construction is completed. The District is in negotiations with the Clean Water State Revolving Fund Loan to increase the loan commitment from \$24 million to \$36 million. Total proceeds from the loan were \$1,576,347 as of June 30, 2018.

The loan with the State Water Resources Control Board contains 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, 2018, the future annual maturities of the District’s obligation are as follows:

Fiscal Year	Principal	Interest	Total
2019	\$ -	\$ -	-
2020	41,993	23,645	65,638
2021	42,623	23,015	65,638
2022	43,262	22,376	65,638
2023	43,911	21,727	65,638
2024-2028	229,633	98,556	328,189
2029-2033	247,380	80,809	328,189
2034-2038	266,499	61,690	328,189
2039-2043	287,095	41,094	328,189
2044-2048	309,283	18,906	328,189
2049-2053	64,668	970	65,638
Total	1,576,347	\$ 392,788	\$ 1,969,135
Less current portion	-		
Total non-current	\$ 1,576,347		

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2018

(7) Long-term Debt, continued

Bonds Payable

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, which are outstanding as of June 30, 2018 in the amount of \$3,535,000. 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.

As of June 30, 2018, the future annual maturities of the District's obligation are as follows:

Years Ending June 30,	Fixed-Rate Bonds		Total
	Principal	Interest	
2019	\$ 1,125,000	\$ 153,200	\$ 1,278,200
2020	1,180,000	108,200	1,288,200
2021	1,230,000	49,200	1,279,200
Total	3,535,000	\$ 310,600	\$ 3,845,600
Less current portion	(1,125,000)		
Total non-current	\$ 2,410,000		

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 an original issue discount of \$255,745, outstanding as of June 30, 2018 in the amount of \$42,755,000, to finance the acquisition and construction of certain water and wastewater facilities, such as the expansion of the Western Water Recycling Facility. 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 up 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, 2018

(7) Long-term Debt, continued

Bonds Payable, continued

2010 Series B Bonds, continued

As of June 30, 2018, the future annual maturities of the District's obligation are as follows:

Years Ending June 30,	Fixed-Rate Bonds		Total
	Principal	Interest	
2019	\$ -	\$ 2,630,711	\$ 2,630,711
2020	-	2,630,711	2,630,711
2021	-	2,630,711	2,630,711
2022	1,270,000	2,630,711	3,900,711
2023	1,310,000	2,573,205	3,883,205
2024-2028	7,235,000	11,786,341	19,021,341
2029-2033	8,745,000	9,444,249	18,189,249
2034-2038	10,655,000	6,506,993	17,161,993
2039-2044	13,540,000	2,166,854	15,706,854
Total	42,755,000	\$ 43,000,486	\$ 85,755,486
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 refunded bonds were fully redeemed.

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 2022 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 information on an interest-rate swap agreement associated with these bonds.

Scheduled principal maturities of \$33,900,000 occurring between fiscal year 2024 - 2043, along with any accrued interest, would be due in fiscal year 2023 should the underlying credit facility, which matures in October 2022, not be 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, 2018**

(7) Long-term Debt, continued

Bonds Payable, continued

2012 Series A Bonds, continued

As of June 30, 2018, 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:

Years Ending June 30,	Variable-Rate Bonds		Total
	Principal	Interest ⁽¹⁾	
2019	\$ 1,550,000	\$ 1,148,038	\$ 2,698,038
2020	1,610,000	1,105,955	2,715,955
2021	1,675,000	1,062,244	2,737,244
2022	1,740,000	1,016,768	2,756,768
2023	1,810,000	969,527	2,779,527
2024-2028	10,160,000	4,071,686	14,231,686
2029-2033	12,315,000	2,579,522	14,894,522
2034-2038	-	1,550,944	1,550,944
2039-2043	11,425,000	1,309,309	12,734,309
Total	42,285,000	\$ 14,813,993	\$ 57,098,993
Less current portion	(1,550,000)		
Total non-current	\$ 40,735,000		

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

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2018

(7) Long-term Debt, continued

Bonds Payable, continued

2016 Series A Bonds

In January 2016, the Authority issued \$51,975,000 of 2016 Series A Adjustable Rate Water Revenue Refunding Bonds (2016 Series A) to refund the District's 2009 Series B Water Revenue Bonds (2009 Series B).

The bonds were issued to provide funds to advance refund in full the Authority's Water Revenue Bonds, 2009 Series B, delivered in the initial payment amount of \$54,340,000, of which \$49,695,000 is to cover the principal as they mature and to pay certain costs of issuance of the Bonds. The outstanding balance of the refunded bonds that still needs to be redeemed from the escrow account as of June 30, 2018 is \$48,205,000. Consequently, the 2009 Series B bonds were considered defeased and were removed from the financial statements. The bonds will be initially issued in the long-term rate and bear interest at 1.50% per annum through mandatory tender on October 1, 2020. Upon mandatory tender, the District will reissue the bonds at either variable or fixed rates. As of June 30, 2018, the future annual maturities of the District's obligation are estimated as follows:

Years Ending June 30,	Variable-Rate Bonds		Total
	Principal	Interest ⁽¹⁾	
2019	\$ -	\$ 779,625	\$ 779,625
2020	-	779,625	779,625
2021	-	779,625	779,625
2022	1,020,000	2,079,000	3,099,000
2023	1,060,000	2,038,200	3,098,200
2024-2028	6,025,000	9,516,600	15,541,600
2029-2033	7,515,000	8,200,600	15,715,600
2034-2038	24,695,000	5,389,400	30,084,400
2039-2043	11,660,000	705,200	12,365,200
Total	51,975,000	\$ 30,267,875	\$ 82,242,875
Less current portion	-	-	-
Total non-current	\$ 51,975,000		

⁽¹⁾ Assuming a 4% fixed interest rate upon reissue.

Note Payable – Headquarters Building

In July 2016, the District refinanced the original unsecured financing in September 2009 for the acquisition and development of its headquarter building. Along with this refinance, the District borrowed another \$8 million to accommodate the cash needs for certain capital projects. Terms of the note provide that the District is to make semiannual payments of \$700,546, including interest, through April 2026. The District made the first payment on October 1, 2016. The note has a stated interest rate of 2.27%.

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2018

(7) Long-term Debt, continued

Note Payable – Headquarters Building, continued

As of June 30, 2018, the future annual maturities of the District’s obligation are as follows:

Fiscal Year	Principal	Interest	Total
2019	\$ 1,176,252	\$ 224,839	\$ 1,401,091
2020	1,203,105	197,987	1,401,092
2021	1,230,570	170,521	1,401,091
2022	1,258,663	142,429	1,401,092
2023	1,287,396	113,695	1,401,091
2024-2026	4,041,226	162,047	4,203,273
Total	10,197,212	\$ 1,011,518	\$ 11,208,730
Less current portion	(1,176,252)		
Total non-current	\$ 9,020,960		

Lease Payable – Vehicle Leases

In August 2016, the District began leasing certain vehicles used in District operations under leases classified as capital leases. The vehicles are leased for five-year terms. The following is a schedule showing future minimum lease payments.

Fiscal Year	Minimum Lease Payments
2019	\$ 316,837
2020	328,845
2021	328,845
2022	339,879
2023	165,622
2024	12,006
Total	1,492,034
Less amount representing interest	(210,700)
Present value of minimum lease payments	\$ 1,281,334

At June 30, 2018, the present value of minimum lease payments due within one year is \$232,236.

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2018

(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.

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

<u>Description</u>	<u>Summary of Swap Payment Terms District</u>	<u>Counterparty</u>
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 October 1	Annually on October 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 position. To evaluate the effectiveness of the swap, the Synthetic Instrument Method (SIM) prescribed by GASB Statement No. 53 was employed for the fiscal year ended June 30, 2018. The resulting analyses reveal the swap is effective as a hedging instrument for the fiscal year.

The fair value or marked-to-market value of the swap (imputed at a market rate of 1.424%) as of June 30, 2018 is \$1,962,486, which is the amount the District would be owed as of this date should the swap be terminated. The increase in fair value by \$1,403,792 results in an increase in deferred swap inflow for the year ended June 30, 2018.

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2018

(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, 2018 against their threshold rating for termination:

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

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 year ended June 30, 2018, the District's 2012 Series A Bonds, which are hedged by the amended swap, had a weighted-average variable rate of 1.01%. Over the same period, the weighted average of 67% of one-month LIBOR was 1.04%. Therefore, the District's basis gain over this period was approximately 0.03%. As of June 30, 2018, the current rate on the 2012 Series A Bonds was 1.12%, and the current rate of 67% of one-month USD LIBOR was 1.40%, resulting in a basis gain of 0.28% for the District.

Termination Risk

The swap may be terminated by the District or its counterparty if the other party fails to perform under the terms of the contract. If, at the time of termination, the swap is in a liability position, the District would be obligated to pay the counterparty the liability position. The District has established policies to limit its termination liability payment risk to a predetermined percentage of its available reserves. The swap termination value at June 30, 2018 was within these limits.

