

EMWD

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2007



every drop counts



EASTERN MUNICIPAL WATER DISTRICT

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2007

Prepared by the Financial Department

e v e r y d r o p c o u n t s





Introductory Section



“California Friendly” means smart and sustainable landscaping. Outdoor spaces are designed in harmony with the surrounding environment, using beautiful California native and drought tolerant plants. Installing state-of-the-art irrigation controllers and precision sprinkler heads complete the water-wise ethic of a California Friendly landscape. More information is available at www.emwd.org or www.bewaterwise.com

EASTERN MUNICIPAL WATER DISTRICT

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2007

TABLE OF CONTENTS

Introductory Section	Page
Table of Contents	i-ii
Letter of Transmittal	iii-viii
GFOA Certificate of Achievement	ix
Service Area Map and Incorporated Cities	x
District Officials	xi
Organizational Chart	xii
Financial Section	
Independent Auditors' Report	1-2
Management's Discussion and Analysis (Required Supplementary Information)	3-9
Basic Financial Statements:	
Statement of Net Assets	10-11
Statement of Revenues, Expenses and Changes in Net Assets	12
Statement of Cash Flows	13-14
Notes to the Basic Financial Statements	15-50
Supplementary Information Section	
Schedule of Revenues, Expenses and Changes in Net Assets - Actual and Budget	51
Notes to Supplementary Schedule	52-53
Statistical Section	
Statistical Section Contents	54
Financial Trends:	
Net Assets by Component – Last Six Fiscal Years	55
Changes in Net Assets – Last Six Fiscal Years	56
Revenues by Source – Last Ten Fiscal Years	57
Expenses by Function – Last Ten Fiscal Years	58
Revenue Capacity:	
Water Produced and Consumed and Wastewater Treated – Last Ten Fiscal Years	59
Water and Sewer Rates – Last Ten Fiscal Years	60
Largest Domestic Water Customers – As of June 30, 2007	61
Largest Agricultural and Irrigation Water Customers – As of June 30, 2007	61
Largest Recycled Water Customers – As of June 30, 2007	62
Largest Sewer Customers – As of June 30, 2007	62
Summary of Imported Water Rates – Last Ten Fiscal Years	63
Annual Domestic Consumption (AF) – Last Ten Fiscal Years	64

EASTERN MUNICIPAL WATER DISTRICT

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2007

TABLE OF CONTENTS

(CONTINUED)

Statistical Section (CONTINUED)

Debt Capacity:

Ratio of Outstanding Debt by Type – Last Ten Fiscal Years	65
Revenue Bond Coverage – Last Ten Fiscal Years	66

Demographic and Economic:

Demographic and Economic Statistics – Last Seven Calendar Years.	67
Principal Employers – Fiscal Year Ended June 30, 2007	68
District Employees by Function – Last Two Fiscal Years	69

Operating:

Operating and Capital Indicators – Last Five Fiscal Years	70
Customer Account Write Offs as a Percentage of Sales – Last Ten Fiscal Years.	71
Bad Debt Reserves as a Percentage of Accounts Receivable Balance – Last Ten Fiscal Years . . .	71



October 1, 2007

Board of Directors
Eastern Municipal Water District
2270 Trumble Road
P.O. Box 8300
Perris, CA 92572-8300

Board of Directors

President
David J. Slawson

Vice President
Ronald W. Sullivan

Treasurer
Joseph J. Kuebler, CPA

Randy A. Record
Philip E. Paule

Board Secretary
Rosemarie V. Howell

General Manager
Anthony J. Pack

***Director of the
Metropolitan Water
District of So. Calif.***
Randy A. Record

Legal Counsel
Redwine & Sherrill

We are pleased to present the Eastern Municipal Water District's (District) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2007.

This report was prepared by the District's Finance Department following guidelines set forth by the Governmental Accounting Standards Board and generally accepted accounting principles (GAAP). Responsibility for both the accuracy of the data presented and the completeness and fairness of the presentation, including all 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). This letter of transmittal is designed to complement 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 auditors.

The District's financial statements have been audited by Mayer Hoffman McCann P.C., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the District for the fiscal year ended June 30, 2007, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the District's financial statements for the fiscal year ended June 30, 2007, are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

Reporting & Entity Profile

District's Service Area

The District's service area lies within the westerly third of Riverside County, encompassing 352,000 acres (555 square miles). The map on the next page indicates the location of the District's service area in Riverside County. When the District was annexed to the Metropolitan Water District of Southern California (MWD) by the District's voters in 1951, its service area consisted of 86 square miles. Growth has resulted from 70 annexations and 7 detachments of service areas ranging in area

from 1 to 72,000 acres. The assessed valuation has grown from \$72.0 million when formed to over \$57.9 billion in this past fiscal year.

Riverside County's population increased to a total of approximately 2.03 million as of January 2007. Of this population, the District serves approximately 660,000 (33%).



District's Authority

The District was organized under the Municipal Water District Act of 1911 (the "Law") on October 16, 1950 for the primary purpose of importing Colorado River water to its service area in order to augment local water supplies. Prior to the District's creation, the local water supply was primarily groundwater wells.

In 1962, the District began providing wastewater treatment services to customers within its service area and, as a consequence, has become actively involved in the production of recycled water (i.e., wastewater that has been treated to a level acceptable for non-domestic purposes).

The District's water and wastewater customers include retail customers (e.g., residential, commercial and agricultural) located in both incorporated and unincorporated areas within the District's service area, as well as wholesale customers (e.g., municipalities and local water Districts) located within its service area.

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

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

Governance

The District is a quasi-governmental agency 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 four-year terms from comparably sized districts based on population.

The District's vision is "to provide essential services to our community at a level that exceeds the performance of any other public or private agency". Its mission is "to provide safe and reliable water and wastewater services to our community in an economical, efficient and responsible manner now, and in the future". The Board has adopted strategic goals to support the District's vision and mission.

The Board has the sole authority to set rates and charges for water and sewer services. Such rates and charges must be reasonable and cannot be put into effect until after a public hearing. The enabling legislation that created the District, in conjunction with various bond covenants, require that rates and charges be sufficient to provide for operation and maintenance costs, general expenses of the District, and debt service payments.

The District is a member of the 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

Water Services

The District receives its water supply from two primary sources: local groundwater; and water imported by the District. The sole source of the District's imported water is MWD.

Approximately 16% of the District's water supply comes from local groundwater sources with an additional 4% from desalination. Such sources are heavily dependent upon rainfall and other sources of recharge. The remaining 80% of the District's water supply comes through purchases from MWD, which in turn obtains its water supply from two primary sources: the Colorado River via the Colorado River Aqueduct; and the State Water Project via the Edmund G. Brown California Aqueduct.

Sewer Services

For the purposes of transmission, treatment and disposal of wastewater, the District is currently divided into five sewer service areas: Hemet-San Jacinto, Moreno Valley, Sun City, Temecula Valley, and Perris Valley. The Sun City plant has been deactivated as a cost reduction measure and all flows from this service area are treated at the larger Perris facility. Each service area is served by a single regional water reclamation facility (RWRF), for which costs and methods of treatment vary. The facilities are capable of treating 59 million gallons per day (MGD) of wastewater and serve approximately 660,000 people. They are linked to a network of nearly 1,857 miles of pipeline and 46 active lift stations.

Recycled Water Supply

The policy of the District is to promote the use of recycled water to provide for the conservation and reuse of all water resources and to utilize this resource for any approved purpose, to the maximum extent possible under the laws of the State of California.

The District currently generates approximately 46 MGD of effluent at its four active regional water reclamation facilities. The amount of effluent is expected to grow to 58 MGD by the year 2013. Approximately 60%-70% of the effluent currently generated is the goal to be sold to agricultural and irrigation users. This past year 48% of the total recycled production was sold to customers.

Economic Conditions & Outlook

Riverside County was rated as the second fastest growing county in California based on population growth. The average home price was relatively unchanged from June 2006 to June 2007 and is at \$456,000. However, assessed valuations increased by approximately 26% over 2006.

This past year, the District's service area was a major factor in the county and experienced continued growth; however this growth rate was at the slower pace of 50% of the prior year. System hookups were at 8,475 for sewer and 5,757 for water. This will generate approximately 2.1 MGD of wastewater and require nearly 2,900 more acre feet of water. The current year is experiencing a slower pace of growth and there is a reasonable expectation that this pace will continue to decline over the next five years and range between 80% - 90% of current. Due to the increase in available recycled water from this growth and the demand on potable water, the District is moving toward developing its recycled water system into a pressurized system. This improvement will allow municipal customers, who currently receive potable water for landscape, decorative ponds and other irrigation purposes, to substitute recycled water at nearly half the price of potable water. This in turn will make available the potable water for the residential customers.

Major Initiatives

Long Range Financial Plan

The rapid growth over the past four years and the projections for the next five, have placed significant demands on the District's infrastructure, people and financial resources. Capital expenditures over the past four years have been approximately \$68 million, \$139 million, \$158 million, and \$162 million respectively.

In 2005, the District developed a comprehensive Capital Improvement Financial Plan covering the period from 2005 – 2009. This plan called for total expenditures of approximately \$711 million. The planned expenditures for 2007 were at \$154 million compared to the actual \$162 million. At this time, the District is developing a new five year plan covering the period 2007 to 2012, and expects to complete this by November 2007.

Accomplishments

Operations

During the past year, the District achieved several major operational accomplishments.

Water operations improvements included expanding the treatment capacity of the Perris Water Filtration Plant from 10 MGD to 20 MGD and converting the primary disinfection method from chlorine to a "state of the art" method using ultra violet rays. These improvements allowed the District to increase water supply reliability, decrease the regulatory compliance requirements associated with chlorine, enhance water quality, and provide facility expansion room because using ultra violet disinfection requires less space than chlorine disinfection. The water operations department also began providing laptop computers with access to electronic global interface systems maps to field personnel. This improvement should result in increased efficiency and improved customer service by providing quick and accurate information.

Sewer operations improvements included completion of the treatment capacity expansion for the Temecula Valley Regional Wastewater Reclamation Facility (RWRF) to 18 MGD, where 6 MGD were added to accommodate sustained growth in the area. Construction of a secondary treated effluent equalization basin was completed at the San Jacinto Valley (RWRF), which facilitated reliable delivery of tertiary treated recycled water to customers. This basin enables temporary storage of secondary treated effluent during times of increased flows into the plant and therefore allows for more effective management of the entire treatment process.

Bond Credit Rating

The District was assigned an “AA” credit rating in December 2004 by Fitch Ratings. This is an improvement from the AA- assigned by Standard & Poors and the AA3 assigned by Moody’s Investor Service. Fitch cited “sound formal reserve policies and covenants ensure healthy liquidity levels”, and “the District has demonstrated the ability to manage growth pressures and achieve sound financial margins.” These ratings have remained stable and the District does not see any change.

Technology

The District implemented the first phase of a computer server conversion project utilizing “state of the art” server virtualization software. This project took the operating system and the associated data files residing on 36 separate server hardware units (some of which were underutilized) and turned each server into a single file on the virtual server. The benefits of this improvement are that the virtual server files can be backed up and restored within minutes to any other active physical server. Also, with 36 less server hardware units, the District will have more space for future expansion in the computer room and reduced energy requirements.

Financial Policies

The District has formally adopted a cash reserve policy which states the purpose, source, and funding limits for each of its designated reserves within its four main funds; operating; construction; debt service; and trust. Within each of these funds are various reserves established to meet internal and/or external legal requirements. These 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.

Accounting Systems

The Finance Department is responsible for providing the financial services for the District, including financial accounting and reporting, payroll and accounts payable, custody and investment of funds, billing and collection of water and wastewater charges, taxes, and other revenues. The District’s books and records are maintained on an enterprise basis, as it is the intent of the Board to manage the District’s operations as a business, thus matching the revenues against the costs of providing the services. Revenues and expenses are recorded on the accrual basis in the period in which the revenue is earned and the expenses are incurred.

Internal Controls

The District’s management is responsible for establishing and maintaining a system of internal controls designed to safeguard the District’s assets from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in accordance with generally accepted accounting principles. The internal control structure is designed to provide reasonable assurances that these objectives are met. The most recent audits have not uncovered any weaknesses in internal control that would cause concern. However, recommendations for improvement are always welcome and are implemented where feasible.

Budgetary Controls

The District is not legally required to adopt and adhere to a budget or to present budgetary comparison information; however, the Board chooses to approve an annual budget as a management tool. The budget is developed with input from the various department levels of the organization and adopted prior to the start of each fiscal year. Monthly comparison reports of budget to actual are prepared and distributed to all department heads with top level information provided to the Board at the second Board meeting of the month. A more extensive review of the first six months and full year is also conducted to present reserves and other financial positions.

Cash Management

The District invests its temporarily idle cash in investments legally permissible by California Government Code Sections 53601 et seq., and in accordance with its own investment policy adopted by the Board of Directors. The investment objectives of the District are to first preserve the capital of the portfolio, followed by maintaining liquidity to meet cash flow requirements, and finally, maximizing the rate of return without compromising the first two objectives.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Eastern Municipal Water District for its comprehensive annual financial report for the fiscal year ended June 30, 2006. This is the fourth consecutive year that the District has received this prestigious award. In order to be awarded a Certificate of Achievement, the District must publish an easily readable and efficiently organized comprehensive annual financial report. 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 comprehensive annual financial report 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 thank Lori Robinson, Controller; the entire Finance Department, staff members of other departments, and the independent accounting firm of Mayer Hoffman McCann P.C. for their efforts put into the preparation of this report. We would also like to thank the Board of Directors for their continued interest and support towards achieving excellence in financial management.

