



Westlands Water District

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For Immediate Release

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Westlands Water District's Statement on Settlement with U.S. Securities and Exchange Commission

Today, the Securities and Exchange Commission announced a settlement with Westlands Water District, the District's general manager Thomas W. Birmingham, and the District's former treasurer L. Dave Ciapponi concerning the Commission's allegations that Westlands' Official Statement for its October 2012 offering of \$77 million in Refunding Revenue Bonds, Series 2012A included negligent misrepresentations and omissions. Specifically, the Commission asserted that the Official Statement for the 2012 bonds was misleading in its description of one key metric for fiscal year 2010: Westlands' debt coverage ratio.

The Commission did not allege and the order approving the settlement did not find that Westlands, Birmingham, or Ciapponi intended to mislead potential purchasers of the 2012 bonds. Westlands has not missed any payment required to repay the 2012 bonds and other bonds issued by Westlands.

Under the terms of the settlement, Westlands, Birmingham, and Ciapponi neither admit nor deny Commission's allegations or the findings contained in the order approving the settlement and will pay penalties of \$125,000, \$50,000, and \$20,000, respectively. Westlands, Birmingham, and Ciapponi determined that entering into the settlement to fully resolve the matter was in the District's best interest.

The Official Statement for the 2012 bonds contained a table representing that Westlands had met or exceeded a debt coverage ratio of 1.25 for each of the prior five fiscal years, 2008 through 2012. The summary income statement information and the debt coverage ratio for each fiscal year were derived from Westlands' audited financial statements. The Commission asserted that for fiscal year 2010, the revenue and coverage ratio reported in the table were misleading because Westlands failed to disclose: (1) that Westlands had engaged in extraordinary accounting transactions in 2010 *solely* to recognize additional revenue for purposes of calculating the debt service coverage ratio without raising rates on customers, and (2) that the impact of a 2012 prior period adjustment, to account for certain payments as expenses rather than their original capitalization, would have decreased revenue in 2010 and negatively affected the ratio.

Before undertaking the accounting transactions in 2010, Westlands consulted with its independent auditor. The auditor informed Westlands staff that he believed the suggested accounting transactions were permissible and subsequently issued an unqualified opinion on Westlands' 2010 audited financial statement. Westlands also consulted with its independent auditor before making the 2012 prior period adjustment. Westlands disclosed the 2012 prior period adjustment in a note to its audited financial statement for fiscal year 2012, which was appended to the Official Statement for the 2012 bonds. However, Westlands did not correct the debt coverage ratio reported in the historic operating results table for 2010 to account for the adjustment.

All discussions with the Westlands Board of Directors and the Finance and Administration Committee of the Board regarding the accounting transactions in 2010 and the 2012 prior period adjustment occurred in open session during properly noticed public meetings.

According to the order approving the settlement, in determining to accept the settlement, the Commission considered Westlands, Birmingham, and Ciapponi cooperation during its investigation of this matter and their prompt remedial actions, which included the development of written financial disclosures policies and staff training related to Westlands' debt offerings.