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2018**

(9) Net Investment in Capital Assets

The balance at June 30 consists of the following:

	2018
Capital assets not being depreciated	\$ 133,589,393
Capital assets being depreciated, net	273,202,029
Due to other governmental agencies	(11,987,141)
Bonds payable	(122,955,188)
Notes payable	(7,601,494)
Net investment in capital assets	\$ 264,247,599

(10) Defined Benefit Pension Plan

A. General Information about the Pension Plan

Plan Descriptions

The Public Agency Cost-Sharing, Multiple-Employer Defined Benefit Pension Plan (Plan) is a cost-sharing, multiple-employer defined benefit pension plan administered by CalPERS. A full description of the pension plan regarding number of employees covered, benefit provisions, assumptions (for funding, but not accounting purposes), and membership information are listed in the June 30, 2016 Annual Actuarial Valuation Reports. Details of the benefits provided can be obtained in Appendix B of the actuarial valuation reports. The actuarial valuation reports and CalPERS' audited financial statements are publicly available reports that can be obtained from CalPERS' website under Forms and Publications at www.calpers.ca.gov.

All qualified permanent and probationary employees are eligible to participate in the Plan, administered by CalPERS. The Plan consists of individual rate plans (benefit tiers) within a safety risk pool (police and fire) and a miscellaneous risk pool (all other). Plan assets may be used to pay benefits for any employer rate plan of the safety and miscellaneous pools. Accordingly, rate plans within the safety or miscellaneous pools are not separate plans under GASB Statement No. 68. Individual employers may sponsor more than one rate plan in the miscellaneous or safety risk pools. The District sponsors three rate plans under the miscellaneous risk pool: Miscellaneous rate plan, Miscellaneous Second Tier rate plan and PEPRA Miscellaneous rate plan. Benefit provisions under the Plan are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost-of-living adjustments and death benefits to Plan members who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 50 (52 for the PEPRA Miscellaneous rate plan) with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost-of-living adjustments for the Plan are applied as specified by the Public Employees' Retirement Law.

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2018**

(10) Defined Benefit Pension Plan, continued

A. General Information about the Pension Plan, continued

Benefits Provided, continued

The Plan operates under the provisions of the California Public Employees' Retirement Law (PERL), the California Public Employees' Pension Reform Act of 2013 (PEPRA), and the regulations, procedures and policies adopted by the CalPERS Board of Administration. The Plan's authority to establish and amend the benefit terms are set by the PERL and PEPRA, and may be amended by the California state legislature and in some cases require approval by the CalPERS Board.

District-sponsored rate plans' provisions and benefits in effect at June 30, 2018 are summarized as follows:

	Miscellaneous Rate Plan	Miscellaneous Second Tier Rate Plan	PEPRA Miscellaneous Rate Plan
	Prior to January 1, 2013	On or after January 1, 2013	On or after January 1, 2013
Hire date	Prior to January 1, 2013	On or after January 1, 2013	On or after January 1, 2013
Benefit formula	2.5 % @ 55	2% @ 55	2% @ 62
Benefit vesting schedule	5 years' service	5 years' service	5 years' service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 - 55	50 - 63	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.426% to 2.418%	1.0% to 2.5%
Required employee contribution rates	8%	7%	6.25%
Required employer contribution rates	10.110%	8.418%	6.533%
Unfunded liability lump-sum payments	\$ 768,843	\$50	\$375

Contributions

Section 20814(c) of PERL requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. For the public agency cost-sharing plan covered by either the miscellaneous or safety risk pools, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2017 (the measurement date), and reporting period ended June 30, 2018, the average active employee contribution rates for the respective District-sponsored Miscellaneous Rate Plan, Miscellaneous Second Tier Rate Plan and PEPRA Miscellaneous Rate Plan are 8%, 7% and 6.25% of annual pay, and the respective employer's contribution rates are 10.069%, 8.377% and 6.555% of annual payroll plus a lump-sum payment of \$637,669. Employer contribution rates may change if plan contracts are amended. Employer Contributions made by the District to the Plan for the measurement period ended June 30, 2017 are \$1,785,348.

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2018**

(10) Defined Benefit Pension Plan, continued

B. Net Pension Liability/(Asset)

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

The net pension liability/(asset) for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability/(asset) of the Plan is measured as of June 30, 2017, using an annual actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability/(asset) is as follows.

For the measurement period ended June 30, 2017 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2016 total pension liability. The June 30, 2017 total pension liabilities were based on the following actuarial methods and assumptions:

	<u>Miscellaneous Plan</u>
Valuation date	June 30, 2016
Measurement date	June 30, 2017
Actuarial cost method	Entry Age Normal
Asset valuation method	Market Value of Assets
Actuarial assumptions:	
Inflation	2.75%
Salary increases	Varies by Category, Entry Age and Duration of Service
Financial reporting discount rate	7.15%
Retirement age	The probabilities of retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.
Mortality	The mortality table used was developed based on CalPERS-specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the April 2014 experience study report (based on CalPERS demographic data from 1997 to 2011) available online at https://www.calpers.ca.gov/docs/forms-publications/calpers-experience-study-2014.pdf .
Post-retirement benefit increase	Contract COLA up to 2.75% until Purchasing Power Protection (PPPA) floor on purchasing power applies, 2.75% thereafter.

In fiscal year 2016-2017, the financial reporting discount rate for the Plan was lowered from 7.65% to 7.15%. Deferred outflows of resources for changes of assumptions presented in the financial statements represent the unamortized portion of this assumption change.

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2018

(10) Defined Benefit Pension Plan, continued

B. Net Pension Liability/(Asset), continued

Discount Rate

The discount rate used by CalPERS to measure the total pension liability was 7.15% and reflects the long-term expected rate of return for the Plan net of investment expenses and without reduction for administrative expenses. To determine whether the municipal bond rate should be used in the calculation of a discount rate for public agency plans (including PERF C), the amortization and smoothing periods recently adopted by the CalPERS Board in 2013 were used. For the Plan, the crossover test was performed for a miscellaneous agent plan and a safety agent plan selected as being more at risk of failing the crossover test and resulting in a discount rate that would be different from the long-term expected rate of return on pension investments. Based on the testing of the rate plans, the tests revealed assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for PERF C. The crossover test results can be found on CalPERS' website at <https://www.calpers.ca.gov/page/employers/actuarial-services/gasb>.

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

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

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2018**

(10) Defined Benefit Pension Plan, continued

B. Net Pension Liability/(Asset), continued

Discount Rate, continued

The following table reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1 - 10¹</u>	<u>Real Return Years 11+²</u>
Global equity	47.0%	4.90%	5.38%
Global debt securities	19.0%	0.80%	2.27%
Inflation assets	6.0%	0.60%	1.39%
Private equity	12.0%	6.60%	6.63%
Real estate	11.0%	2.80%	5.21%
Infrastructure and forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	(0.40)%	(0.90)%
Total	<u>100.0%</u>		

¹ An expected inflation of 2.5% used for this period

² An expected inflation of 3.0% used for this period

Pension Plan Fiduciary Net Position

Information about the pension plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position are presented in CalPERS' audited financial statements, which are publicly available reports that can be obtained from CalPERS' website under Forms and Publications, at www.calpers.ca.gov. The Plan's fiduciary net position and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis used by the pension plan, which is the economic resources measurement focus and the accrual basis of accounting. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Investments are reported at fair value.

The plan fiduciary net position disclosed in the GASB 68 accounting valuation report may differ from the plan assets reported in the funding actuarial valuation report due to several reasons. First, for the accounting valuations, CalPERS must keep items such as deficiency reserves, fiduciary self-insurance and OPEB expense included in fiduciary net position. These amounts are excluded for rate setting purposes in the funding actuarial valuation. In addition, differences may result from early Comprehensive Annual Financial Report closing and final reconciled reserves.

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2018**

(10) Defined Benefit Pension Plan, continued

C. Proportionate Share of Net Pension Liability

The following table shows the District's proportionate share of the net pension liability over the measurement period.

	Increase (Decrease)		
	District's Total Pension Liability (a)	District's Fiduciary Net Position (b)	District's Net Pension Liability (c) = (a) - (b)
Balance at: 6/30/2016 (MD)	\$ 62,988,422	\$ 47,253,866	\$ 15,734,556
Balance at: 6/30/2017 (MD)	71,505,876	53,080,708	18,425,168
Net Changes during 2016-17	8,517,454	5,826,842	2,690,612

MD = Measurement Date

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

	District Pension Plan
Proportionate Share - June 30, 2016	0.45294%
Proportionate Share - June 30, 2017	0.46740%
Change - Increase	0.01446%

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

The following presents the District's proportionate share of the net pension liability for the Plan as of the measurement date, calculated using the discount rate of 7.15%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage-point lower (6.15%) or one percentage-point higher (8.15%) than the current rate:

	Discount Rate - 1% (6.15)%	Current Discount Rate (7.15%)	Discount Rate + 1% (8.15)%
District's Net Pension Liability	\$ 28,260,579	\$ 18,425,168	\$ 10,279,303

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2018

(10) Defined Benefit Pension Plan, continued

C. Proportionate Share of Net Pension Liability, continued

Subsequent Events

On December 2017, the CalPERS' Board of Directors approved the new actuarial assumptions based on a recently completed experience study of CalPERS membership. The experience study resulted in several assumption changes including: mortality, retirement rates (service and disability), salary scale and inflation. The actual impact of the new assumptions on employer contribution requirements will be implemented in the June 30, 2017 actuarial valuation, which will set the employer contribution requirements effective on July 1, 2019.

The results of the experience study are described in detail in the 2017 experience study report, which can be found online at www.calpers.ca.gov.

Recognition of Gains and Losses

Under GASB 68, gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense.