Respectfully submitted,



Anthony J. Pack
General Manager



Charles E. Rathbone, Jr.
Chief Financial Officer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Eastern Municipal Water
District, California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

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



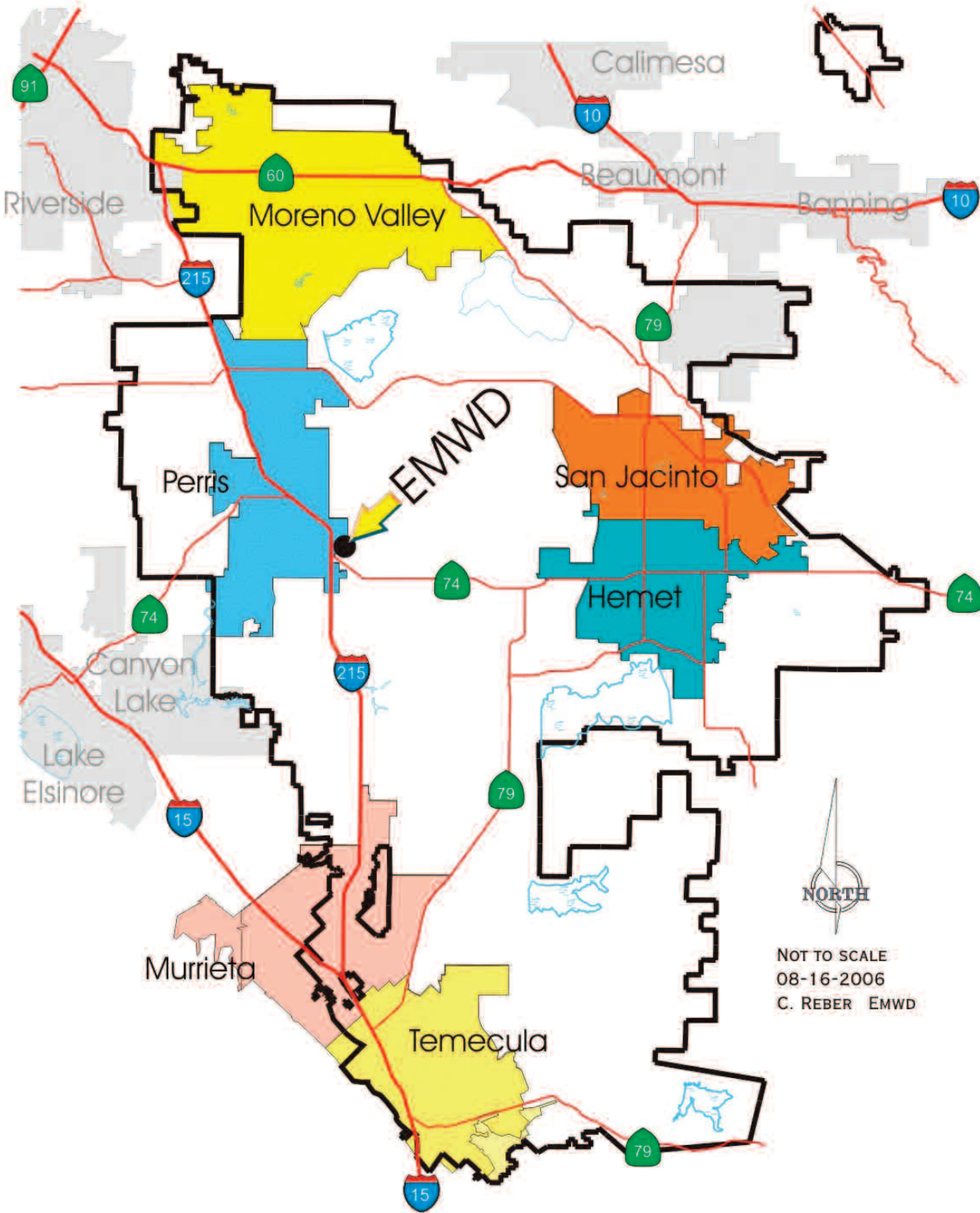
A handwritten signature in black ink, appearing to read "Ronald J. Blum".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

Executive Director

EASTERN MUNICIPAL WATER DISTRICT Service Area Map and Incorporated Cities



EASTERN MUNICIPAL WATER DISTRICT

District Officials

June 30, 2007

Elected Board of Directors

David J. Slawson
President

Ronald W. Sullivan
Vice President

Joseph J. Kuebler
Treasurer

Randy A. Record
Director

Philip E. Paule
Director

District Management

Anthony J. Pack
General Manager

Parameshwaran Ravishanker
Deputy General Manager

Michael A. Luker
*Assistant General Manager
Operations & Maintenance*

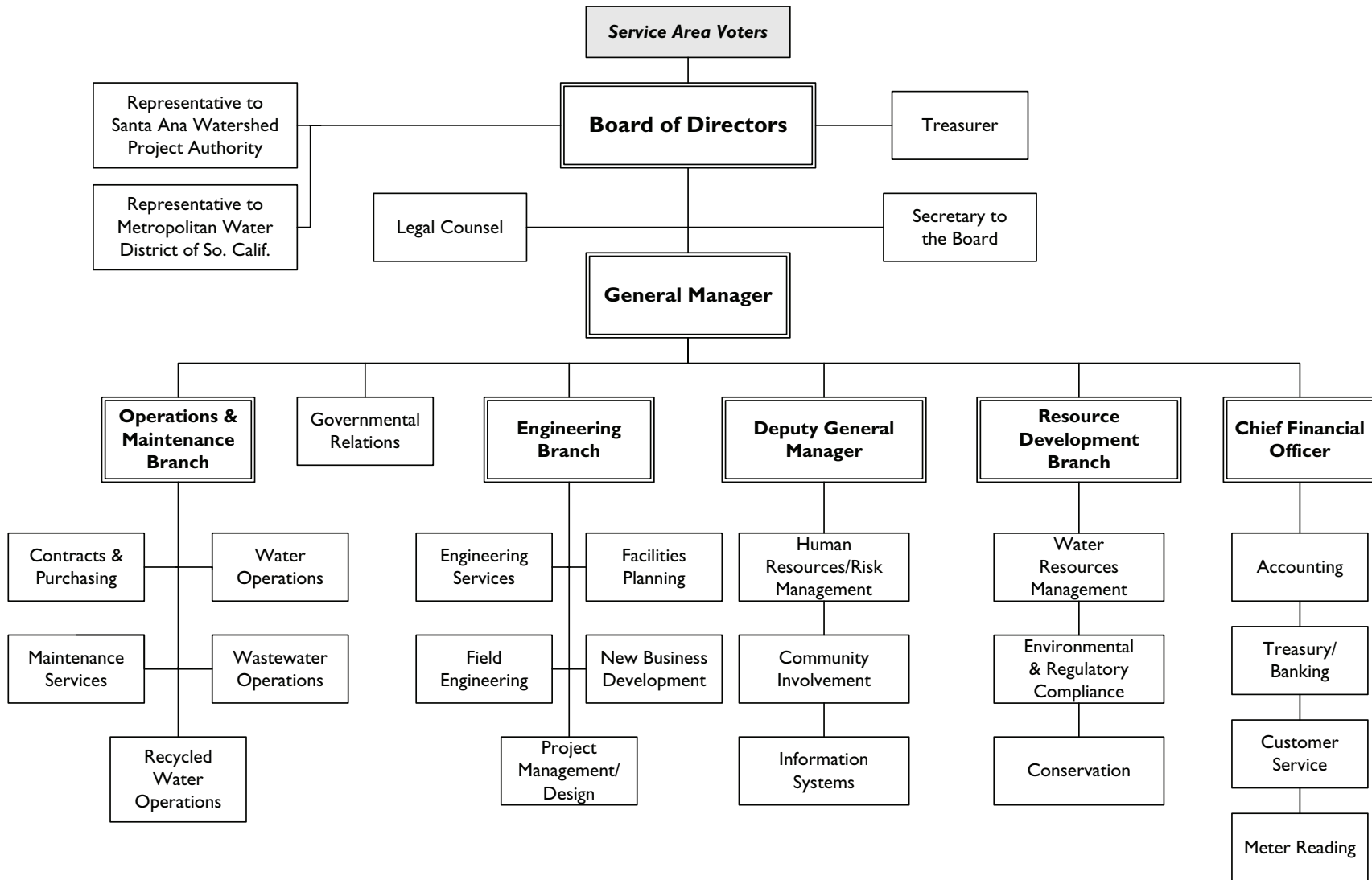
Bruce B. Mortazavi
*Assistant General Manager
Resource Development*

Charles J. Bachmann
*Assistant General Manager
Engineering*

Charles E. Rathbone, Jr.
Chief Financial Officer

Eastern Municipal Water District

Organizational Chart





Financial Section



EMWD offers opportunities for saving water and money to its commercial, multi-family and residential customers. Many different rebates for water efficient devices for inside and outside of customers' homes and businesses are offered throughout the year.

For information on all available rebates, qualifying lists and application processes visit www.emwd.org/conservation/index.html



Mayer Hoffman McCann P.C.

An Independent CPA Firm

Conrad Government Services Division

2301 Dupont Drive, Suite 200

Irvine, California 92612

949-474-2020 ph

949-263-5520 fx

www.mhm-pc.com

Board of Directors
Eastern Municipal Water District
Perris, California

Independent Auditors' Report

We have audited the accompanying Statement of Net Assets of Eastern Municipal Water District ("the District") as of June 30, 2007, and the related statement of revenue, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the financial statements of the District for the year ended June 30, 2006 and, in our report dated August 11, 2006, we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Eastern Municipal Water District as of June 30, 2007, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The information identified in the accompanying table of contents as *management's discussion and analysis* is not a required part of the financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Board of Directors
Eastern Municipal Water District
Page Two

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Eastern Municipal Water District's basic financial statements. The introductory section, schedule of revenues, expenses and changes in net assets-actual and budget and the statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of revenues, expenses and changes in net assets-actual and budget has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2007, on our consideration of Eastern Municipal Water District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Mayer Hoffman McCann P.C.

Irvine, California
October 1, 2007

Management's Discussion and Analysis

The intent of the management's discussion and analysis is to provide highlights of the Eastern Municipal Water District's financial activities for the fiscal year ended June 30, 2007. Readers are encouraged to read this section in conjunction with the accompanying financial statements.

The District's Operations – an Overview

The District operates under the authority of the California Water Code and engages in various activities classified as "proprietary". These activities are accounted for much like that of a private business and use the full accrual method of accounting for transactions. The major activities include: acquisition of water from the Metropolitan Water District; production of groundwater; sale and delivery of water to domestic, agricultural and commercial accounts; collection, treatment and disposal of wastewater; sales and delivery of recycled water; and desalination of brackish groundwater. The District also owns and operates a fleet of vehicles and other rolling stock to support the various operating activities.

Basic Financial Statements

In accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, the District's basic financial statements include a statement of net assets, statement of revenues, expenses and changes in net assets, and a statement of cash flows.

The statement of net assets includes the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). The difference between the assets and liabilities is shown as net assets. This statement also provides the basis of evaluating the capital structure of the District and assessing its liquidity and financial flexibility.

The statement of revenues, expenses and changes in net assets accounts for the current year's revenues and expenses. This statement measures the success of the District's operations over the past year and determines whether the District has recovered its costs through user fees and other charges.

The final required financial statement is the statement of cash flows. This statement reports cash receipts, cash disbursements, and net changes in cash resulting from operations and investments during the reporting period.

The notes to the basic financial statements provide a description of the accounting policies used to prepare the financial statements and present material disclosures required by generally accepted accounting principles that are not otherwise present in the financial statements.

Financial Highlights

Statement of Net Assets

June 30, 2007 and 2006

	2006/07	2005/06	Increase/(Decrease)	
			Amount	% Change
Assets				
Current assets	\$ 162,150,919	\$ 187,141,389	\$ (24,990,470)	-13.4%
Restricted assets	399,232,764	417,089,117	(17,856,353)	-4.3%
Capital assets	1,413,718,215	1,233,234,796	180,483,419	14.6%
Other assets	13,064,655	13,684,501	(619,846)	-4.5%
Total assets	1,988,166,553	1,851,149,803	137,016,750	7.4%
Liabilities				
Current liabilities	117,788,778	93,516,402	24,272,376	26.0%
Other liabilities	46,976,742	40,844,108	6,132,634	15.0%
Long-term debt outstanding	501,610,000	513,600,000	(11,990,000)	-2.3%
Total liabilities	666,375,520	647,960,510	18,415,010	2.8%
Net Assets				
Invested in capital assets, net of related debt	963,472,752	864,024,679	99,448,073	11.5%
Restricted for debt service/covenants	57,377,104	58,964,117	(1,587,013)	-2.7%
Restricted for construction	238,268,776	193,659,075	44,609,701	23.0%
Unrestricted	62,672,401	86,541,422	(23,869,021)	-27.6%
Total net assets	\$ 1,321,791,033	\$ 1,203,189,293	\$ 118,601,740	9.9%
Liabilities to assets ratio	34%	35%		

Changes in Financial Condition of the District

The liabilities to assets ratio, which indicates the degree to which the District's assets are financed through borrowing and other obligations, decreased slightly due to scheduled debt payments. Total net assets increased \$118.6 million. Overall, the financial position of the District has improved for the fiscal year ended June 30, 2007 and remains strong.