The amortization period differs depending on the source of the gain or loss:

Difference between projected and actual earnings	5-year straight-line amortization
All other amounts	Straight-line amortization over the average expected remaining service lives of all members that are provided with benefits (active, inactive and retired) as of the beginning of the measurement period

The expected average remaining service lifetime (EARSL) is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired) in the Public Agency Cost-Sharing Multiple-Employer Plan (PERF C).

The EARSL for the PERF C for the June 30, 2017 measurement period is 3.8 years, which was obtained by dividing the total service years of 490,088 (the sum of remaining service lifetimes of the active employees) by 130,595 (the total number of participants: active, inactive, and retired). Inactive employees and retirees have remaining service lifetimes equal to zero. Total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2018**

(10) Defined Benefit Pension Plan, continued

D. Pension Expense/(Income) and Deferred Outflows and Deferred Inflows of Resources Related to Pensions

As of the start of the measurement period (July 1, 2016), the District's proportionate share of the Plan's net pension liability is \$15,734,556 (the net pension liability of the Miscellaneous Risk Pool as of June 30, 2016 is \$3,473,887,243).

For the measurement period ended June 30, 2017 (the measurement date), the District incurred pension expense of \$4,170,577 (the pension expense for the risk pool for the measurement period is \$719,747,608).

As of June 30, 2018, the District has deferred outflows and deferred inflows of resources related to pensions as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Experience	\$ 24,048	\$ (344,532)
Changes of Assumptions	2,983,786	(227,517)
Net Difference between Projected and Actual Earnings on Pension Plan Investments	674,809	-
Adjustment due to Differences in Proportions	1,149,169	(19,569)
Differences between the employer's contributions and the employer's proportionate share of contributions	18,482	(191,312)
Pension Contributions Subsequent to Measurement Date	2,029,535	-
Total	\$ 6,879,829	\$ (782,930)

These amounts above are net of outflows and inflow recognized in the 2016-17 measurement period expense. \$2,029,535 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the measurement period ended June 30, 2018. Amounts reported as deferred outflows and deferred inflows of resources related to pension will be recognized in future pension expense as follows:

Measurement Period Ended June 30:	Deferred Outflows/(Inflows) of Resources
2018	\$ 1,462,652
2019	1,854,326
2020	1,151,033
2021	(400,647)
2022	-
Thereafter	-

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2018**

(10) Defined Benefit Pension Plan, continued

E. Payable to the Pension Plan

At June 30, 2018, the District reported a payable of \$49,049 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2018.

(11) Other Post-Employment Benefits

A. General Information about the OPEB Plan

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 healthcare 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.

Benefits Provided

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

- a. Group 1 are classified and non-classified employees hired on or before December 18, 2002, who are at least 55 years old at retirement and have completed at least 10 years of service. The District provides medical benefits for the employee and spouse/registered domestic partner.
- b. Group 2 are classified and non-classified employees hired after December 18, 2002, who are at least 55 years old at retirement and have completed at least 10 years of service. The District provides medical benefits for the employee only.

Employees Covered

As of June 30, 2018, the following employees and former employees were covered by the benefit terms under the plan:

Inactive employees or beneficiaries currently receiving benefit payments	75
Active employees	143
Total	218

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2018**

(11) Other Post-Employment Benefits, continued

A. General Information about the OPEB Plan, continued

Funding Policy and Annual Cost

Contributions

The Medical Plan and its 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 actuarially determined contribution. For the fiscal year ended June 30, 2018, the District's cash contributions were \$708,338 in payments to the trust and the estimated implied subsidy was \$142,126, resulting in total payments of \$850,464.

B. Net OPEB Liability

The District's net OPEB liability was measured as of June 30, 2018 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated November 1, 2017 that was rolled forward to determine the June 30, 2018 total OPEB liability. A summary of the principal assumptions and methods used to determine the total OPEB liability is shown below.

Valuation Date	November 1, 2017
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.00%
Inflation	2.75%
Projected Salary Increase	3.00%
Expected long-term investment rate of return	7.00%
Healthcare Cost Trend Rates	7.50% per annum, decreasing 0.3% per year to an ultimate rate of 4.50% for fiscal year 2029 and later years
Pre-retirement Turnover	Derived from CalPERS pension plan
Mortality	Derived from CalPERS pension plan updated to reflect most recent experience study

The actuarial assumptions used in the November 1, 2017 valuation were based on a standard set of assumptions the actuary has used for similar valuations.

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2018**

(11) Other Post-Employment Benefits, continued

B. Net OPEB Liability, continued

The long-term expected rate of return was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan's target asset allocation as of June 30, 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity	59.0%	8.50%
Fixed Income	32.0%	3.20%
Real Estate	7.0%	6.70%
Other	2.0%	5.00%
Total	100.0%	

Discount Rate

The discount rate used to measure the total OPEB liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that District's contributions would be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the Medical Plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on the Medical Plan's investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2018**

(11) Other Post-Employment Benefits, continued

C. Changes in net OPEB Liability

The changes in the net OPEB liability are as follows:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
	(a)	(b)	(c) = (a) - (b)
Balance at June 30, 2017	\$ 15,241,758	\$ 15,169,561	\$ 72,197
Changes in the Year:			
Service cost	713,625	-	713,625
Interest on the total OPEB liability	1,049,476	-	1,049,476
Differences between actual and expected experience	1,544,082	-	1,544,082
Changes in assumptions	847,628	-	847,628
Change in benefit terms	-	-	-
Contribution - employer	-	708,338	(708,338)
Contribution - retiree	36,511	36,511	-
Net investment income	-	1,265,227	(1,265,227)
Administrative expenses	-	(27,625)	27,625
Benefit payments	(498,497)	(498,497)	-
Net Changes	<u>3,692,825</u>	<u>1,483,954</u>	<u>2,208,871</u>
Balance as of June 30, 2018 (Measurement Date)	<u>\$ 18,934,583</u>	<u>\$ 16,653,515</u>	<u>\$ 2,281,068</u>

Change in Assumptions

Actuarial assumptions that changed since the last measurement date include updated annual medical per capita costs based on updated premium and census data, and participation was updated to assume that all PPO plan participants would elect the PPO 200 plan upon retirement.

Change in Benefit Terms

There were no changes of benefit terms.

Subsequent Events

There were no subsequent events that would materially affect the results presented in this disclosure.

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2018**

(11) Other Post-Employment Benefits, continued

C. Changes in net OPEB Liability, continued

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a different rate that is one percentage-point lower (6.0%) or one percentage-point higher (8.0%) than the current discount rate:

	1% Decrease (6.0)%	Discount Rate (7.0)%	1% Increase (8.0)%
Net OPEB Liability	\$ 5,031,284	\$ 2,281,068	\$ 22,471

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following represents the net OPEB liability of the District, as well as the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage-point lower (6.5%) or one percentage-point higher (7.5%) than the current healthcare cost trend rates:

	1% Decrease (6.50)%	Current Healthcare Cost Trend Rates (7.50)%	1% Increase (8.50)%
Net OPEB Liability (Asset)	\$ (373,681)	\$ 2,281,068	\$ 5,605,535

For the year ended June 30, 2018, the District recognized OPEB expense of \$788,217. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

D. OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Differences between Actual and Expected Experience	\$ 1,388,114	\$ (70,971)
Change of Assumptions	762,009	-
Net differences between Projected and Actual Earnings on OPEB Plan Investments	-	(449,062)
Total	\$ 2,150,123	\$ (520,033)

The net difference between projected and actual earnings on plan investments is amortized over a five-year period. The differences between actual and expected experience and change in assumptions are amortized over the expected average remaining service life. The expected average remaining service life for the 2017-18 measurement period is 9.9 years.

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2018

(11) Other Post-Employment Benefits, continued

D. OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB, continued

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

Years Ending June 30,	Amount
2019	\$ 94,330
2020	94,330
2021	94,330
2022	199,114
2023	232,792
Thereafter	915,194
Total	<u>\$ 1,630,090</u>

E. Payable to the OPEB Plan

At June 30, 2018 the District had no outstanding amount of contributions to the OPEB plan required for the year ended June 30, 2018.

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2018

(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 role of the ACWA/JPIA is to arrange and administer pooled coverage programs where loss is retained and shared among its member agencies, and to purchase excess or specialty-insurance coverage above retained limits. At June 30, 2018, the District participated in the liability, property, and workers compensation programs of the ACWA/JPIA as follows:

- General, auto, and errors and omissions liability coverage up to the ACWA/JPIA pooled self-insured limits of \$5,000,000 per occurrence. ACWA/JPIA purchased additional excess coverage layers, which increases the coverage limits to \$60,000,000 per occurrence limited to one occurrence. Claims under \$30,000,000 have no aggregate limit.
- Employee dishonesty coverage up to \$1,100,000, which includes public employee dishonesty, forgery or alteration and computer fraud, with a \$1,000 deductible.
- Property loss is paid at the replacement cost for property on file, if replaced within two years after the loss, and otherwise paid on an actual cash value basis, to a combined total of \$500 million, subject to a deductible that generally ranges from \$25,000 to \$50,000 depending on the type of property.
- Workers' compensation insurance up to the ACWA/JPIA pooled self-insured limit 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 year ended June 30, 2018.