The following denotes explanations for some of the major changes between fiscal years, as shown in the table on the previous page:

- Current assets decreased by \$25.0 million primarily due to a decrease in cash of \$30.2 million used to finance District construction projects.
- Restricted assets decreased by \$17.9 million primarily due to a decrease in construction cash of \$15.2 million relating to scheduled debt service payments.
- Capital assets increased by \$180.5 million primarily due to an increase of operating assets being added to the system totaling \$235.6 million; a decrease to construction in progress of \$10.3 million; and an increase in depreciation expense totaling \$44.8 million.
- Other assets decreased by \$0.6 million mainly due to a decrease in the prepaid PERS liability of \$0.5 million.
- Current liabilities increased by \$24.3 million primarily due to increases in accounts payable of \$10.4 million, contracts payable of \$2.7 million, and advances from developers of \$8.8 million.
- Other liabilities increased by \$6.1 million primarily due to an \$8.0 million increase in advances for construction, notes and assessments payable relating to added loan costs for the construction of the Hemet Water Filtration Plant, which is offset by scheduled debt payments.
- Long-term debt outstanding decreased by a net of \$12 million primarily due to COP and GO Bond payments that are due in the 2007/2008 year. Also see Note 5 to the basic financial statements regarding debt payments and outstanding balances.
- The District's net assets increased \$118.6 million, or 9.9% over the prior year. This can be attributed to a net non-operating income of \$102.0 million offset by a net operating loss of \$45.8 million plus contributed capital from developers totaling \$62.4 million for the year. Further information regarding restrictions and commitments associated with net assets can be identified in Notes 9 and 11 to the basic financial statements.

Revenues, Expenses and Changes in Net Assets

For the Fiscal Years Ended June 30, 2007 and 2006

	<u>2006/07</u>		<u>2005/06</u>		<u>Increase/(Decrease)</u>	
	Amount	% of Total	Amount	% of Total	Amount	% Change
Operating revenues:						
Water sales – domestic	\$ 91,596,156	62.8%	\$ 76,543,807	61.2%	\$ 15,052,349	19.7%
Water sales – irrigation	1,083,633	0.7%	1,067,667	0.9%	15,966	1.5%
Sewer service charges	50,318,414	34.5%	45,462,646	36.4%	4,855,768	10.7%
Recycled water	2,748,328	1.9%	1,944,434	1.6%	803,894	41.3%
Total operating revenues	145,746,531	100.0%	125,018,554	100.0%	20,727,977	16.6%
Non-operating revenues:						
Property taxes – general levy	31,293,863	23.9%	11,213,568	7.8%	20,080,295	179.1%
Property taxes – bond levy	3,555,565	2.7%	3,534,021	2.5%	21,544	0.6%
Standby charges	4,667,297	3.6%	4,518,411	3.2%	148,886	3.3%
Water and sewer connection fees	52,894,363	40.5%	99,485,272	69.4%	(46,590,909)	-46.8%
Interest – operations and restricted funds	23,578,130	18.0%	16,668,255	11.6%	6,909,875	41.5%
Interest – bond funds	388,016	0.3%	258,463	0.2%	129,553	50.1%
Gain on disposal of fixed assets	76,072	0.1%	69,052	0.0%	7,020	N/A
Net increase (decrease) in fair value of investments	5,321,392	4.1%	(3,122,272)	-2.2%	8,443,664	-270.4%
Other revenues	9,245,917	7.1%	10,738,994	7.5%	(1,493,077)	-13.9%
Total non-operating revenues	131,020,615	100.0%	143,363,764	100.0%	(12,343,149)	-8.6%
Total Revenues	276,767,146		268,382,318		8,384,828	3.1%
Operating expenses:						
Purchased water	43,866,732	22.9%	36,817,458	22.3%	7,049,274	19.1%
Water operations	35,332,561	18.4%	29,030,238	17.6%	6,302,323	21.7%
Sewer operations	37,404,662	19.5%	33,061,321	20.1%	4,343,341	13.1%
Recycled water operations	4,379,135	2.3%	4,289,919	2.6%	89,216	2.1%
General and administrative	25,292,047	13.2%	21,520,070	13.1%	3,771,977	17.5%
Depreciation and amortization	45,255,839	23.6%	40,091,319	24.3%	5,164,520	12.9%
Total operating expenses	191,530,976	100.0%	164,810,325	100.0%	26,720,651	16.2%
Non-operating expenses:						
Interest – certificates of participation	22,670,400	78.2%	18,404,817	78.9%	4,265,583	23.2%
Interest – bond	993,116	3.4%	1,118,876	4.8%	(125,760)	-11.2%
Interest – other	497,555	1.7%	687,105	2.9%	(189,550)	-27.6%
Bond service fees	97,902	0.3%	90,764	0.4%	7,138	7.9%
Other expenses	4,730,583	16.3%	3,032,317	13.0%	1,698,266	56.0%
Total non-operating expenses	28,989,556	100.0%	23,333,879	100.0%	5,655,677	24.2%
Total Expenses	220,520,532		188,144,204		32,376,328	17.2%
Income before contributions	56,246,614		80,238,114		(23,991,500)	-29.90%
Capital contributions	62,355,126		48,300,420		14,054,706	29.1%
Change in net assets	118,601,740		128,538,534		(9,936,794)	-7.7%
Total net assets at beginning of year	1,203,189,293		1,074,650,759		128,538,534	12.0%
Total net assets at end of year	\$ 1,321,791,033		\$ 1,203,189,293		\$ 118,601,740	9.9%

The following denotes explanations for some of the major changes between fiscal years as shown in the table on the previous page.

Revenues – Combined revenues for the fiscal year totaled \$276,767,146 compared to a prior year of \$268,382,318. This is an increase of approximately 3.1%. The table on page 6 presents a comparison of revenues by major source for the two fiscal years 2006/07 and 2005/06.

Expenses – Combined expenses for the fiscal year totaled \$220,520,532 compared to a prior year of \$188,144,204. This is an increase of approximately 17.2%. The table on page 6 presents a comparison of expenses by category for the two fiscal years 2006/07 and 2005/06.

Water Sales – Total sales increased approximately \$15.1 million (19.4%) over the previous year's total to end at \$92.7 million. This is primarily attributed to a volume increase in retail sales of 14.8% from the previous year and a 4.3% average increase in water rates that was implemented January 1, 2007. (See water purchases.)

Sewer Service – Wastewater service charges increased by \$4.9 million (10.7%) over the previous year's total to end at \$50.3 million. This is primarily attributed to an increase in customer hook ups, approximately 6.0% above the previous year, coupled with a monthly sewer rate increase of approximately 3.4% on average, effective January 1, 2007.

Property Taxes – The District's property tax revenue increased by \$20.1 million (179.1%) mainly due to receipt of all tax amounts. The state of California diverted \$12.6 million in the prior year to help mitigate its budget deficit. Assessed valuations increased by nearly 26% over the prior year, and this also contributed to the increase.

Connection Fees – These revenues decreased over the prior year due to a downturn in the housing development market. Sewer hookups were 8,475 compared to a prior year of 16,989 representing a decrease of 50.1% and water hookups were 5,757 compared to a prior year of 12,611 representing a decrease of 54.3%. This resulted in revenue of \$52.9 million (46.8%) lower than the previous year.

Interest Earnings – The current year's interest earnings were positively impacted by a book adjustment charge of \$5.3 million per GASB 31. Excluding this adjustment, the current fiscal year's interest earnings was a favorable \$6.9 million (41.5%) over the prior years due to improved yields on investments of 4.13% for the year compared to 3.29% last fiscal year, and a higher average portfolio balance.

Water Purchases – Water sales volume increased by 14,388 acre feet (AF) of water, and purchased water from our wholesale provider, the Metropolitan Water District (MWD), increased by 12,423 AF. This additional water purchased plus an increase in the cost of water of \$25/AF were the primary factors for the increase of \$7.0 million.

Water Operations – The increase in expenses of \$6.3 million is a result of increased water sales, which resulted mainly in added treatment costs (\$1.7 million) and energy costs (\$1.6 million), as well as an increase in labor and support costs of \$2.8 million.

Sewer Operations – The increase in flows that needed to be treated due to growth increased from nearly 44.8 million gallons per day (MGD) in 2005/06 to nearly 46.0 MGD in 2006/07. This increase coupled with higher wages, benefits, materials, and services resulted in the \$4.3 million increase.

General and Administrative – Due to the continued growth, the District authorized an additional 28 employees for fiscal year 2006/07. Higher medical and retirement benefit expense was also absorbed by the District.

Depreciation Expense – The District capitalized \$240.1 million in depreciable assets over the course of the year which resulted in the \$5.2 million of additional depreciation expense.

Interest Expense – COP – The District issued \$160.3 million in revenue bonds in February 2006 which mainly resulted in the increased interest expense of \$4.3 million.

Capital Contributions – Facilities built by developers and turned over to the District to operate and maintain increased to \$62.4 million compared to \$48.3 million in the previous year, an increase of \$14.1 million.

Net Assets – The financial condition of the District has improved from the previous year. The District's net assets increased by \$118,601,740 to \$1,321,791,033. This is a 9.9% increase over the prior year and can be illustrated from the table on page 4 that compares the various categories of assets, liabilities and net assets for the two fiscal years 2006/07 and 2005/06.

Capital Assets – Net of accumulated depreciation, the District reported capital assets of \$1,413,718,215 in fiscal year 2006/07 compared to \$1,233,234,796 in fiscal year 2005/06. A comparison of the change is provided below by major category. Also, see Note 3 to the basic financial statements for further information regarding capital assets.

Capital Assets
For the Fiscal Years Ended June 30, 2007 and 2006

			Increase/(Decrease)	
			Amount	%
	2006/07	2005/06		Change
Land	\$ 34,444,198	\$ 34,046,122	\$ 398,076	1.2%
Water plant, lines & equip	621,685,652	517,614,969	104,070,683	20.1%
Water capacity rights	30,547,961	17,950,601	12,597,360	70.2%
Sewer plant, lines & equip	881,113,676	765,808,187	115,305,489	15.1%
Equipment & general facilities	87,838,581	84,571,979	3,266,602	3.9%
Construction in progress	233,810,010	244,139,021	10,329,011	-4.2%
Total capital assets	1,889,440,078	1,664,130,879	225,309,199	13.5%
Less accumulated depreciation	475,721,863	430,896,083	44,825,780	10.4%
Net capital assets	\$ 1,413,718,215	\$ 1,233,234,796	\$ 180,483,419	14.6%

Significant additions to capital assets include \$62.4 million in contributed capital from developers in the area. Most of the contributed assets were water and sewer lines needed to keep up with the increased development in the area. Other additions resulted from the completion and capitalization of \$172.6 million construction in progress.

The three largest District projects that were capitalized as of June 30, 2007 include the Hemet Water Filtration Plant (\$43.5 million), the Temecula Valley Regional Water Reclamation Facility (RWRF) Expansion to 18 MGD (\$31.2 million) and the North San Jacinto Sewer, Phase I (\$11.3 million).

The Hemet Water Filtration Plant project included the design and construction of a 10 MGD micro filtration-based water treatment plant in the City of Hemet. The plant was constructed to enable the use of imported water from the State Water Project to meet the increasing demand for residential and commercial water in the District's Service Area 42. This project was substantially complete at June 30, 2007.

The Temecula Valley RWRF Expansion to 18 MGD included the design and construction of additional primary, secondary and tertiary treatment and solids handling facilities resulting in a 6 MGD increase in the plant's treatment capacity to meet the increasing demands within its service area. This project also included expansion of the plant's control building. This project was substantially complete at June 30, 2007, with final work to be completed in August 2007.

The North San Jacinto Sewer Phase I Project included the design and construction of 7,000 linear feet of 27-inch diameter gravity sewer pipeline from the DeAnza Lift Station to Potter Road. This project was implemented in accordance with the “five-year wastewater capital improvement plan” to “accommodate the needs of development”. The project was substantially complete at June 30, 2007, with final work to be completed in August 2007.

The District had \$184,813,251 in construction contract commitments as of June 30, 2007. See Note 11 to the basic financial statements for further information regarding these commitments.

Capital Expenditures

During the year, additions to construction in progress totaled approximately \$162.3 million. Some of the major projects currently underway and where expenditures in fiscal year 2006/07 exceeded \$3.0 million include the:

- Perris Valley RWRFTertiary Expansion to 22 million gallons per day (MGD) (\$16.9 million),
- Perris Valley RWRFF Plant No.3 Expansion (\$13.7 million)
- French Valley Sewer Phase II (\$9.6 million)
- Perris Water Filtration Plant Phase II (\$7.3 million)
- Reach 16 Phase II Recycled Water Pipeline Project (\$6.9 million)
- San Jacinto Valley RWRFF Equalization Basins (\$5.0 million)
- Moreno Valley RWRFF Expansion to 21 MGD (\$4.7 million)
- Hemet Water Filtration Plant (\$4.5 million)
- Rancho GlenOaks AD 19 Water System Improvements Project (\$4.2 million)
- San Jacinto Valley RWRFF Expansion to 14 MGD (\$4.2 million)
- Fifteen water and sewer projects between \$1,000,000 - \$3,000,000 (\$25.9 million)
- Sixteen water and sewer projects between \$500,000 - \$1,000,000 (\$11.1 million)
- Seventy-seven water and sewer projects between \$100,000 - \$500,000 (\$15.8 million).

The remaining \$32.2 million was for various water and sewer projects with expenditures less than \$100,000 in the current fiscal year.