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2018**

(13) Commitments and Contingencies

Joint Ventures

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

Chino Basin Desalter Authority

The District joined the Chino Basin Desalter Authority (CDA) in November 2008 and became a voting member of the CDA on September 22, 2011 through a facility buy-in contribution of \$3,163,712. Working in partnership with two CDA partners, the City of Ontario and Jurupa Community Services District (JCSD), 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 JCSD will be responsible for funding the remaining cost of the \$154 million, net of grants, project. The District's total share of the project is expected to be \$67 million, excluding the District's internal costs and capitalized interest, reduced by \$33 million in grant funding, for a net cost of \$34 million. The District's share of cost incurred to date, including the District's internal costs and capitalized interest, is \$71.3 million as of June 30, 2018. 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 of 3,534 acre-feet of water annually will be recognized upon completion.

Separate financial statements may be obtained at the Chino Basin Desalter Authority, 2151 S. Haven Avenue, Suite 202, Ontario, CA 91761.

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

	2018
Total assets	\$ 283,024,822
Total deferred outflows of resources	\$ 4,321,309
Total liabilities	\$ 87,735,680
Total net position	\$ 199,610,451
Total revenues	\$ 54,276,218
Total expenses	(50,272,574)
Change in net position	\$ 4,003,644

Western Riverside County Regional Wastewater Authority

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

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2018**

(13) Commitments and Contingencies, continued

Joint Ventures, continued

Western Riverside County Regional Wastewater Authority, continued

The five-member agencies are the Home Gardens Sanitary District, the District, the City of Norco, the City of Corona and JCSD. 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 a tertiary wastewater treatment plant in Riverside County. In 2018, WRCRWA completed an expansion of the plant from an 8.0 MGD to a 14.0 MGD treatment capacity. The member agencies support the operating costs and capital costs through fixed and variable rates established by WRCRWA's Board of Directors. At June 30, 2018, the carrying value of the District's capacity rights in WRCRWA is \$8.6 million, net of accumulated amortization. The capacity rights in WRCRWA are being amortized over the term of the WRCRWA joint powers of agreement.

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

Member Agencies	MGD
Western Municipal Water District	1.93
Jurupa Community Services District	6.00
City of Norco	2.70
Home Gardens Sanitary District	1.00
City of Corona	2.37
	14.00

The recent plant expansion is financed by all member agencies, which includes a portion by the District, for certain expenses that primarily deal with odor control. The District's participation in the plant expansion did not result in additional allocated capacity to the District. The table above reflects plant capacity among the member agencies as a result of the plant expansion.

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

	2018
Total assets	\$ 120,305,115
Total liabilities	\$ 74,114,895
Total deferred inflow of resources	\$ 350,000
Total net position	\$ 45,840,220
Total revenues	\$ 8,538,757
Total expenses	(8,714,013)
Change in net position	\$ (175,256)

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2018**

(13) Commitments and Contingencies, continued

Joint Ventures, continued

Western Riverside County Regional Wastewater Authority, 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.

Santa Ana Watershed Project Authority

SAWPA was formed under a joint exercise of power agreement for the purpose of undertaking projects for water quality control and protection in the Santa Ana River Watershed. SAWPA is composed of five water agencies within the watershed area: Eastern Municipal Water District, Orange County Water District, San Bernardino Valley Municipal Water District, Western Municipal Water District and the Inland Empire Utilities Agencies. Each participating agency appoints two commissioners to SAWPA to form an oversight committee of 10. Equal contributions are made by each member agency for administration and contributions based on capacity use rights for project agreements under which capital construction is accomplished. Special projects or studies are funded by contributions based on the general or specific nature of the project or study. The District's participation in SAWPA is accounted for as a joint venture without an equity interest. At June 30, 2018, the carrying value of the District's capacity rights in SAWPA is \$18.0 million. The capacity rights in SAWPA were determined to have an indefinite useful life and are not being amortized. Financial data may be obtained at Santa Ana Watershed Project Authority, 11615 Sterling Avenue, Riverside, CA 92503.

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

	2018
Total assets	\$ 180,493,945
Total deferred outflow of resources	\$ 1,621,887
Total liabilities	\$ 113,110,530
Total deferred inflow of resources	\$ 318,374
Total net position	\$ 68,686,928
Total revenues	\$ 24,346,249
Total expenses	(25,130,136)
Change in net position	\$ (783,887)

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2018

(13) Commitments and Contingencies, continued

Joint Ventures, continued

Santa Rosa Regional Resources Authority

SRRRA was formed under a joint exercise of power agreement 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.

SRRRA comprises three-member agencies: Elsinore Valley Municipal Water District, Rancho California Water District, and Western Municipal Water District. SRRRA is governed by a three-member Board of Directors. The District's participation is accounted for as a joint venture without an equity interest.

In 2018, SRRRA completed the acquisition of SRWRF, a 5.0 MGD secondary and tertiary plant, from Rancho California Water District. Wastewater flows in SRRRA's service area are treated at the SRWRF. At June 30, 2018, the carrying value of the District's capacity rights in SRRRA are \$10.5 million. Financial data may be obtained at Rancho California Water District, 42135 Winchester Road, Temecula, CA 92590.

Financial information for the operation of SRRRA for the fiscal year ended June 30 is as follows:

	2018
Total assets	\$ 61,965,440
Total liabilities	\$ 59,797,548
Total net position	\$ 2,167,892
Total revenues	\$ 10,769,476
Total expenses	(9,076,141)
Change in net position	\$ 1,693,335

Construction Contracts

The District has committed to \$24,638,349 in open construction contracts as of June 30, 2018. These include:

Project	Approved Contract	Payments To Date	Remaining Commitment
La Sierra Pipeline and Pump Station Project	\$ 29,125,744	\$ 12,450,998	\$ 16,674,746
Arlington Basin Recharge Project	5,150,351	63,829	5,086,522
Meter Replacement Project	3,724,792	1,693,211	2,031,581
Markham Sewer Lift Station Upgrades Project	845,500	-	845,500
Total	\$ 38,846,387	\$ 14,208,038	\$ 24,638,349

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2018

(13) Commitments and Contingencies, continued

General Litigation

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

(14) Implementation of New Accounting Principles

GASB Statement No. 75

The GASB has issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Among other things, Statement 75 requires governments to report a liability on the face of the financial statements for the OPEB that they provide and requires governments in all types of OPEB plans to present more extensive note disclosures and requires supplementary information about their OPEB liabilities.

As a result of implementing this Statement, net OPEB liability of \$2,281,068, deferred outflow of resources of \$2,150,123, and deferred inflow of resources of \$520,033 were recognized, resulting in a decrease in net position by \$571,099 at July 1, 2017. In addition, an increase of OPEB expense in the amount of \$79,879 was recognized in the statement of revenues, expenses and changes in net position in fiscal year 2018. Refer to Note 11 for additional information.

GASB Statement No. 82

The GASB has issued Statement No. 82, *Pension Issues—An Amendment of GASB Statement Nos. 67, 68 and 73*. This Statement addresses issues regarding 1) the presentation of payroll-related measures in required supplementary information, 2) the selection of assumptions and the treatment of deviations from the guidance in Actuarial Standard of Practice for financial reporting purposes, and 3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for fiscal years beginning after June 15, 2017. The implementation of this Statement did not have a significant impact on the District.

GASB Statement No. 85

The GASB has issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics, including issues related to blending component units, goodwill, fair value measurement and application, and post-employment benefits. The requirements of this Statement are effective for fiscal years beginning after June 15, 2017. The implementation of this Statement did not have a significant impact on the District.

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2018

(14) Implementation of New Accounting Principles, continued

GASB Statement No. 86

The GASB has issued Statement No. 86, *Certain Debt Extinguishment Issues*. The objective of this Statement is to provide consistency in accounting and financial reporting for certain debt extinguishments and to enhance the decision-usefulness of that information. The requirements of this Statement are effective for fiscal years beginning after June 15, 2017. The implementation of this Statement did not have an impact on the District.

(15) GASB Statements Issued, Not Yet Effective

GASB Statement No. 83

The GASB has issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. The impact of the implementation of this Statement on the District's financial statements has not been assessed at this time.

GASB Statement No. 84

The GASB has issued Statement No. 84, *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on 1) whether a government is controlling the assets of the fiduciary activity and 2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. The impact of the implementation of this Statement on the District's financial statements has not been assessed at this time.

GASB Statement No. 87

The GASB has issued Statement No. 87, *Leases*. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease liability and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The impact of the implementation of this Statement on the District's financial statements has not been assessed at this time.

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2018

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

GASB Statement No. 88

The GASB has issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. The impact of the implementation of this Statement on the District's financial statements has not been assessed at this time.

GASB Statement No. 89

The GASB has issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objectives of this Statement are to (1) enhance the relevance and comparability of information about capital assets and cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The District will early-implement this Statement beginning with the fiscal year ending June 30, 2019 and will no longer treat construction-period interest cost as part of the historical cost of constructing a capital asset.

GASB Statement No. 90

The GASB has issued Statement No. 90, *Majority Equity Interests - An Amendment of GASB No. 14 and No. 61*. The objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. The impact of the implementation of this Statement on the District's financial statements has not been assessed at this time.

(16) Subsequent Events

Events occurring after June 30, 2018 have been evaluated for potential recognition or disclosure through December 7, 2018, which is the date the financial statements were available to be issued.

Required Supplementary Information

**Western Municipal Water District
Required Supplementary Information
June 30, 2018**

*Schedule of the District's Proportionate Share of the Plan's Net Pension Liability and
Related Ratios as of the Measurement Date
Last 10 Years**

	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>6/30/2015</u>	<u>6/30/2014</u>
District's Proportion of the Net Pension Liability	0.18579%	0.18184%	0.18016%	0.14943%
District's Proportionate Share of the Net Pension Liability	\$ 18,425,168	\$ 15,734,556	\$ 12,365,976	\$ 9,298,222
District's Covered Payroll ¹	\$ 12,875,107	\$ 12,276,411	\$ 11,614,001	\$ 10,944,715
District's Proportionate Share of the Net Pension Liability as a percentage of its Covered Payroll	143.11%	128.17%	106.47%	85.38%
District's Share of Risk Pool Fiduciary Net Position	\$ 53,080,708	\$ 47,253,866	\$ 46,203,551	\$ 45,687,606
District's Additional Payments to Side Fund During Measurement Period	\$ -	\$ -	\$ -	\$ -
District's Proportionate Share of the Fiduciary Net Position (sum of the two preceding lines)	\$ 53,080,708	\$ 47,253,866	\$ 46,203,551	\$ 45,687,606
District's Proportionate Share of the Fiduciary Net Position as a percentage of the Plan's Total Pension Liability	74.23%	75.02%	78.89%	83.09%
District's Proportionate Share of Aggregate Employer Contributions ²	\$ 2,008,382	\$ 1,759,697	\$ 1,598,220	\$ 1,235,468

¹ Covered Payroll represented above is based on the total pensionable payroll of employees in accordance with GASB 82.

² The District's proportionate share of aggregate contributions may not match the actual contributions made by the employer during the Measurement Period. The District's proportionate share of aggregate contributions is based on the District's proportion of Fiduciary Net Position shown on the table above as well as any additional side fund (or unfunded liability) contributions made by the employer during the measurement period.

* Measurement period 2016-17 (fiscal year 2017-18) was the fourth year of implementation; therefore, only four years are shown.

**Western Municipal Water District
Required Supplementary Information
June 30, 2018**

*Schedule of Plan Contributions
Last 10 Years**

	Fiscal Year 2017-18	Fiscal Year 2016-17	Fiscal Year 2015-16	Fiscal Year 2014-15
Actuarially Determined Contribution	\$ 2,029,535	\$ 1,785,348	\$ 1,700,996	\$ 1,686,011
Contributions in Relation to the Actuarially Determined Contribution	<u>(2,029,535)</u>	<u>(1,785,348)</u>	<u>(1,700,996)</u>	<u>(1,686,011)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 Covered Payroll ¹	 \$ 13,685,044	 \$ 12,875,107	 \$ 12,276,411	 \$ 11,614,001
 Contributions as a Percentage of Covered Payroll	 14.83%	 13.87%	 13.86%	 14.52%

¹ Covered Payroll represented above is based on the total pensionable payroll of employees in accordance with GASB 82.

* Measurement period 2016-17 (fiscal year 2017-18) was the fourth year of implementation; therefore, only four years are shown.

Notes to Schedule:

Change in Benefit Terms: None

Change in Assumptions: None

**Western Municipal Water District
Required Supplementary Information
June 30, 2018**

*Schedule of Changes in Net Other Post-Employment Benefits Liability and Related Ratios
Last 10 Years**

Total OPEB Liability	2018
Service cost	\$ 713,625
Interest	1,049,476
Differences between expected and actual experience	1,544,082
Changes in assumptions	847,628
Contributions - retiree	36,511
Benefit payments	<u>(498,497)</u>
Net change in total OPEB liability	3,692,825
Total OPEB liability - beginning	<u>15,241,758</u>
Total OPEB liability - ending (a)	<u>18,934,583</u>
 Plan Fiduciary Net Position	
Contributions - employer	708,338
Contributions - retiree	36,511
Net investment income	1,265,227
Benefit payments	(498,497)
Administrative expense	<u>(27,625)</u>
Net change in plan fiduciary net position	1,483,954
Plan fiduciary net position - beginning	<u>15,169,561</u>
Plan fiduciary net position - ending (b)	<u>16,653,515</u>
 Net OPEB Liability (a) - (b)	 <u>\$ 2,281,068</u>
 Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	
	87.95%
Covered-employee Payroll	\$ 14,663,027
 Net OPEB Liability as a Percentage of Covered-employee Payroll	 15.56%

* Fiscal year 2017-18 was the first year of implementation; therefore, only one year is shown.

Benefit Changes

There were no benefit changes during fiscal year 2018.

Changes of Assumptions

Trend rates for annual medical per capita costs were reset and developed based on updated premium rates and census data. Participation was updated to assume that all PPO plan participants will elect the PPO 200 plan upon retirement.

**Western Municipal Water District
Required Supplementary Information
June 30, 2018**

*Schedule of Contributions
Last 10 Years**

	2018
Actuarially Determined Contribution	\$ 708,338
Actual Employer Contribution	708,338
Contribution Deficiency (Excess)	\$ -
 Covered-employee payroll	 \$ 14,663,027
 Contributions as a percentage of covered-employee payroll	 4.83%

*Fiscal year 2017-18 was the first year of implementation; therefore, only one year is shown.

Methods and assumptions used to determine contributions

Actuarial cost method	Entry age normal
Asset valuation method	Fair value of assets
Discount rate	7.00%
Inflation	2.75%
Projected salary increase	3.00%
Investment rate of return	7.00%
Healthcare cost trend rates	7.50% per annum, decreasing 0.3% per year to an ultimate rate of 4.50% for fiscal year 2029 and later years
Retirement age	55 years
Mortality	Derived from CalPERS pension plan updated to reflect most recent experience study

Statistical Section



Statistical Section

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

Contents

Financial Trends

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

Revenue Capacity

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

Debt Capacity

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

Demographic and Economic Information

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

Operating Information

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

TABLE I – NET POSITION BY COMPONENT
Last 10 Fiscal Years

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Net investment in capital assets	\$ 215,778,402 ⁽¹⁾	\$ 240,688,039	\$ 235,918,546	\$ 232,667,339	\$ 226,413,476	\$ 246,394,006	\$ 245,674,302	\$ 245,988,252	\$ 252,235,082	\$ 264,247,599
Restricted for debt service	144,619	144,619	144,619	144,619	144,619	144,619	144,619	-	-	-
Restricted for capacity charges	28,974,102	29,118,573	26,151,035	23,298,893	23,697,955	24,525,261	25,480,723	26,101,407	8,748,405	12,425,740
Unrestricted	<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>	<u>80,291,581</u>	<u>86,965,126</u>	<u>113,132,995</u>	<u>121,760,230</u>
Total Net Position	<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> ⁽²⁾	<u>\$ 351,591,225</u>	<u>\$ 359,054,785</u> ⁽³⁾	<u>\$ 374,116,482</u> ⁽⁴⁾	<u>\$ 398,433,569</u>
Percentage Increase (Decrease)	5%	7%	0%	0%	-1%	4%	-2%	2%	4%	6%

⁽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.

⁽³⁾ Fiscal year 2015 balance reflects the cumulative effect of the implementation of GASB Statement No. 68.

⁽⁴⁾ Fiscal year 2017 balance reflects the cumulative effect of the implementation of GASB Statement No. 75.

Source: Western Municipal Water District

TABLE II – CHANGES IN NET POSITION
Last 10 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
2018	\$ 118,267,870	\$ 135,533,916	\$ (17,266,046)	\$ 22,692,961	\$ 5,426,915	\$ 18,890,172	\$ 24,317,087
2017	104,189,580	121,746,937	(17,557,357)	16,973,881	(583,476)	16,216,272	15,632,796
2016	95,250,268	111,085,922	(15,835,654)	18,293,873	2,458,219	5,005,341	7,463,560
2015	100,092,156	116,186,587	(16,094,431)	15,511,338	(583,093)	5,139,531	4,556,438
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

⁽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 added facilities charges (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 SOURCES
(Excluding Capital Contributions and Special Items)
 Last 10 Fiscal Years

Fiscal Year	Operating Revenues						Non-Operating Revenues					Combined Revenues
	Water Sales	Water Service	Wastewater Disposal	Contractual Services	Other Operating	Total Operating Revenues	Property Taxes	Investment Earnings	Capacity Rights Sales	Other Non-Operating	Total Non-Operating Revenues	
2018	\$ 81,720,213	\$ 19,845,736	\$ 12,169,537	\$ 3,966,995	\$ 565,389	\$ 118,267,870	\$ 21,728,238	\$ (19,896)	\$ 41,426	\$ 6,961,562	⁽¹⁾ \$ 28,711,330	\$ 146,979,200
2017	70,698,068	17,355,249	11,512,039	4,007,195	617,029	104,189,580	20,053,770	(212,898)	1,548,535	1,880,972	23,270,379	127,459,959
2016	63,988,478	16,669,887	10,234,040	3,575,488	782,375	95,250,268	18,837,852	4,759,409	338,202	1,209,100	25,144,563	120,394,831
2015	69,533,191	16,841,065	10,292,222	2,501,677	923,401	100,091,556	18,266,670	2,221,947	414,280	1,939,874	22,842,771	122,934,327
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

⁽¹⁾ This line item includes the net gain on disposal of assets in the amount of \$2.5 million, while in prior years the District had a net loss on the disposal of assets and included this line item in Table IV - Expenses by Function.