Long-Term Liabilities

At June 30, 2007, the District had a net \$567.9 million in long-term liabilities outstanding, a net decrease of \$4.6 million or 0.8 percent from the prior year. Long-term liabilities consist of debt, including advances for construction, notes and assessments payable, Certificates of Participation (COPs), and General Obligation (GO) bonds; unamortized deferred amounts for premiums/discounts and refundings relating to COP and GO debt issuances; reimbursable agreements; and compensated absences. The amount of debt due within one year totaled \$14.1 million, net of deferred amounts and the amount of compensated absences due within one year totaled \$5.1 million. Long-term debt additions related to increased future commitments of \$8.0 million for an advance for construction and the issuance of the Series 2007A refunding COPs for \$20.7 million. These increases were offset by the prepayment of the 1997A COPs in the amount of \$21.2 million and principal reductions of \$14.3 million. The District had an obligation for compensated absences of \$9.7 million at fiscal year end, an increase of \$1.2 million from the prior year. Deferred amounts were (\$7.9) million at fiscal year end, a reduction of \$1.3 million from the prior year with an amortized amount of (\$0.8) million within one year. The District has been assigned an AA, AA- and AA3 rating from Fitch Ratings, Standard & Poors and Moody's Investor Service, respectively. More detailed information about the District's long-term debt and other liabilities is presented in Note 5 to the basic financial statements.

Contacting the District's Financial Management

This financial report is designed to provide Eastern Municipal Water District's elected officials, citizens, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability of the money it receives. If you have any questions regarding this report or need additional financial information, please contact the District's Finance Department.

Eastern Municipal Water District

Statement of Net Assets

June 30, 2007

(with prior year data for comparison purposes only)

	June 30	
	2007	2006
Assets		
Current assets:		
Cash and investments (Note 2)	\$ 123,447,402	\$ 153,633,053
Utility accounts receivable, net of allowances	19,590,351	17,293,378
Property taxes receivable	7,815,903	5,753,667
Accrued interest receivable	5,397,389	4,178,147
Other receivables	1,022,344	2,740,356
Prepaid expenses	2,168,228	1,178,603
Materials and supplies inventory	2,698,820	2,319,153
Deposits	10,482	45,032
Total current assets	162,150,919	187,141,389
Noncurrent assets:		
Restricted assets:		
Debt service/covenants cash and investments (Note 2)	100,004,585	102,196,065
Property taxes receivable	1,416,914	1,259,397
Construction cash and investments (Note 2)	296,778,818	311,974,269
Notes receivable	1,032,447	1,659,386
Total restricted assets	399,232,764	417,089,117
Capital assets: (Note 3)		
Land	34,444,198	34,046,122
Structures, improvements and water rights	1,533,347,289	1,301,373,757
Equipment and general facilities	87,838,581	84,571,979
Construction in progress	233,810,010	244,139,021
Total capital assets	1,889,440,078	1,664,130,879
Less accumulated depreciation	(475,721,863)	(430,896,083)
Net capital assets	1,413,718,215	1,233,234,796
Other assets:		
Prepaid PERS contribution (Note 4)	7,214,866	7,745,815
Unamortized debt issuance costs (Note 5)	4,098,889	4,187,786
Tunnel water seepage agreement (Note 10)	1,750,900	1,750,900
Total other assets	13,064,655	13,684,501
Total noncurrent assets	1,826,015,634	1,664,008,414
Total assets	\$ 1,988,166,553	\$ 1,851,149,803

	June 30	
	2007	2006
Liabilities:		
Current liabilities:		
Accounts payable	\$ 39,798,446	\$ 29,446,532
Accrued salaries and benefits	1,499,617	1,380,294
Other accrued expenses	1,267,006	992,759
Customer deposits	4,795,663	4,609,004
Current portion of compensated absences (Note 5)	5,147,202	4,495,589
Accrued interest payable	8,641,702	8,073,569
Other payables	5,358,718	2,611,015
Advances from developers (Note 14)	37,159,800	28,411,588
Current portion of advances for construction, notes and assessments payable (Note 5)	3,348,613	3,216,166
Current portion of certificates of participation (Note 5)	9,720,000	9,335,000
Current portion of bonds payable (Note 5)	1,805,000	1,730,000
Less unamortized premium/discount and deferred charges (Note 5)	(752,989)	(785,114)
Total current liabilities	<u>117,788,778</u>	<u>93,516,402</u>
Noncurrent liabilities: (Note 5)		
Advances for construction, notes and assessments payable	49,526,103	44,887,307
Certificates of participation payable	483,470,000	493,655,000
General obligation bonds	18,140,000	19,945,000
Reimbursable agreements	61,111	390,313
Compensated absences	4,569,423	4,013,385
Less unamortized premium/discount and deferred charges	(7,179,895)	(8,446,897)
Total noncurrent liabilities	<u>548,586,742</u>	<u>554,444,108</u>
Total liabilities	<u>\$ 666,375,520</u>	<u>\$ 647,960,510</u>
Net assets:		
Invested in capital assets, net of related debt	\$ 963,472,752	\$ 864,024,679
Restricted for debt service/covenants	57,377,104	58,964,117
Restricted for construction	238,268,776	193,659,075
Unrestricted	62,672,401	86,541,422
Total net assets	<u>\$ 1,321,791,033</u>	<u>\$ 1,203,189,293</u>

See accompanying notes to the basic financial statements.

Eastern Municipal Water District

Statement of Revenues, Expenses and Changes in Net Assets

For the Fiscal Year Ended June 30, 2007
(with prior year data for comparison purposes only)

	Fiscal Year Ended June 30	
	2007	2006
Operating revenues:		
Water sales – domestic	\$ 91,596,156	\$ 76,543,807
Water sales – irrigation	1,083,633	1,067,667
Sewer service charges	50,318,414	45,462,646
Recycled water	2,748,328	1,944,434
Total operating revenues	145,746,531	125,018,554
Operating expenses:		
Purchased water	43,866,732	36,817,458
Water operations	35,332,561	29,030,238
Sewer operations	37,404,662	33,061,321
Recycled water operations	4,379,135	4,289,919
General and administrative	25,292,047	21,520,070
Depreciation and amortization	45,255,839	40,091,319
Total operating expenses	191,530,976	164,810,325
Loss from operations	(45,784,445)	(39,791,771)
Non-operating revenues (expenses):		
Property taxes – general levy	31,293,863	11,213,568
Property taxes – bond levy	3,555,565	3,534,021
Standby charges	4,667,297	4,518,411
Water and sewer connection fees	52,894,363	99,485,272
Interest – operations and restricted funds	23,578,130	16,668,255
Interest – bond funds	388,016	258,463
Other revenues	9,245,917	10,738,994
Net increase/(decrease) in fair value of investments	5,321,392	(3,122,272)
Interest – certificates of participation	(22,670,400)	(18,404,817)
Interest – bond	(993,116)	(1,118,876)
Interest – other	(497,555)	(687,105)
Bond service fees	(97,902)	(90,764)
Gain on disposal of capital assets	76,072	69,052
Other expenses	(4,730,583)	(3,032,317)
Total non-operating revenues	102,031,059	120,029,885
Income before contributions	56,246,614	80,238,114
Capital contributions	62,355,126	48,300,420
Change in net assets	118,601,740	128,538,534
Total net assets at beginning of year	1,203,189,293	1,074,650,759
Total net assets at end of year	\$ 1,321,791,033	\$ 1,203,189,293

See accompanying notes to the basic financial statements.

Eastern Municipal Water District Statement of Cash Flows

For the Fiscal Year Ended June 30, 2007
(with prior year data for comparison purposes only)

	Fiscal Year Ended June 30	
	2007	2006
Cash flows from operating activities		
Cash received from customers	\$ 148,604,450	\$ 132,520,502
Cash payments for water	(43,866,732)	(39,817,458)
Cash payments to employees for services	(49,471,530)	(44,171,680)
Cash payments to suppliers for goods and services	(39,089,216)	(33,075,824)
Cash payments for energy and utilities	(15,698,344)	(13,697,002)
Proceeds from standby charges and other revenues	13,765,290	15,269,126
Other operating revenues	10,376,742	2,073,502
Net cash provided by operating activities	24,620,660	19,101,166
Cash flows from noncapital financing activities		
Proceeds from property taxes, general levy	29,379,550	12,219,708
Net cash provided by noncapital financing activities	29,379,550	12,219,708
Cash flows from capital and related financing activities		
Acquisitions and construction of capital assets	(169,329,850)	(139,615,540)
Repayment of bonds and certificates of participation	(32,700,000)	(11,065,000)
Interest paid	(22,302,815)	(14,703,631)
Proceeds from water and sewer connection fees	52,894,363	99,485,272
Proceeds from long-term debt issuance	28,697,409	185,929,117
Proceeds from notes payable and reimbursements	307,773	1,303,707
Repayments of notes payable and reimbursements	(3,393,140)	(4,084,764)
Proceeds from sale of capital assets	1,291,207	150,043
Proceeds from property taxes, bond levy	3,398,048	3,395,517
Receipts (payments) of developer advances	11,495,917	(12,677,018)
Net cash provided by (used for) capital and related financing activities	(129,641,088)	108,117,703
Cash flows from investing activities		
Purchases of investment securities	(225,820,741)	(247,467,517)
Proceeds from sales and maturities of investment securities	290,948,361	113,009,280
Proceeds from earnings on investments	22,746,904	15,468,568
Net cash provided by (used for) investing activities	87,874,524	(118,989,669)
Total increase in cash and cash equivalents	12,233,646	20,448,908
Cash and cash equivalents at beginning of year	61,131,830	40,682,922
Cash and cash equivalents at end of year (Note 2)	\$ 73,365,476	\$ 61,131,830

(Continued on next page)

Eastern Municipal Water District Statement of Cash Flows

(continued)

For the Fiscal Year Ended June 30, 2007
(with prior year data for comparison purposes only)

	Fiscal Year Ended June 30	
	2007	2006
Reconciliation of loss from operations to net cash provided by operating activities:		
Loss from operations	\$ (45,784,445)	\$ (39,791,771)
Adjustments to reconcile loss from operations to net cash provided by operating activities:		
Operating activities:		
Depreciation and amortization	45,255,839	40,091,319
Standby charges and other revenues	13,765,290	15,269,126
Changes in assets and liabilities:		
Decrease (increase) in utility accounts receivable	(2,296,973)	(2,673,611)
Decrease (increase) in other receivables	1,718,012	(1,792,073)
Decrease (increase) in prepaid expenses	626,939	678,287
Decrease (increase) in materials and supplies inventory	530,949	(300,720)
Decrease (increase) in deposits	(989,625)	(5,761)
Decrease (increase) in notes receivable	(379,667)	(1,070,103)
Decrease (increase) in other assets	34,550	530,948
Increase (decrease) in accounts payable and other payables	10,351,911	5,889,683
Increase (decrease) in accrued expenses	393,570	310,619
Increase (decrease) in customer deposits	186,659	1,607,136
Increase (decrease) in compensated absences	1,207,651	358,087
Net cash provided by operating activities	\$ 24,620,660	\$ 19,101,166
Reconciliation of cash and cash equivalents to balance sheet:		
Current cash and investments	\$ 123,447,402	\$ 153,633,053
Restricted cash and investments:		
Debt service/covenants	100,004,585	102,196,065
Construction	296,778,818	311,974,269
Total cash and investments	520,230,805	567,803,387
Less investments	446,865,329	506,671,557
Cash and cash equivalents (Note 2)	\$ 73,365,476	\$ 61,131,830
Noncash capital, financing, and investing activities		
Contributions of capital assets from developers and others	\$ 62,355,126	\$ 48,300,420
Increase (decrease) in fair value of investments	\$ 5,321,392	\$ (3,122,272)

See accompanying notes to the basic financial statements.

Eastern Municipal Water District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

I. Description of Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity

The Eastern Municipal Water District (District) was formed in October 1950, under the California Water Code for the primary purpose of importing Colorado River Water to augment local water supplies. The District serves an area of approximately 352,000 acres (555 square miles), encompassing the westerly third of Riverside County. The District is operated under the direction of a five-member Board of Directors (Board) elected for four-year terms. The District presently imports 80% of its water supply from the Metropolitan Water District of Southern California (MWD) and derives the remaining 20% of its water supply from local groundwater sources. The District is a member agency of MWD and is currently entitled to have one District representative sit on the Board of MWD.

In 1962, the District began providing wastewater treatment services to customers within its service area and, as a consequence, has become actively involved in the production of recycled water (i.e., wastewater which has been treated to a level acceptable for nondomestic purposes) and has been recognized as an industry leader in the management of ground water basins and the related beneficial uses of recycled water. The District's water and wastewater customers include retail customers (e.g., residential, commercial and agricultural) located in both incorporated and unincorporated areas within the District's service area, as well as wholesale customers (e.g., municipalities and local water Districts) located within its service area.

The District formed the Eastern Municipal Water District Facilities Corporation (Facilities Corporation) on April 10, 1979, under the Non-Profit Public Benefit Corporation Law, State of California, for the purpose of rendering financing assistance to the District by acquiring, constructing and operating or providing for the operation of water and wastewater facilities, including water and wastewater transmission pipelines, treatment plants and related facilities for the use, benefit and enjoyment of the public within the District's boundaries. The Facilities Corporation is a component unit of the District.

The District's reporting entity includes the general District, the related improvement Districts located within the service area of the general District and the Eastern Municipal Water District Facilities Corporation. Although the District and the Facilities Corporation are legally separate entities, the District's Board of Directors also serves as the Facilities Corporation's Board of Directors and, therefore, the accompanying financial statements include the accounts and records of the Facilities Corporation as required by generally accepted accounting principles using the blending method. There are no separate financial statements for the Facilities Corporation. The Facilities Corporation merely serves as the legal entity used by the District to issue long-term debt. Accordingly, the Facilities Corporation has no separate financial activity to be reported as a separated fund of the District.