Source: Western Municipal Water District

TABLE IV – EXPENSES BY FUNCTION
Last 10 Fiscal Years

Fiscal Year	Operating Expenses									Total Non-Operating Expenses ⁽⁴⁾	Combined Expenses
	Purchased Water	Pumping	Transmission & Distribution	Admin and General	Contractual Services	Depreciation and Amortization	Other	Wastewater Disposal	Total Operating		
2018	\$ 72,045,551	\$ 5,396,486	\$ 10,367,900	\$ 14,041,869	\$ 3,559,405	\$ 12,735,181	\$ 7,133,114	\$ 10,254,410	\$ 135,533,916	\$ 6,018,369	\$ 141,552,285
2017	62,906,377	4,943,515	9,361,842	11,064,591	3,508,952	12,722,189	6,493,358	10,746,113	121,746,937	6,296,498	128,043,435
2016	55,342,184	4,703,808	10,040,804	8,239,639	3,261,688	12,787,432	7,100,179	9,610,188	111,085,922	6,850,690	117,936,612
2015	60,519,291	4,327,789	8,019,861	11,671,604	2,413,961	12,904,209	7,297,502	9,032,370	116,186,587	7,331,433	123,518,020
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 ⁽³⁾	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 ⁽³⁾	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 ⁽²⁾	108,060,316
2009	51,655,168	3,727,019	5,611,231	11,328,694	2,742,866	7,035,161 ⁽¹⁾	6,992,836 ⁽¹⁾	8,074,817	97,167,792	3,708,899	100,876,691

⁽¹⁾ Balance has been retrospectively restated for the implementation of GASB Statement No. 51.

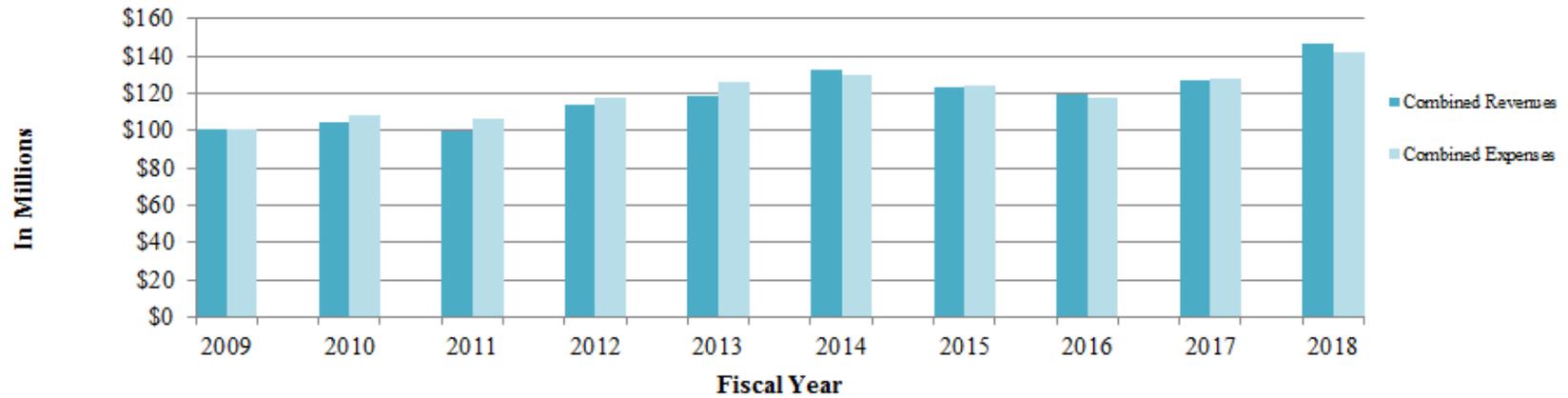
⁽²⁾ The significant increase in fiscal year 2010 is primarily due to a \$2.6 million greater interest expense resulting from the issuance of the District's 2010 Series A and Series B Revenue Bonds in May 2009.

⁽³⁾ Balance has been retrospectively restated for the implementation of GASB Statement No. 65.

⁽⁴⁾ Total Non-Operating Expenses include net gain or loss on disposal of assets, except for in fiscal year 2018, where the net gain of \$2.5 million was included as part of Other Non-Operating Revenues in Table III - Revenues By Sources.

Source: Western Municipal Water District

**CHART I – REVENUES AND EXPENSES
Last 10 Fiscal Years**



Note: Combined Revenues exclude Capital Contributions and Special Items.

TABLE V – WATER ACCOUNTS BY METER SIZE
Last 10 Fiscal Years

Fiscal Year	¾-Inch	1-Inch	1½-Inch	2-Inch	3-Inch	4-Inch	6-Inch	8-Inch & Greater	Total
2018	18,339	4,566	412	536	54	63	54	68	24,092
2017	18,237	4,452	401	542	52	63	52	68	23,867
2016	18,167	4,399	398	508	50	63	62	67	23,714
2015	18,161	4,377	397	501	54	61	49	73	23,673
2014	18,110	4,358	391	492	50	60	48	73	23,582
2013	18,016	4,348	383	480	50	59	47	72	23,455
2012	17,946	4,326	380	470	48	59	47	70	23,346
2011	17,891	4,312	378	459	46	59	47	67	23,259
2010	17,801	4,308	375	457	46	59	46	67	23,159
2009	17,806	4,320	391	500	51	76	60	72	23,276

Source: Western Municipal Water District

**TABLE VI – RETAIL WATER ACCOUNTS BY TYPE
AND RETAIL WASTEWATER ACCOUNTS**
Last 10 Fiscal Years

Fiscal Year	Water Accounts			Wastewater Accounts
	Domestic	Agriculture	Total	
2018	24,016	76	24,092	8,592
2017	23,791	76	23,867	8,480
2016	23,629	85	23,714	8,326
2015	23,584	89	23,673	8,303
2014	23,493	89	23,582	8,278
2013	23,367	88	23,455	8,232
2012	23,258	88	23,346	8,188
2011	23,171	88	23,259	8,149
2010	23,072	87	23,159	7,968
2009	23,131	145	23,276	7,935

Source: Western Municipal Water District

TABLE VII – WATER AND SEWER RATES
Last 10 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		
2018 ⁽³⁾	\$ 34.67	\$ 52.29	\$ 96.48	\$ 114.64	\$ 205.40	\$ 310.74	\$ 384.41	\$ 442.70	\$ 79.64	\$ 48.44
2017	26.38	42.66	85.34	105.67	128.02	148.31	168.65	190.99	79.10	46.37
2016	26.38	42.66	85.34	105.67	128.02	148.31	168.65	190.99	79.10	43.21
2015	26.38	42.66	85.34	105.67	128.02	148.31	168.65	190.99	79.10	41.15
2014	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

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. In 2018, an average customer with a ¾-inch water meter will pay \$114.31 per month (\$34.67 fixed + \$79.64 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, 2018 and October 1, 2018, respectively.

Source: Western Municipal Water District

TABLE VIII – PRINCIPAL RETAIL WATER CUSTOMERS

Fiscal Year Ended June 30, 2018 and Nine Years Prior

Fiscal Year 2017-2018

Customer Name	Water Deliveries in Acre-Feet	Percentage of Water Deliveries
Riverside National Cemetery	1,079	4.3%
Altman Plants	706	2.8%
Village Nurseries	579	2.3%
General Old Golf Course	378	1.5%
Air Force 452 Air Mobility Wing	371	1.5%
Riverside Unified School District	356	1.4%
City of Riverside	313	1.3%
Pepsi Cola Plant	313	1.3%
Air Force Village West	297	1.2%
The Kroger Company	263	1.1%
Total Principal Customers	4,655	18.7%
Other Customers	20,278	81.3%
Total Retail Water Deliveries	24,933	100.0%

Fiscal Year 2008-2009

Customer Name	Water Deliveries in Acre-Feet	Percentage of Water Deliveries
Air Force 452 Air Mobility Wing	705	2.3%
Village Nurseries	572	1.9%
Riverside National Cemetery	561	1.8%
General Old Golf Course	446	1.5%
City of Riverside	391	1.3%
The Kroger Company	383	1.3%
John Gless / Gless Ranch	373	1.2%
Pepsi Cola Plant	325	1.1%
Riverside Unified School District	300	1.0%
Air Force Village West	280	0.9%
Total Principal Customers	4,336	14.2%
Other Customers	26,236	85.8%
Total Retail Water Deliveries	30,572	100.0%

Source: Western Municipal Water District

TABLE IX – WHOLESALE WATER CUSTOMER DELIVERIES
 Fiscal Year Ended June 30, 2018

Water Agency	Water Deliveries in Acre-Feet	Percentage of Water Deliveries
Rancho California Water District	21,965	34.8%
City of Corona	18,153	28.7%
Elsinore Valley Municipal Water District	14,899	23.6%
City of Norco	4,530	7.2%
Temescal Valley Water District	3,409	5.4%
Box Springs Mutual Water Company	102	0.2%
Eagle Valley Mutual Water District	88	0.1%
Total Wholesale Deliveries	63,146	100.0%