Basis of Accounting and Measurement Focus

The District accounts for its operation in an enterprise fund using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

An enterprise fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for water sales and sewer services. Operating expenses for the District include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Eastern Municipal Water District

Notes to the Basic Financial Statements

(continued)

I. Description of Reporting Entity and Summary of Significant Accounting Policies *(continued)*

Pronouncements of GASB and FASB

Under Government Accounting Standards Board (GASB) Statement No. 20, the District has elected not to apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989.

Cash and Investments

Investments are carried at fair value, except for guaranteed investment contracts, which are carried at cost, because they are not transferable and they have terms that are not affected by changes in market interest rates.

Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased, to be cash equivalents.

Classification of Revenues and Expenses

Operating revenues are those revenues that are generated by domestic, agricultural and irrigation, and recycled water sales, as well as sewer service charges, while operating expenses pertain to the furnishing of those services.

Non-operating revenues and expenses are those revenues and expenses generated that are not directly associated with the normal business of supplying water and wastewater treatment services. Non-operating revenues mainly consist of property taxes, standby charges, investment income, connection fees and miscellaneous income. Capital contributions consist of contributed capital assets and special charges that are legally restricted for capital expenditures by state law or by the Board action that established those charges. Non-operating expenses mainly consist of debt service interest and debt-related fees

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. water and sewer pipelines) are defined by the District as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of two years. Assets are recorded at cost. Contributed capital assets are recorded at fair market value at the time they are received. The contributed assets consist primarily of distribution lines and connections constructed and donated by developers.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets of the District is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Water source of supply and treatment	30-40
Water storage and distribution	30-40
Wastewater collection system and lift stations	35-50
Wastewater treatment plants	40-50
Recycled water storage and distribution	40-50

Eastern Municipal Water District

Notes to the Basic Financial Statements

(continued)

I. Description of Reporting Entity and Summary of Significant Accounting Policies (continued)

Capital Assets (continued)

<u>Assets</u>	<u>Years</u>
Capacity rights	40
Meters and service connections	20-25
Buildings and improvements	10-35
Office and general equipment	5-10
Automotive pool	5

Allowance for Doubtful Accounts

An allowance for doubtful accounts has been established for utility accounts receivables that are 60+ days delinquent at year-end. This allowance amounts to \$368,961 and \$187,390 at June 30, 2007 and 2006, respectively.

Inventories

Inventory consists primarily of materials used in the construction and maintenance of utility plant and is valued at weighted average cost.

Restricted Assets

Amounts shown as restricted assets have been restricted by either bond indenture, by law, or contractual obligations to be used for specified purposes, such as servicing bonded debt and construction of capital assets.

Restricted assets include water and sewer connection fees. The resolution establishing the authority for water and sewer connection fees restricts the use of these fees to the construction, acquisition, or financing of capital assets. The water and sewer connection fees are exchange transactions (non-operating revenues). The connecting party receives a benefit (connection to the system) approximately equal in value to the amount paid. These fees do not represent capital contributions (nonexchange transactions).

Generally, restricted resources are not commingled with unrestricted resources in financing projects and activities. The funding source for each project and activity is determined by Board action depending upon the type of project or activity. Restricted resources are used for specific types of projects for which such funding is designated.

Revenue Recognition

Revenues are recognized when earned. Metered water accounts are read and billed daily on 30-day cycles. Wastewater customers are also billed and included with the water billing. In certain areas of the District, the wastewater billing is handled by another water utility agency, but is accrued as revenues by the District each month. Collections are forwarded monthly, based on actual receipts. Unbilled water and wastewater charges are accrued for the period from the last meter reading through year-end and are included in accounts receivable. Unbilled accounts receivable amounted to \$5,347,937 and \$4,982,787 at June 30, 2007 and 2006, respectively.

Eastern Municipal Water District

Notes to the Basic Financial Statements

(continued)

I. Description of Reporting Entity and Summary of Significant Accounting Policies *(continued)*

Property Taxes

Property tax in California is levied in accordance with Article XIII A of the State Constitution at 1% of countywide assessed valuations. The property taxes are placed in a pool and are then allocated to the local governmental units based upon complex formulas. Property tax revenue is recognized in the fiscal year in which the taxes have been levied.

The property tax calendar is as follows:

Lien date:	January 1
Levy date:	July 1
Due date:	First installment – November 1 Second installment – February 1
Delinquent date:	First installment – December 10 Second installment – April 10

Debt Issuance Costs

Bond and certificate premiums and discounts, loss on refunding, and issuance costs are deferred and amortized over the term of bonds using the effective interest method. Net bond and certificate discounts and loss on refunding are presented as a reduction of the face amount of certificates of participation and bonds payable, whereas issuance costs are recorded as other assets.

Compensated Absences

The District has a policy whereby an employee can accumulate unused sick leave and vacation. Sick leave is to be used for extended periods of sickness; however, upon termination or retirement, a portion is paid as additional benefits to the employee. At retirement, employees who qualify under the Public Employees Retirement Law are paid for 100% of the then unused sick leave up to the maximum of 625 hours, at their regular payroll rates in effect at the date of termination. All employees who separate from the District, other than for retirement, who have completed at least six months of continuous service and/or have been authorized to use their sick leave, are entitled to receive 25% to 75% of the then unused sick leave at their regular payroll rate. The District has provided for these future costs by accruing 100% of earned and unused sick leave up to the maximum number of hours plus 50% of any hours over the stated maximum, and 100% of the earned and unused vacation.

Use of Estimates

The financial statements are prepared in conformity with generally accepted accounting principles and, accordingly, include amounts that are based on management's best estimates and judgments.

Prior Year Data

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the District's prior year financial statements, from which this selected financial data was derived.

Eastern Municipal Water District

Notes to the Basic Financial Statements

(continued)

2. Cash and Investments

Cash and investments are classified in the accompanying statement of net assets at June 30 as follows:

	2007	2006
Current assets	\$ 123,447,402	\$ 153,633,053
Restricted assets:		
Debt service/covenants	100,004,585	102,196,065
Construction	296,778,818	311,974,269
Totals	\$ 520,230,805	\$ 567,803,387

Cash and investments at June 30 consisted of the following:

	2007	2006
Cash on hand	\$ 3,600	\$ 3,600
Deposits with financial institutions	(3,195,724)	(1,613,417)
Investments	523,422,929	569,413,204
Total cash and investments	\$ 520,230,805	\$ 567,803,387

Cash and cash equivalents at June 30 consisted of the following:

	2007	2006
Demand accounts and on hand	\$ (3,192,124)	\$ (1,609,817)
Money market mutual funds	19,096,382	22,274,651
Sweep account (Repurchase agreement)	6,411,206	539,563
Local Agency Investment Fund (LAIF)	22,989,536	39,927,433
Investment Trust of California (CalTRUST)	28,060,476	0
Total cash and cash equivalents	\$ 73,365,476	\$ 61,131,830

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

The table on the following page identifies the investment types that are authorized for the District by the California Government Code and the District's investment policy. 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. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

Eastern Municipal Water District

Notes to the Basic Financial Statements

(continued)

2. Cash and Investments (continued)

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

Investment Types Authorized by State Law	Authorized by Investment Policy	* Maximum Maturity	* Maximum Percentage of Portfolio	* Maximum Investment in One Issuer
U.S. Treasury Obligations	Yes	5 Years	None	None
U.S. Agency Securities	Yes	5 Years	None	None
Bankers' Acceptances	Yes	180 Days	40%	30%
Negotiable Certificates of Deposit	Yes	1 Year	30%	25%
Commercial Paper	Yes	270 Days	25%	10%
Repurchase Agreements	No(1)	1 Year	None	None
Reverse Repurchase Agreements	No	92 Days	20%	None
Medium-Term Notes	Yes	5 Years	30%	25%
Mortgage Pass – Through Securities	Yes	5 Years	None	None
LAIF	Yes	None	None	\$40,000,000
Local Agency Bonds	No	5 Years	None	None
Mutual Funds	No	N/A	20%	10%
Money Market Mutual Funds	Yes	N/A	15%	10%
County Pooled Investment Funds	No	N/A	None	None
Joint Powers Authority (CalTRUST)	Yes	N/A	None	None

* Based upon State law or investment policy requirements, whichever is more restrictive.

(1) Only permitted for use in the District's sweep account.

Investments Authorized by Debt Agreements

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
State Obligations or Political Subdivision of States	None	None	None
Bankers' Acceptances	None	None	None
Certificates of Deposit	None	None	None
Commercial Paper	None	None	None
Guaranteed Investment Contracts	None	None	None
Repurchase Agreements	30 Days	None	None
Money Market Mutual Funds	None	None	None

Eastern Municipal Water District

Notes to the Basic Financial Statements

(continued)

2. Cash and Investments (continued)

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operation.

Information about the sensitivity of the fair values of the District's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investment by maturity:

Investment Type	Total Amount	12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
U.S. Agency Securities:					
Federal Farm Credit Bank (FFCB)	\$ 14,800,000	\$ 14,800,000	\$ -	\$ -	\$ -
Federal Home Loan Bank (FHLB)	217,196,964	123,655,402	73,554,062	19,987,500	-
Federal Home Loan Mortgage Corp. (FHLMC)	39,682,894	4,934,000	24,742,700	10,006,194	-
Federal National Mortgage Assn. (FNMA)	74,306,250	-	19,867,188	54,439,062	-
Money Market Mutual Funds	370,594	370,594	-	-	-
LAIF	22,989,536	22,989,536	-	-	-
Investment Trust of California (CalTRUST)	28,060,476	28,060,476	-	-	-
Repurchase Agreement (Sweep Account)	6,411,206	6,411,206	-	-	-
Held by Bond Trustee:					
Guaranteed Investment Contracts	92,233,437	59,171,895	-	-	33,061,542
California Municipal Bonds	8,645,784	-	-	-	8,645,784
Money Market Mutual Funds	18,725,788	18,725,788	-	-	-
Total Investments	\$ 523,422,929	\$ 279,118,897	\$ 118,163,950	\$ 84,432,756	\$ 41,707,326

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

The District's investments (including investments held by bond trustees) do not include investments that are highly sensitive to interest rate fluctuations.

Disclosures Relating to Credit Risk

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

Eastern Municipal Water District

Notes to the Basic Financial Statements

(continued)

2. Cash and Investments (continued)

Disclosures Relating to Credit Risk (continued)

Investment Type	Total Amount	Minimum Legal Rating	Not Required to be Rated	Rating at End of Year AAA	Unrated
U.S. Agency Securities:					
FFCB	\$ 14,800,000	N/A	\$ -	\$ 14,800,000	\$ -
FHLB	217,196,964	N/A	-	217,196,964	-
FHLMC	39,682,894	N/A	-	39,682,894	-
FNMA	74,306,250	N/A	-	74,306,250	-
Money Market Mutual Funds	370,594	A	-	370,594	
LAIF	22,989,536	N/A	-	-	22,989,536
CalTRUST	28,060,476	N/A	-	-	28,060,476
Repurchase Agreement (Sweep Account Held by Bond Trustee:	6,411,206	N/A	-	-	6,411,206
Guaranteed Investment Contract	92,233,437	N/A	-	-	92,233,437
California Municipal Bonds	8,645,784	N/A	-	8,645,784	-
Money Market Mutual Funds	18,725,788	A	-	18,725,788	-
Total Investments	\$ 523,422,929		\$ -	\$ 373,728,274	\$ 149,694,655

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer that represent 5% or more of total District's investments are as follows:

Issuer	Investment Type	Reported Amount
FHLB	U.S. Agency Securities	\$ 217,196,964
FNMA	U.S. Agency Securities	74,306,250
Wells Fargo Bank	Guaranteed Investment Contract	40,280,764
FHLMC	U.S. Agency Securities	39,682,894
MBIA Inc.	Guaranteed Investment Contract	18,891,131
AIG Matched Funding	Guaranteed Investment Contract	12,703,000
FSA Capital Markets	Guaranteed Investment Contract	8,379,797
Transamerica DTD	Guaranteed Investment Contract	6,880,211
AMBAC Capital Funding	Guaranteed Investment Contract	5,098,535

Eastern Municipal Water District

Notes to the Basic Financial Statements

(continued)

2. Cash and Investments *(continued)*

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of a failure of the counter party (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 investment, 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 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.

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 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 costs of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

Investment in Investment Trust of California (CalTRUST)

The District is a voluntary participant in CalTRUST, a Joint Powers Authority established by public agencies in California for the purpose of pooling and investing local agency funds. A Board of Trustees supervises and administers the investment program of the Trust. CalTRUST invests in fixed income securities eligible for investment pursuant to California Government Code Sections 53601, et seq. and 53635, et seq. Investment guidelines adopted by the Board of Trustees may further restrict the types of investments held by the Trust. 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 CalTRUST for the entire CalTRUST portfolio. The balance available for withdrawal is based on the accounting records maintained by CalTRUST. For purposes of determining fair market value, securities are normally priced on a daily basis on specified days if banks are open for business and the New York Stock Exchange is open for trading. The value of securities is determined on the basis of the market value of such securities or, if market quotations are not readily available, at fair value, under guidelines established by the Trustees. Investments with short remaining maturities may be valued at amortized cost, which the Board has determined to equal fair value.

Eastern Municipal Water District

Notes to the Basic Financial Statements

(continued)

3. Capital Assets

A summary of capital assets at June 30 is as follows:

	Beginning Balance*			Ending Balance
	June 30, 2006	Additions	Reductions	June 30, 2007
Capital assets, not being depreciated:				
Land	\$ 34,046,122	\$ 398,076	\$ -	\$ 34,444,198
Construction in progress	244,139,021	162,302,489	(172,631,500)	233,810,010
Total capital assets, not being depreciated	278,185,143	162,700,565	(172,631,500)	268,254,208
Capital assets, being depreciated:				
Water plant, lines and equipment	517,614,969	104,079,440	(8,756)	621,685,653
Water capacity rights	17,950,601	12,597,359	-	30,547,960
Sewer plant, lines and equipment	765,808,187	116,510,902	(1,205,413)	881,113,676
Equipment and general facilities	84,571,979	3,697,627	(431,025)	87,838,581
Total capital assets, being depreciated	1,385,945,736	236,885,328	(1,645,194)	1,621,185,870
Less accumulated depreciation for:				
Water plant, lines and equipment *	161,147,073	15,992,729	(4,135)	177,135,667
Water capacity rights *	2,258,377	684,966	-	2,943,343
Sewer plant, lines and equipment *	222,973,186	23,240,073	(58)	246,213,201
Equipment and general facilities	44,517,447	5,338,071	(425,866)	49,429,652
Total accumulated depreciation	430,896,083	45,255,839	(430,059)	475,721,863
Total capital assets, being depreciated, net	955,049,653	191,629,489	(1,215,135)	1,145,464,007
Capital assets, net	\$ 1,233,234,796	\$ 354,330,054	\$ (173,846,635)	\$ 1,413,718,215

* Beginning balance was restated for a correction in classification between categories.

Depreciation breakdown at June 30, 2007:

Water	\$ 15,983,996
Sewer	20,192,929
Recycled	3,462,363
Admin/Other	5,616,551
Total	<u>\$ 45,255,839</u>

Eastern Municipal Water District

Notes to the Basic Financial Statements

(continued)

4. PERS Prepaid Unfunded Liability

The District amended its California Public Employees Retirement System (PERS) contract on January 4, 1998 to implement a 2% at 55 retirement program. The actuarial division of PERS determined that the present value impact on the District was an unfunded liability of \$4,939,895. This would result in an employer rate increase of 1.495% of eligible payroll over the next 20 years. However, the District opted to pay this liability in advance and is amortizing this prepaid amount over the next 20 years. The current portion is \$246,995, and future deferred expense is \$2,387,663 at June 30, 2007.

The District amended its PERS contract on August 5, 2005 to implement a 2-1/2% at 55 retirement program. The actuarial division of PERS determined that the present value impact on the District was an unfunded liability of \$5,679,062. This would result in an employer rate increase of 2.145% of eligible payroll over the next 20 years. However, the District opted to pay this liability in advance and is amortizing this prepaid amount over the next 20 years. The current portion is \$283,953, and future deferred expense is \$4,827,203 at June 30, 2007.

5. Long-Term Liabilities

A summary of the long-term debt and other liabilities at June 30 is as follows:

	Beginning Balance June 30, 2006	Additions	Reductions	Ending Balance June 30, 2007	Due Within One Year
Advances for construction, notes and assessments payable	\$ 48,103,473	\$ 7,987,409	\$ (3,216,166)	\$ 52,874,716	\$ 3,348,613
Certificates of participation	502,990,000	20,710,000	(30,510,000)	493,190,000	9,720,000
General obligation bonds	21,675,000	-	(1,730,000)	19,945,000	1,805,000
Sub-total	572,768,473	28,697,409	(35,456,166)	566,009,716	14,873,613
Reimbursable agreements	390,313	307,772	(636,974)	61,111	-
Compensated absences	8,508,974	7,370,058	(6,162,407)	9,716,625	5,147,202
Sub-total	8,899,287	7,677,830	(6,799,381)	9,777,736	5,147,202
Less: Unamortized premium/ discount and deferred refunding charges	(9,232,011)	(660,725)	1,959,852	(7,932,884)	(752,989)
Total Long-Term Liabilities	\$ 572,435,749	\$ 35,714,514	\$ (40,295,695)	\$ 567,854,568	\$ 19,267,826

Eastern Municipal Water District

Notes to the Basic Financial Statements

(continued)

5. Long-Term Liabilities (continued)

The future maturities of long-term debt excluding reimbursable agreements and compensated absences as of June 30, 2007 are as follows:

Year ending June 30:	Principal	Interest	Total
2008	\$ 14,873,613	\$ 23,514,052	\$ 38,387,665
2009	15,553,543	23,131,089	38,684,632
2010	15,140,542	22,286,965	37,427,507
2011	14,737,579	21,551,137	36,288,716
2012	13,836,802	20,853,297	34,690,099
2013-17	93,836,179	91,647,562	185,483,741
2018-22	117,666,632	67,627,021	185,293,653
2023-27	106,430,549	40,367,607	146,798,156
2028-32	91,100,000	19,835,331	110,935,331
2033-36	49,260,000	4,245,868	53,505,868
* Future commitments	33,574,277	-	33,574,277
Sub-total	566,009,716	335,059,929	901,069,645
Less: Unamortized premium/discount and deferred refunding charges	(7,932,884)	-	(7,932,884)
Total	\$ 558,076,832	\$ 335,059,929	\$ 893,136,761

* Represents advance for construction dated March 3, 2005 with the State (California) Department of Water Resources for which future minimum annual debt service payments have not yet been established. This amount is shown as an addition to advances for construction, notes and assessments payable on the summary of long-term debt schedule.

Advances for Construction, Notes and Assessments Payable

The notes payable are general obligations of the District's individual improvement Districts which issued the notes and are payable from the revenues and taxes of the respective improvement Districts.

Safe, Clean, Reliable Water Supply Act

On March 3, 2005, the District executed a loan contract with the State (California) Department of Water Resources to provide financing under the Safe, Clean, Reliable Water Supply Act (Proposition 204) for the construction costs of the Hemet Water Filtration Plant. This project is anticipated to be completed in March 2008.

The future loan to the District is anticipated to be \$42,098,388 of which \$41,967,897 was received through June 30, 2007. The loan contract requires that the District make certain payments to the State in order to receive loan advances. The District's recorded liability for this obligation has been presented net of these required payments which amounted to \$8,393,620 through June 30, 2007. The loan contract carries no stated interest. Debt service requirements to maturity have not been presented for this obligation, because it has not yet been determined by the lending party. A schedule of payments will be determined upon the completion of the funding of the loan.

Eastern Municipal Water District

Notes to the Basic Financial Statements

(continued)

5. Long-Term Liabilities (continued)

Advances for Construction, Notes and Assessments Payable (continued)

Safe, Clean, Reliable Water Supply Act (continued)

On May 25, 2000, the District executed a loan contract with the State (California) Department of Water Resources to provide financing under the Safe, Clean, Reliable Water Supply Act (Proposition 204) for the Sun City Area Pipeline Replacement Projects. The loan to the District is \$2,000,000 repayable in varying semiannual payments including principal and interest ranging from \$65,449 to \$65,456. Semiannual payments began October 1, 2003 with the final payment scheduled for April 1, 2023 at an interest rate of 2.8%. The balance outstanding as of June 30, 2007 is \$1,678,955.

Year ending June 30:	Principal	Interest	Total
2008	\$ 84,394	\$ 46,520	\$ 130,914
2009	86,959	43,955	130,914
2010	89,319	41,595	130,914
2011	91,838	39,076	130,914
2012	94,354	36,560	130,914
2013-17	513,670	140,899	654,569
2018-22	590,208	64,361	654,569
2023	128,213	2,701	130,914
Total	\$ 1,678,955	\$ 415,667	\$ 2,094,622

Water Conservation Bond Law of 1988 (Proposition 82)

On May 25, 2000, the District executed a loan contract with the State (California) Department of Water Resources to provide financing under the Water Conservation Bond Law of 1988 (Proposition 82) for the Sun City Area Pipeline Replacement Projects. The loan to the District is \$3,150,000 repayable in varying semiannual payments including principal and interest ranging from \$103,286 to \$103,299. Semiannual payments began October 1, 2003 with the final payment scheduled for April 1, 2023 at an interest rate of 2.8%. The balance outstanding as of June 30, 2007 is \$2,649,603.

Year ending June 30:	Principal	Interest	Total
2008	\$ 133,184	\$ 73,415	\$ 206,599
2009	137,233	69,366	206,599
2010	140,956	65,643	206,599
2011	144,932	61,667	206,599
2012	148,902	57,697	206,599
2013-17	810,636	222,357	1,032,993
2018-22	931,424	101,569	1,032,993
2023	202,336	4,263	206,599
Total	\$ 2,649,603	\$ 655,977	\$ 3,305,580

Eastern Municipal Water District

Notes to the Basic Financial Statements

(continued)

5. Long-Term Liabilities (continued)

Advances for Construction, Notes and Assessments Payable (continued)

Elsinore Valley Municipal Water District

Elsinore Valley Municipal Water District, financial participation agreement note; interest rates ranging from 2.0% to 4.0% with annual principal installments ranging from \$21,314 to \$25,849 through July 15, 2011. Balance outstanding as of June 30, 2007 is \$97,502.

Year ending June 30:	Principal	Interest	Total
2008	\$ 23,582	\$ 3,334	\$ 26,916
2009	23,582	2,627	26,209
2010	24,489	1,860	26,349
2011	25,849	1,034	26,883
Total	\$ 97,502	\$ 8,855	\$ 106,357

Santa Ana Watershed Project Authority

Santa Ana Watershed Project Authority (SAWPA) agreement for purchase of capacity rights in the Santa Ana Regional Interceptor (SARI) pipeline; interest rate of 6%; annual payment including principal and interest of \$365,000 through June 30, 2012. Balance outstanding as of June 30, 2007 is \$1,537,513.

Year ending June 30:	Principal	Interest	Total
2008	\$ 272,749	\$ 92,251	\$ 365,000
2009	289,114	75,886	365,000
2010	306,461	58,539	365,000
2011	324,849	40,151	365,000
2012	344,340	20,660	365,000
Total	\$ 1,537,513	\$ 287,487	\$ 1,825,000

1992 State of California Agricultural Drainage Water Management Loan

On January 15, 1992, the District executed a loan contract with the State (California) Water Resources Control Board to provide financing for a portion of the Menifee Basin Desalter Project. The District received \$11,600,000 in loan proceeds repayable in annual installments of \$1,045,041 on each January 31 through 2011 with a final payment of \$831,939 scheduled for November 17, 2012 at an interest rate of 3.1%. Balance outstanding as of June 30, 2007 is \$5,468,918.

Year ending June 30:	Principal	Interest	Total
2008	\$ 875,504	\$ 169,537	\$ 1,045,041
2009	902,255	142,786	1,045,041
2010	930,617	114,424	1,045,041
2011	959,463	85,578	1,045,041
2012	989,206	55,835	1,045,041
2013	811,873	20,066	831,939
Total	\$ 5,468,918	\$ 588,226	\$ 6,057,144

Eastern Municipal Water District

Notes to the Basic Financial Statements

(continued)

5. Long-Term Liabilities *(continued)*

Advances for Construction, Notes and Assessments Payable *(continued)*

1991 Federal Reclamation Facilities Project Loan

In October 1991, the District entered into a contract with the federal government under the provisions of Public Law 984 to provide funding for a portion of the District's Phase I – Reclamation Facilities Project. This project included the enlargement, rehabilitation, and improvement of facilities to provide irrigation water and better water service for 21,500 acres of irrigated land as well as to provide water for wetlands enhancement and municipal and industrial (M&I) water supply purposes.

The contract is being administered by the United States Department of the Interior, Bureau of Reclamation pursuant to the Small Reclamation Projects Act of 1956 (the Act). The total estimated project cost is \$46,046,400 with the District contributing \$13,621,400 and the federal government providing funding up to the balance of \$32,425,000, providing that funds were available under the Act.

A summary of the total federal government funding available under the contract is as follows:

Total federal funding	\$ 32,425,000
Less nonrepayable grant portion	<u>6,733,300</u>
Maximum loan proceeds including interest	<u>\$ 25,691,700</u>
Components of loan proceeds:	
Water supply	\$ 20,219,400
Fish and wildlife	<u>4,147,300</u>
Net loan proceeds	24,366,700
Interest charged during construction	<u>1,325,000</u>
Maximum loan proceeds	<u>\$ 25,691,700</u>

Repayment of the loan began on May 1, 1999, with net loan proceeds repayable in 15 annual installments varying from \$552,900 to \$2,650,300 plus interest at rates varying from 0% to 9% on the fish and wildlife component and a portion of the water supply component. On October 6, 2003, the District elected to pay off the Fish and Wildlife component of the loan, with a payment of \$4,180,139. The interest rate applied to the outstanding balance of the Water Supply component (the interest on investment, or IOI) was 7.875% for the fiscal year ended June 30, 2007. However, only the portion of the calculated interest on investment amount and the annual reimbursable interest during construction (RIDC) amount allocated to the delivery of water to excess lands and to the furnishing of M&I water (water delivery ratio) is repayable. For 2007, the water delivery ratio was 5.57%, resulting in an actual interest rate of 0.44% for the period and the actual IOI and RIDC amounts paid were \$42,733 and \$38,143, respectively.

Eastern Municipal Water District

Notes to the Basic Financial Statements

(continued)

5. Long-Term Liabilities (continued)

1991 Federal Reclamation Facilities Project Loan (continued)

As of June 30, 2007, the District had received \$31,095,440 on this contract, of which the grant portion amounted to \$6,624,268 and the loan portion amounted to \$24,471,172. Since the total repayment obligation is less than the maximum loan proceeds of \$24,366,700, the above repayment schedule will still apply until the obligation is paid in full, in effect reducing the length of the repayment period. The balance outstanding as of June 30, 2007 is \$7,867,948.