Source: Western Municipal Water District

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

Rates Effective	Full Service		Interim Agricultural Program		Long-term Seasonal Storage	
	Treated	Untreated	Treated	Untreated	Treated	Untreated
Jan. 1, 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	1,032	735	n/a	n/a	n/a	n/a
Jan. 1, 2015 Tier 1	923	582	n/a	n/a	n/a	n/a
Jan. 1, 2015 Tier 2	1,055	714	n/a	n/a	n/a	n/a
Jan. 1, 2016 Tier 1	942	594	n/a	n/a	n/a	n/a
Jan. 1, 2016 Tier 2	1,076	728	n/a	n/a	n/a	n/a
Jan. 1, 2017 Tier 1	979	666	n/a	n/a	n/a	n/a
Jan. 1, 2017 Tier 2	1,073	760	n/a	n/a	n/a	n/a
Jan. 1, 2018 Tier 1	1,015	695	n/a	n/a	n/a	n/a
Jan. 1, 2018 Tier 2	1,101	781	n/a	n/a	n/a	n/a
Jan. 1, 2019 Tier 1	1,050	731	n/a	n/a	n/a	n/a
Jan. 1, 2019 Tier 2	1,136	817	n/a	n/a	n/a	n/a

Source: Metropolitan Water District

TABLE XI- WATER SOURCES (IN ACRE-FEET)
Last 10 Fiscal Years

Year	Domestic			Purchased Agriculture			Purchased	Wells	Desalter	Recycled Water	Grand Total
	Treated	Untreated	Total	Treated	Untreated	Total	Total				
2018	57,621	26,885	84,506	-	-	-	84,506	427	5,006	917	90,856
2017	52,080	22,804	74,884	-	-	-	74,884	379	5,523	899	81,685
2016	45,896	18,992	64,888	-	-	-	64,888	866	4,969	887	71,610
2015	57,714	17,636	75,350	-	-	-	75,350	1,081	5,498	1,109	83,038
2014	61,843	21,537	83,380	-	-	-	83,380	829	6,063	794	91,066
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

Source: Western Municipal Water District

TABLE XII – RATIO OF OUTSTANDING DEBT BY TYPE
Last 10 Fiscal Years

Fiscal Year	Revenue Bonds	Improvement Bonds	Loans	Total	Total Debt Per Capita⁽¹⁾
2018	\$ 144,792,855	\$ -	\$ 23,554,740	\$ 168,347,595	\$ 174.69
2017	147,955,307	-	13,803,916	161,759,223	170.04
2016	149,626,360	-	6,124,975	155,751,335	166.31
2015	149,347,224	135,000	7,481,436	156,963,660	170.46
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

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 10 Fiscal Years

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
GROSS REVENUE										
Water Sales	\$ 55,667,804	\$ 56,223,768	\$ 56,473,710	\$ 66,310,917	\$ 71,596,096	\$ 76,319,361	\$ 69,533,791	\$ 63,988,478	\$ 70,698,068	\$ 81,720,213
Water Service	7,776,582	9,127,539	10,477,058	12,479,514	14,290,510	15,969,208	16,841,065	16,669,887	17,355,249	19,845,736
Wastewater Service	8,161,485	10,723,639	10,862,351	10,364,865	9,875,780	10,002,414	10,292,222	10,234,040	11,512,039	12,169,537
Ad Valorem Taxes	17,789,635	16,254,320	15,048,059	15,161,942	16,651,925	16,532,506	18,220,982	18,837,555	20,053,654	21,728,238
Interest Income	6,337,190	6,685,940	3,671,725	5,437,782	(98,679)	2,348,100	2,172,604	4,791,047	(213,020)	(20,117)
Connection Fees - Water	896,624	290,477	236,080	188,491	924,589	553,954	474,781	481,489	1,629,145	1,907,987
Connection Fees - Wastewater	1,316,970	6,153,635	276,856	98,670	774,762	362,876	95,903	215,298	823,002	4,243,084
Federal, State and Local Capital Grants	1,551,562	3,149,581	3,284,896	1,268,694	872,471	10,413,907	2,115,190	4,057,387	3,913,610	12,574,333
Other Revenue	5,004,122	5,367,200	5,042,186	3,474,424	5,598,993	10,630,611	4,925,238	5,049,329	7,196,054	10,675,474
Total	104,501,974	113,976,099	105,372,921	114,785,299	120,486,447	143,132,937	124,671,776	124,324,510	132,967,801	164,844,485
MAINTENANCE AND OPERATION COSTS										
Administration	11,328,694	10,714,044	11,456,106	10,888,801	10,955,531	10,824,019	11,671,604	8,239,639	11,064,591	14,041,869
Purchased Water	51,655,168	51,859,715	51,890,617	57,873,634	61,600,436	66,430,723	60,519,291	55,342,184	62,906,377	72,045,551
Water Operations	12,941,548	14,452,967	14,832,096	16,039,860	16,729,927	16,809,781	17,084,331	20,122,121	19,660,514	20,456,884
Wastewater Operations	8,074,817	9,018,894	9,086,468	8,978,903	8,700,330	9,047,386	9,032,370	9,610,188	10,746,113	10,254,410
Other Expenses	7,951,851	8,718,326	5,013,535	6,109,216	4,398,861	7,612,211	6,024,205	6,552,875	6,136,241	6,942,500
Contract Resource Obligations	795,698	1,189,624	698,060	1,076,942	501,693	499,168	508,808	1,725,125	89,063	-
Total	92,747,776	95,953,570	92,976,882	100,967,356	102,886,778	111,223,288	104,840,609	101,592,132	110,602,899	123,741,214
Net Revenues	11,754,198	18,022,529	12,396,039	13,817,943	17,599,669	31,909,649	19,831,167	22,732,378	22,364,902	41,103,271
Series of 2002 A Bonds	2,640,029	-	-	-	-	-	-	-	-	-
Series of 2009 A&B Bonds	-	5,967,575	5,753,746	5,618,520	3,213,871	3,084,773	3,108,317	2,142,382	-	-
Series of 2010 A&B Bonds	-	-	1,337,200	2,086,248	1,954,846	3,044,580	3,047,965	3,008,537	3,020,184	3,012,302
Series of 2012 A Bonds	-	-	-	10,085	1,208,538	1,188,832	1,180,371	1,163,524	1,277,173	2,648,824
Series of 2016 A Bonds	-	-	-	-	-	-	-	335,672	779,608	779,597
WRCRWA SRF Loans	33,834	33,834	33,834	33,834	33,834	33,834	33,834	33,833	33,759	33,725
SRRRA Series 2017A&B Bonds	-	-	-	-	-	-	-	-	-	817,161
Total	\$ 2,673,863	\$ 6,001,409	\$ 7,124,780	\$ 7,748,687	\$ 6,411,089	\$ 7,352,019	\$ 7,370,487	\$ 6,683,948	\$ 5,110,724	\$ 7,291,609
DEBT SERVICE COVERAGE	4.40	3.00	1.74	1.78	2.75	4.34	2.69	3.40	4.38	5.64

Source: Western Municipal Water District

TABLE XIV – DIRECT AND OVERLAPPING DEBT
As of June 30, 2018

2017-18 Assessed Valuation: \$85,232,795,961 (1)

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable (2)	Debt 6/30/18
Metropolitan Water District	3.106%	\$ 1,882,236
Riverside City Community College District	78.022	200,021,363
Alvord Unified School District	99.988	208,263,872
Corona-Norco Unified School District	96.768	419,771,771
Jurupa Unified School District	99.806	124,346,271
Murrieta Valley Unified School District	11.541	19,222,457
Riverside Unified School District	99.996	224,721,011
Other School Districts	Various	46,476,725
City of Riverside	98.304	10,105,651
Western Municipal Water District	100	0
Western Municipal Water District Community Facilities Districts	100	4,650,000
Riverside County Flood Control District, Zone Nos. 3 and 4 Benefit Assessment District	1.424	238,520
Community Facilities Districts	Various	1,019,138,086
City and Special District 1915 Act Bonds	Various	28,462,450
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$ 2,307,300,413
DIRECT AND OVERLAPPING GENERAL FUND DEBT:		
Riverside County General Fund Obligations	32.326%	\$ 262,755,137
Riverside County Pension Obligations	32.326	86,105,150
Corona-Norco Unified School District Certificates of Participation	96.768	30,251,681
Jurupa Unified School District Certificates of Participation	99.806	41,646,258
Lake Elsinore Unified School District Certificates of Participation	54.195	17,488,467
Murrieta Unified School District General Fund Obligations	11.541	2,751,951
Riverside Unified School District Certificates of Participation	99.996	17,424,649
Other School District General Fund Obligations	Various	3,635,563
City of Corona General Fund Obligations	100	39,806,842
City of Lake Elsinore General Fund Obligations	69.869	15,105,678
City of Moreno Valley General Fund Obligations	0.765	513,981
City of Murrieta General Fund Obligations	12.948	772,996
City of Riverside General Fund Obligations	98.304	207,256,915
City of Riverside Pension Obligations	98.304	78,746,419
Western Municipal Water District Administrative Office and Capital Facilities Financing	100	10,197,212
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT		\$ 814,458,899
Less: Riverside County supported obligations		1,083,989
TOTAL NET OVERLAPPING GENERAL FUND DEBT		\$ 813,374,910
OVERLAPPING TAX INCREMENT DEBT (Successor Agencies):		\$ 764,620,429
TOTAL DIRECT DEBT		\$ 10,197,212
TOTAL GROSS OVERLAPPING DEBT		\$ 3,876,182,529
TOTAL NET OVERLAPPING DEBT		\$ 3,875,098,540
GROSS COMBINED TOTAL DEBT		\$ 3,886,379,741 (3)
NET COMBINED TOTAL DEBT		\$ 3,885,295,752