Year ending June 30:	Principal	Interest	Total
2008	\$ 1,959,200	\$ 542,288	\$ 2,501,488
2009	2,114,400	364,228	2,478,628
2010	2,273,700	167,485	2,441,185
2011	1,520,648	-	1,520,648
Total	\$ 7,867,948	\$ 1,074,001	\$ 8,941,949

Certificates of Participation Payable

Certificates of participation payable consist of the following at June 30:

	2007	2006
2007 A refunding certificates of participation	\$ 20,710,000	\$ -
2006 A certificates of participation	106,320,000	106,320,000
2006 B certificates of participation	54,025,000	54,025,000
2003 A refunding certificates of participation	24,515,000	24,640,000
2003 B certificates of participation	66,015,000	67,545,000
2001 A refunding certificates of participation	55,950,000	58,720,000
2001 C refunding certificates of participation	11,040,000	12,380,000
2001 B certificates of participation	51,370,000	51,370,000
1998 A refunding certificates of participation	27,420,000	27,490,000
1997 A refunding certificates of participation	75,000	21,320,000
1993 B refunding certificates of participation	59,055,000	62,485,000
1991 certificates of participation	16,695,000	16,695,000
Total	493,190,000	502,990,000
Less current portion	9,720,000	9,335,000
Total long-term certificates of participation payable	\$ 483,470,000	\$ 493,655,000

Eastern Municipal Water District

Notes to the Basic Financial Statements

(continued)

5. Long-Term Liabilities (continued)

Certificates of Participation Payable (continued)

2007A Refunding Certificates of Participation

In May 2007, the Facilities Corporation issued \$20,710,000 in Water and Sewer Revenue Refunding Certificates of Participation, Series 2007A. The net proceeds of \$22,274,458 were used to prepay the District's 1997A certificates in the amount of \$21,175,000 maturing July 1, in the years 2008 through 2023, and to pay the municipal bond insurance policy premium and issuance costs. Following the prepayment, only the certificates maturing July 1, 2007 remained outstanding. The 1997A certificates subject to prepayment were deposited in an irrevocable trust with an escrow agent. As a result, these 1997A series certificates are considered to be defeased and the liability for those bonds has been removed from the statement of net assets.

The advance refunding resulted in a difference between the reacquisition price (amount placed in the escrow account) and the net carrying amount of the old debt of \$2,003,864. This difference, reported in the accompanying financial statements as a deferred refunding charge, is being charged to operations through the year 2023 using the straight line method. The certificates of participation payable are reported net of these deferred charges. The District completed the advance refunding to reduce the cash flows associated with its debt service payments over the next 16 years by \$1,598,439 and to obtain an economic gain (difference between the present values of the debt service payments on the old debt and the new debt) of \$1,202,413.

The certificates of participation included serial certificates due in varying amounts from \$75,000 to \$6,860,000 annually from July 1, 2009 to July 1, 2023; with interest payable semiannually at rates ranging from 4.00% to 5.00%.

	Beginning Balance June 30, 2006	Additions	Reductions	Ending Balance June 30, 2007	Due Within One year
Certificates of participation	\$ -	\$ 20,710,000	\$ -	\$ 20,710,000	\$ -
Deferred refunding charges	-	(2,003,864)	20,658	(1,983,206)	(123,950)
COP premium	-	1,343,140	(13,847)	1,329,293	83,081
	<u>\$ -</u>	<u>\$ 20,049,276</u>	<u>\$ 6,811</u>	<u>\$ 20,056,087</u>	<u>\$ (40,869)</u>

Year ending June 30:	Principal	Interest	Total
2008	\$ -	\$ 640,313	\$ 640,313
2009	-	1,024,500	1,024,500
2010	75,000	1,023,000	1,098,000
2011	75,000	1,020,000	1,095,000
2012	80,000	1,016,900	1,096,900
2013-17	445,000	5,033,800	5,478,800
2018-22	6,645,000	4,781,900	11,426,900
2023-24	13,390,000	677,750	14,067,750
Total	<u>\$ 20,710,000</u>	<u>\$ 15,218,163</u>	<u>\$ 35,928,163</u>

Eastern Municipal Water District

Notes to the Basic Financial Statements

(continued)

5. Long-Term Liabilities (continued)

Certificates of Participation Payable (continued)

2006A Certificates of Participation

In February 2006, the Facilities Corporation issued \$106,320,000 of Water and Sewer Revenue Fixed Rate Certificates of Participation, Series 2006A. Proceeds of the sale of certificates are intended to be used for the principal purpose of financing a portion of the cost of the design, acquisition and construction of the 2006A Projects. The 2006A Projects include, among others, the following capital improvements to the District's Water and Sewer System: (1) convert the San Jacinto's regional water reclamation facility to tertiary, (2) expand the capacity of the Perris Valley RWRF, (3) add clarifiers to the Perris Valley RWRF, (4) expand the capacity of the North San Jacinto Sewer System, (5) replace certain digester gas facilities at certain wastewater treatment plants, and (6) add a desalter pretreatment facility.

The certificates of participation included \$106,320,000 of serial and term certificates due in varying amounts from \$2,965,000 to \$6,350,000 annually from July 1, 2012 to July 1, 2036, with interest payable semiannually beginning July 1, 2006, at rates per annum ranging from 3.75% to 5.00%.

	June 30, 2006	Beginning Balance Additions	Reductions	Ending Balance June 30, 2007	Due Within One year
Certificates of participation	\$ 106,320,000	\$ -	\$ -	\$ 106,320,000	\$ -
COP premium	3,733,624	-	(125,853)	3,607,771	125,853
	<u>\$ 110,053,624</u>	<u>\$ -</u>	<u>\$ (125,853)</u>	<u>\$ 109,927,771</u>	<u>\$ 125,853</u>

Year ending June 30:	Principal	Interest	Total
2008	\$ -	\$ 5,119,444	\$ 5,119,444
2009	-	5,119,444	5,119,444
2010	-	5,119,444	5,119,444
2011	-	5,119,444	5,119,444
2012	-	5,119,444	5,119,444
2013-17	20,700,000	23,161,300	43,861,300
2018-22	26,385,000	17,581,472	43,966,472
2023-27	21,685,000	11,250,725	32,935,725
2028-32	18,860,000	6,764,375	25,624,375
2033-36	18,690,000	1,739,813	20,429,813
Total	<u>\$ 106,320,000</u>	<u>\$ 86,094,905</u>	<u>\$ 192,414,905</u>

Eastern Municipal Water District

Notes to the Basic Financial Statements

(continued)

5. Long-Term Liabilities (continued)

Certificates of Participation Payable (continued)

2006B Certificates of Participation

In February 2006, the Facilities Corporation issued \$54,025,000 of Water and Sewer Revenue Variable Rate Certificates of Participation, Series 2006B. Proceeds of the sale of certificates are intended to be used for the principal purpose of financing a portion of the cost of the design, acquisition and construction of the 2006B Projects. The 2006B Projects include, among others, the following capital improvements to the District's Water and Sewer System: (1) expand the capacity of the Temecula RWRf, and (2) convert the Perris Valley RWRf to tertiary.

The certificates of participation included \$54,025,000 of serial and term certificates due in varying amounts from \$3,700,000 to \$5,400,000 annually from July 1, 2024 to July 1, 2035, with interest payable weekly at the applicable Auction Rate for its respective Auction Period.

	Beginning Balance June 30, 2006	Additions	Reductions	Ending Balance June 30, 2007	Due Within One year
Certificates of participation	\$ 54,025,000	\$ -	\$ -	\$ 54,025,000	\$ -
COP premium	(341,069)	-	11,497	(329,572)	(11,497)
	<u>\$ 53,683,931</u>	<u>\$ -</u>	<u>\$ 11,497</u>	<u>\$53,695,428</u>	<u>\$ (11,497)</u>

Year ending June 30:	Principal	Interest	Total
2008	\$ -	\$ 1,885,695	\$ 1,885,695
2009	-	1,884,010	1,884,010
2010	-	1,882,227	1,882,227
2011	-	1,921,958	1,921,958
2012	-	1,885,695	1,885,695
2013-17	-	9,457,703	9,457,703
2018-22	-	9,456,216	9,456,216
2023-27	11,525,000	9,036,337	20,561,337
2028-32	21,975,000	5,968,394	27,943,394
2033-36	20,525,000	1,838,028	22,363,028
Total	<u>\$ 54,025,000</u>	<u>\$ 45,216,263</u>	<u>\$ 99,241,263</u>

Eastern Municipal Water District

Notes to the Basic Financial Statements

(continued)

5. Long-Term Liabilities (continued)

Certificates of Participation Payable (continued)

2003A Refunding Certificates of Participation

In September 2003, the Facilities Corporation issued \$26,350,000 of Water and Sewer Revenue Refunding Variable Rate Certificates of Participation, Series 2003A to prepay the 1993A certificates maturing July 1 in the years 2004 and 2023. Following the prepayment no 1993A certificates remain outstanding. The certificates of participation included \$26,350,000 of serial certificates maturing in varying amounts from \$120,000 to \$2,700,000 annually from July 1, 2004 to July 1, 2023, with a variable interest rate payable with respect to any Weekly Interest Rate Period on the first business day of each calendar month commencing October 1, 2003.

	Beginning Balance June 30, 2006	Additions	Reductions	Ending Balance June 30, 2007	Due Within One year
Certificates of participation	\$ 24,640,000	\$ -	\$ (125,000)	\$ 24,515,000	\$ 125,000
Deferred refunding charges	(1,379,160)	-	84,631	(1,294,529)	(84,631)
COP discount	(93,346)	-	5,491	(87,855)	(5,491)
	<u>\$ 23,167,494</u>	<u>\$ -</u>	<u>\$ (34,878)</u>	<u>\$ 23,132,616</u>	<u>\$ 34,878</u>

Year ending June 30:	Principal	Interest	Total
2008	\$ 125,000	\$ 786,013	\$ 911,013
2009	130,000	783,452	913,452
2010	135,000	776,439	911,439
2011	140,000	773,550	913,550
2012	145,000	769,076	914,076
2013-17	6,600,000	3,606,480	10,206,480
2018-22	11,920,000	2,050,616	13,970,616
2023-24	5,320,000	270,121	5,590,121
Total	<u>\$ 24,515,000</u>	<u>\$ 9,815,747</u>	<u>\$ 34,330,747</u>

Eastern Municipal Water District

Notes to the Basic Financial Statements

(continued)

5. Long-Term Liabilities (continued)

Certificates of Participation Payable (continued)

2003B Certificates of Participation

In September 2003, the Facilities Corporation issued \$70,305,000 in Water and Sewer Revenue Variable Rate Certificates of Participation, Series 2003B. Proceeds of the sale of certificates were intended to be used for the principal purpose of financing the cost of the design, acquisition and construction of the 2003B Projects. The 2003B Projects include, among others, (1) the construction of improvements to the Moreno Valley RWRF, (2) the construction of improvements to the Perris Valley RWRF, (3) the construction of improvements to the Temecula Valley RWRF, (4) the construction of the Temecula Effluent Disposal Pipeline, and (5) the prepayment of the Fish and Wildlife portion of the Bureau loan.

The certificates of participation included \$70,305,000 of term certificates due in varying amounts from \$1,275,000 to \$3,575,000 annually from July 1, 2004 to July 1, 2033 with a variable interest payable with respect to any Weekly Interest Rate Period on the first business day of each calendar month commencing on October 1, 2003.

	Beginning Balance June 30, 2006	Additions	Reductions	Ending Balance June 30, 2007	Due Within One year
Certificates of participation	\$ 67,545,000	\$ -	\$ (1,530,000)	\$ 66,015,000	\$ 1,575,000
COP discount	(261,883)	-	9,700	(252,183)	(9,700)
	<u>\$ 67,283,117</u>	<u>\$ -</u>	<u>\$ (1,520,300)</u>	<u>\$ 65,762,817</u>	<u>\$ 1,565,300</u>

Year ending June 30:	Principal	Interest	Total
2008	\$ 1,575,000	\$ 2,119,653	\$ 3,694,653
2009	1,625,000	2,073,074	3,698,074
2010	1,680,000	2,013,659	3,693,659
2011	1,735,000	1,963,642	3,698,642
2012	1,790,000	1,908,171	3,698,171
2013-17	9,830,000	8,649,112	18,479,112
2018-22	11,510,000	6,967,644	18,477,644
2023-27	13,470,000	5,009,341	18,479,341
2028-32	15,765,000	2,713,812	18,478,812
2033-36	7,035,000	357,527	7,392,527
Total	<u>\$ 66,015,000</u>	<u>\$ 33,775,635</u>	<u>\$ 99,790,635</u>

Eastern Municipal Water District

Notes to the Basic Financial Statements

(continued)

5. Long-Term Liabilities (continued)

Certificates of Participation Payable (continued)

2001A, 2001C Refunding Certificates of Participation

In April 2001, the Facilities Corporation issued the following refunding certificates of participation:

\$68,735,000 Water and Sewer Revenue Refunding Certificates of Participation, Series A to prepay \$68,185,000 of the District's 1991A Certificates of Participation, to fund a debt service reserve established for the certificates, and to pay the municipal bond insurance policy premium and issuance costs of the certificates. The certificates of participation include \$68,735,000 of serial certificates maturing in varying amounts from \$500,000 to \$5,415,000 annually from July 1, 2002 to July 1, 2020, with interest payable semiannually at rates per annum ranging from 3.40% to 5.375%. The 2001A Certificates with certificate payment dates on or after July 1, 2012, are subject to optional prepayment.