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

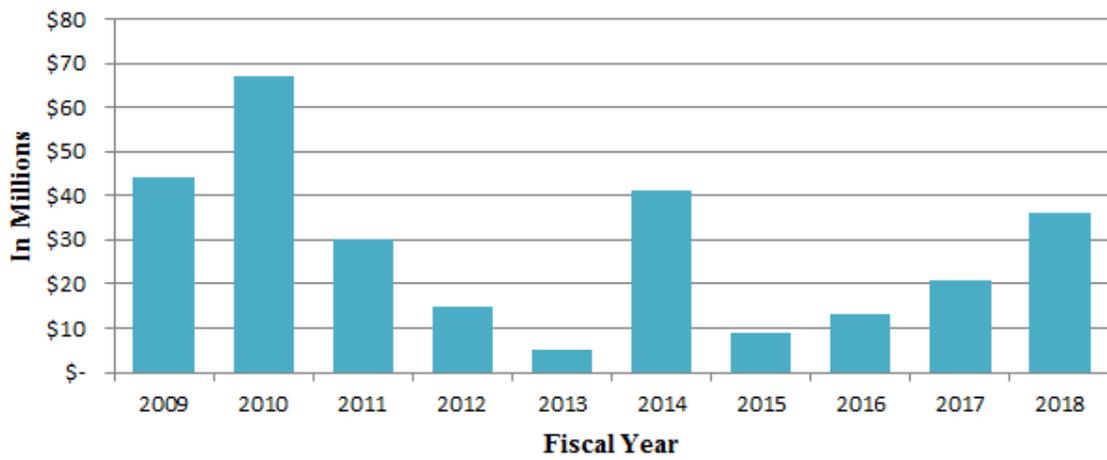
(2) The percentage of overlapping debt applicable to the district is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the district divided by the district's total 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 2017-18 Assessed Valuation:	
Direct Debt (\$10,197,212)	0.01%
Total Direct and Overlapping Tax and Assessment Debt	2.71%
Gross Combined Total Debt	4.56%
Net Combined Total Debt	4.56%
Ratio to Redevelopment Incremental Valuation (\$21,731,449,658):	
Total Overlapping Tax Increment Debt	3.52%

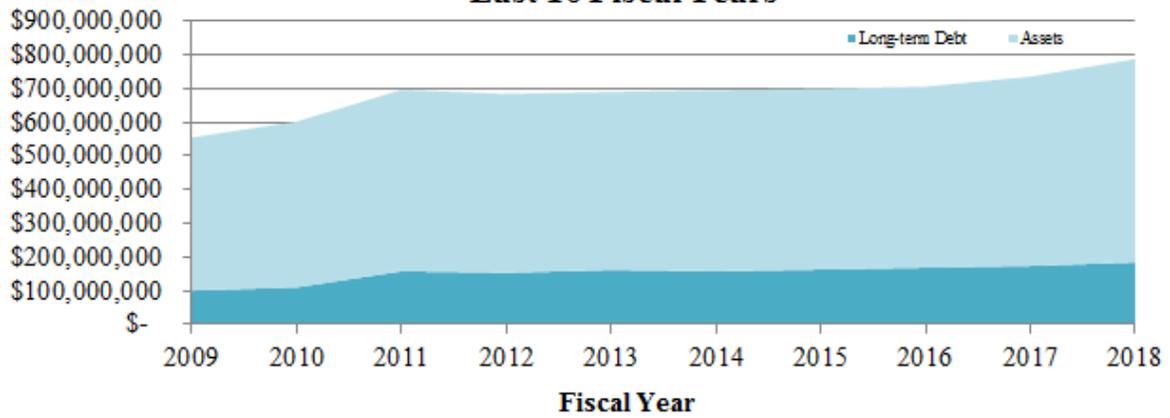
Source: California Municipal Statistics, Inc.

**CHART II – DISTRICT AND CONTRIBUTED CAPITAL ASSET ADDITIONS
Last 10 Fiscal Years**



Source: Western Municipal Water District

**CHART III – TOTAL DEBT TO ASSETS
Last 10 Fiscal Years**



Source: Western Municipal Water District

TABLE XV – DEMOGRAPHIC AND ECONOMIC STATISTICS
Last 10 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)
2018	\$ 99,403,206,463	963,710	2,415,955	\$ 34.3	\$ 35,569 ⁽³⁾	4.8%
2017	93,927,533,434	951,300	2,384,783	33.4	35,058 ⁽³⁾	5.7%
2016	89,274,829,782	936,500	2,347,828	33.1	35,331 ⁽³⁾	6.7%
2015	84,861,529,145	920,800	2,308,441	32.1	34,910 ⁽³⁾	6.6%
2014	78,774,941,220	909,500	2,279,967	30.9	33,949	8.4%
2013	76,058,192,604	899,500	2,255,059	30.0	33,320	10.2%
2012	76,093,889,073	891,200	2,234,193	28.3	31,742	12.6%
2011	76,380,473,323	879,900	2,205,731	26.3	29,927	14.4%
2010	78,547,029,366	878,800	2,202,978	25.7	29,222	14.5%
2009	87,194,859,529	883,400	2,107,653	26.3	29,748	14.0%

⁽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.

⁽³⁾ Projected based on a 10-year average.

Source: Riverside County Assessor for the assessed valuation; California Department of Finance for the county population estimates; County of Riverside Comprehensive Annual Financial Report 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, 2018 and Nine Years Prior

Employer Name	Fiscal Year 2018	
	No. of Employees	Percentage of Total County Labor Force
County of Riverside	22,038	2.1%
March Air Reserve Base	9,000	0.9%
University of California, Riverside	8,829	0.9%
Stater Bros. Markets	8,500	0.8%
Walmart	6,550	0.6%
Kaiser Permanente Medical Center	5,500	0.5%
Corona-Norco Unified School District	5,478	0.5%
Pechanga Resort & Casino	4,750	0.5%
Riverside Unified School District	4,200	0.4%
Hemet Unified School District	4,058	0.4%
Total	78,903	7.7%

Total Labor Force 1,026,000

Employer Name	Fiscal Year 2009	
	No. of Employees	Percentage of Total County Labor Force
County of Riverside	21,425	2.57%
March Air Reserve Base	8,400	1.01%
University of California, Riverside	7,147	0.86%
Walmart	6,550	0.78%
Stater Bros. Markets	6,500	0.78%
Riverside Unified School District	5,099	0.61%
Pechanga Resort and Casino	5,000	0.60%
Abbott Vascular	4,500	0.54%
Riverside Community College	3,765	0.45%
Kaiser Permanente Medical Center	3,200	0.38%
Total	71,586	8.57%

Total Labor Force 835,000

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

Source: Riverside County Economic Development Agency

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

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Management	5	5	7	7	7	8	8	13	12	14
Human Resources & Administration	11	13	8	8	10	9	10	9	10	8
Engineering	14	15	12	10	9	12	13	14	15	14
Finance	8	6	8	11	12	12	12	12	10	13
Billing/Customer Service	6	8	5	6	7	8	7	9	9	9
Community Affairs (Public Affairs)	5	4	4	6	5	5	5	4	4	3
Water Resources	3	5	5	6	6	6	7	6	8	7
Operations	60	59	56	59	63	65	65	65	65	67
Legislative Affairs	1	2	1	1	-	1	1	-	1	1
Information Systems	6	5	6	6	6	7	7	6	6	7
Total	119	122	112	120	125	133	135	138	140	143

Notes: All managers are included with their divisions. Temporary and part-time employees are not included.

TABLE XVIII – OPERATING AND CAPITAL INDICATORS

Last 10 Fiscal Years

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Number of Employees	122	122	120	120	125	133	135	138	140	143
Service Area (in acres)	337,000	337,000	337,000	337,000	337,000	337,000	337,000	337,000	337,000	337,000
Service Area (in square miles)	527	527	527	527	527	527	527	527	527	527
Assessed Valuation (in billions)	\$ 79	\$ 76	\$ 76	\$ 76	\$ 76	\$ 79	\$ 85	\$ 89	\$ 94	\$ 99
Population Served (approx.)	879,000	880,000	891,000	889,000	900,000	910,000	920,800	936,500	951,300	963,710
Miles of Water Pipeline	623	623	621	622	638	638	638	639	639	639
Number of Storage Tanks	38	36	36	35	35	35	34	34	34	34
Max Storage Capacity (million gal.)	87.3	93.7	93.7	92.7	92.7	93.0	92.2	92.2	92.2	92.2
Sewer Treatment Plants Owned	1	1	1	1	1	1	1	1	1	1
Sewer Treatment Capacity (MGD)	1.0	1.0	1.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Avg. Flows into Sewer Plant (MGD)	0.8	0.8	0.9	0.8	0.8	0.8	0.8	0.9	0.9	1.0
Number of Lift Stations	22	22	20	20	20	20	20	20	20	19

Source: Western Municipal Water District

Compliance Section



INDEPENDENT AUDITORS' 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*

Board of Directors
Western Municipal Water District
Riverside, California

We have audited, 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, the financial statements of the Western Municipal Water District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 7, 2018.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District'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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

White Nelson Dick Evans LLP

Irvine, California
December 7, 2018



Securing Your Water Supply

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