\$13,985,000 Water and Sewer Revenue Refunding Certificates of Participation, Series C to prepay \$13,165,000 of the District's 1993A Certificates of Participation, to fund a debt service reserve established for the certificates, and to pay the municipal bond insurance policy premium and issuance costs of the certificates. The certificates of participation include \$13,985,000 of serial certificates maturing in varying amounts from \$100,000 to \$1,770,000 annually from July 1, 2002 to July 1, 2013, with interest payable semiannually at rates per annum ranging from 4.0% to 4.250%. The 2001C Certificates with certificate payment dates on or after July 1, 2012, are subject to optional prepayment.

2001A Refunding Certificates of Participation

	Beginning Balance June 30, 2006	Additions	Reductions	Ending Balance June 30, 2007	Due Within One year
Certificates of participation	\$ 58,720,000	\$ -	\$ (2,770,000)	\$ 55,950,000	\$2,865,000
Deferred refunding charges	(5,035,404)	-	364,005	(4,671,399)	(364,005)
COP premium	1,705,006	-	(123,254)	1,581,752	123,253
	<u>\$ 55,389,602</u>	<u>\$ -</u>	<u>\$ (2,529,249)</u>	<u>\$ 52,860,353</u>	<u>\$2,624,248</u>

Year ending June 30:	Principal	Interest	Total
2008	\$ 2,865,000	\$ 2,744,294	\$ 5,609,294
2009	3,020,000	2,593,588	5,613,588
2010	3,165,000	2,454,788	5,619,788
2011	3,290,000	2,322,563	5,612,563
2012	3,435,000	2,163,469	5,598,469
2013-17	20,035,000	7,858,013	27,893,013
2018-21	20,140,000	2,085,488	22,225,488
Total	<u>\$ 55,950,000</u>	<u>\$ 22,222,203</u>	<u>\$ 78,172,203</u>

Eastern Municipal Water District

Notes to the Basic Financial Statements

(continued)

5. Long-Term Liabilities (continued)

Certificates of Participation Payable (continued)

2001A, 2001C Refunding Certificates of Participation (continued)

2001C Refunding Certificates of Participation

	Beginning Balance			Ending Balance		Due Within One year
	June 30, 2006	Additions	Reductions	June 30, 2007		
Certificates of participation	\$ 12,380,000	\$ -	\$ (1,340,000)	\$ 11,040,000	\$1,395,000	
Deferred refunding charges	(748,109)	-	109,479	(638,630)	(109,479)	
COP discount	(9,018)	-	1,320	(7,698)	(1,320)	
	<u>\$ 11,622,873</u>	<u>\$ -</u>	<u>\$ (1,229,201)</u>	<u>\$ 10,393,672</u>	<u>\$1,284,201</u>	

Year ending June 30:	Principal	Interest	Total
2008	\$ 1,395,000	\$ 422,375	\$ 1,817,375
2009	1,455,000	365,375	1,820,375
2010	1,515,000	305,975	1,820,975
2011	1,570,000	244,275	1,814,275
2012	1,635,000	180,175	1,815,175
2013-14	3,470,000	148,963	3,618,963
Total	<u>\$ 11,040,000</u>	<u>\$ 1,667,138</u>	<u>\$ 12,707,138</u>

Eastern Municipal Water District

Notes to the Basic Financial Statements

(continued)

5. Long-Term Liabilities (continued)

Certificates of Participation Payable (continued)

2001B Certificates of Participation

In April 2001, the Facilities Corporation issued \$51,370,000 in certificates of participation Series 2001B. Proceeds of the sale of certificates were intended to be used for the principal purpose of financing the cost of the design, acquisition and construction of the 2001B Projects. The 2001B Projects include, among others, (1) the construction of improvements to the Moreno Valley RWRF, (2) the construction of improvements to the Sanderson Lift Station, (3) the construction of the Perris Water Treatment Plant, and (4) the construction of the Menifee Desalter Plant

The certificates of participation include \$51,370,000 of term certificates due in varying amounts annually from July 1, 2024 to July 1, 2030 with interest payable semiannually at rates per annum of 5.0%. The 2001B Certificates are subject to optional prepayment without premium on any date on or after July 1, 2011.

	Beginning Balance June 30, 2006	Additions	Reductions	Ending Balance June 30, 2007	Due Within One year
Certificates of participation	\$ 51,370,000	\$ -	\$ -	\$ 51,370,000	\$ -
COP discount	(782,830)	-	32,846	(749,984)	(32,846)
	<u>\$ 50,587,170</u>	<u>\$ -</u>	<u>\$ 32,846</u>	<u>\$ 50,620,016</u>	<u>\$ (32,846)</u>

Year ending June 30:	Principal	Interest	Total
2008	\$ -	\$ 2,568,500	\$ 2,568,500
2009	-	2,568,500	2,568,500
2010	-	2,568,500	2,568,500
2011	-	2,568,500	2,568,500
2012	-	2,568,500	2,568,500
2013-17	-	12,842,500	12,842,500
2018-22	-	12,842,500	12,842,500
2023-27	19,890,000	11,383,000	31,273,000
2028-31	31,480,000	3,243,750	34,723,750
Total	<u>\$ 51,370,000</u>	<u>\$ 53,154,250</u>	<u>\$ 104,524,250</u>

Eastern Municipal Water District

Notes to the Basic Financial Statements

(continued)

5. Long-Term Liabilities (continued)

Certificates of Participation Payable (continued)

1998A Refunding Certificates of Participation

In January 1998, the Facilities Corporation issued \$39,655,000 Water and Sewer Revenue Refunding Certificates of Participation, Series A to prepay \$36,420,000 of the District's 1991 Certificates of Participation, to fund a debt service reserve established for the certificates, and to pay the municipal bond insurance policy premium and issuance costs. The certificates of participation include \$12,835,000 of serial certificates maturing in varying amounts from \$70,000 to \$3,025,000 annually from July 1, 1998 to July 1, 2013; with interest payable semiannually at rates ranging from 3.60% to 5.00%. Also, in this certificate issue are \$26,820,000 of term certificates due in varying amounts on July 1, 2018, 2021 and 2023, with interest payable semiannually at rates ranging from 4.75% to 5.00%.

	Beginning Balance June 30, 2006	Additions	Reductions	Ending Balance June 30, 2007	Due Within One year
Certificates of participation	\$ 27,490,000	\$ -	\$ (70,000)	\$ 27,420,000	\$ 75,000
Deferred refunding charges	(1,522,178)	-	86,161	(1,436,017)	(86,161)
COP discount	(569,569)	-	32,239	(537,330)	(32,240)
	<u>\$ 25,398,253</u>	<u>\$ -</u>	<u>\$ 48,400</u>	<u>\$ 25,446,653</u>	<u>\$ (43,401)</u>

Year ending June 30:	Principal	Interest	Total
2008	\$ 75,000	\$ 1,320,936	\$ 1,395,936
2009	80,000	1,317,661	1,397,661
2010	80,000	1,314,241	1,394,241
2011	85,000	1,310,651	1,395,651
2012	90,000	1,306,756	1,396,756
2013-17	505,000	6,465,959	6,970,959
2018-22	8,760,000	6,123,631	14,883,631
2023-24	17,745,000	852,744	18,597,744
Total	<u>\$ 27,420,000</u>	<u>\$ 20,012,579</u>	<u>\$ 47,432,579</u>

Eastern Municipal Water District

Notes to the Basic Financial Statements

(continued)

5. Long-Term Liabilities (continued)

Certificates of Participation Payable (continued)

1997A Refunding Certificates of Participation

In July 1997, the Facilities Corporation issued \$21,835,000 Water and Sewer Revenue Refunding Certificates of Participation, Series A to prepay \$19,605,000 of the District's 1991A Certificates of Participation, to fund a debt service reserve established for the certificates, and to pay the municipal bond insurance policy premium and issuance costs. The certificates of participation include \$1,655,000 of serial certificates maturing in varying amounts from \$55,000 to \$125,000 annually from July 1, 1998 to July 1, 2017; with interest payable semiannually at rates ranging from 3.75% to 5.25%. Also, in this certificate issue are \$20,180,000 of term certificates due in varying amounts on July 1, 2023, with interest payable semiannually at rates of 5.25%.

In May 2007, the 1997A refunding certificates maturing on July 1 in the years 2008 through 2023 totaling \$21,175,000 were refunded. The 1997A certificates are considered defeased and were removed from the District's books. Therefore, only the certificates totaling \$75,000 maturing on July 1, 2007 remained on the books at fiscal year end.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One year
	June 30, 2006			June 30, 2007	
Certificates of participation	\$ 21,320,000	\$ -	\$(21,245,000)	\$ 75,000	\$ 75,000
Deferred refunding charges	(687,903)	-	687,903	-	-
COP discount	(553,019)	-	553,019	-	-
	<u>\$ 20,079,078</u>	<u>\$ -</u>	<u>\$(20,004,078)</u>	<u>\$ 75,000</u>	<u>\$ 75,000</u>

Year ending June 30:	Principal	Interest	Total
2008	\$ 75,000	\$ 1,763	\$ 76,763
Total	<u>\$ 75,000</u>	<u>\$ 1,763</u>	<u>\$ 76,763</u>

1993B Refunding Certificates of Participation

In May 1993, the Facilities Corporation issued \$65,795,000 in Refunding Certificates of Participation Series 1993B. Proceeds of the sale of certificates were used to provide monies for the partial defeasance of \$59,350,000 Series 1991 certificates of participation, to pay the municipal bond insurance policy premium for the certificates and to pay the costs of issuance.

The certificates of participation are subject to mandatory repayment in varying amounts from \$165,000 to \$7,570,000 annually from July 1, 1993 to July 1, 2020, with interest payable semiannually at the weekly interest rate (as determined by the Remarketing Agent) unless converted to a fixed interest rate at the District's option.

Eastern Municipal Water District

Notes to the Basic Financial Statements

(continued)

5. Long-Term Liabilities (continued)

Certificates of Participation Payable (continued)

1993B Refunding Certificates of Participation (continued)

The District has entered into a Swap Agreement with AIG Financial Products Corporation (AIG-FP) for the purpose of hedging against interest rate fluctuations arising from the issuance of the 1993B Certificates as variable rate obligations. The Swap Agreement provides for the District to make payments to AIG-FP on a fixed-rate basis on notional amounts totaling \$64,070,000 and for AIG-FP to make reciprocal payments based on a variable-rate basis which results in a fixed annual rate of interest to the District of 5.135% on the certificates. The fair value of swap agreements as of a given date reflects the pricing that the District would receive to transfer its interest in the agreement to a third party at that date. This value is a function of interest rates demanded by the market as of the date of the valuation. This value fluctuates as market interest rates increase or decrease over the term of the agreement. As of June 30, 2007, market interest rates were substantially lower than the fixed interest rate associated with the payments by the District under the terms of this agreement. As a result, the fair value of the agreement as of this date is a negative \$6,519,132, including accrued interest (i.e., a payment would be required to be made by the District to substitute the District's interest in the agreement to a third party).

The District may prepay all or part of the certificates at any time at par while the certificates remain as variable interest rate securities. If, however, the District elects to convert the certificates to a fixed interest rate, the certificates are subject to prepayment at par plus a premium ranging from 2% to 0% (declining by .5% every two years) depending on the years remaining to maturity as of the fixed interest rate conversion date.

	Beginning Balance June 30, 2006	Additions	Reductions	Ending Balance June 30, 2007	Due Within One year
Certificates of participation	\$ 62,485,000	\$ -	\$ (3,430,000)	\$ 59,055,000	\$ 3,610,000
COP discount	(2,772,918)	-	164,025	(2,608,893)	(164,025)
	<u>\$ 59,712,082</u>	<u>\$ -</u>	<u>\$ (3,265,975)</u>	<u>\$ 56,446,107</u>	<u>\$ 3,445,975</u>

Year ending June 30:	Principal	Interest	Total
2008	\$ 3,610,000	\$ 2,939,788	\$ 6,549,788
2009	3,810,000	2,749,279	6,559,279
2010	240,000	2,645,295	2,885,295
2011	250,000	2,632,715	2,882,715
2012	270,000	2,619,364	2,889,364
2013-17	22,880,000	10,752,947	33,632,947
2018-21	27,995,000	2,971,496	30,966,496
Total	<u>\$ 59,055,000</u>	<u>\$ 27,310,884</u>	<u>\$ 86,365,884</u>

Eastern Municipal Water District

Notes to the Basic Financial Statements

(continued)

5. Long-Term Liabilities (continued)

Certificates of Participation Payable (continued)

1991 Certificates of Participation

In March 1991, the Facilities Corporation issued \$128,690,000 in Certificates of Participation Series 1991. Proceeds of the sale of certificates were used for the principal purpose of financing the cost of the design, acquisition and construction of certain wastewater capital improvements (the 1991 Project) to the District's water and sewer system.

The certificates of participation include \$26,815,000 of serial certificates maturing in varying amounts from \$1,440,000 to \$2,910,000 annually from July 1, 1993 to July 1, 2005, with interest payable semiannually at rates ranging from 5.1% to 7.5%. Also, in this issue are \$101,875,000 of term certificates due in varying amounts on July 1, 2008, 2012, 2020 and 2023, with interest payable semiannually at rates ranging from 6% to 6.75%. Certificates maturing prior to July 1, 2002 and on July 1, 2012 are not subject to prior redemption; Certificates maturing July 1, 2002 and after (except those maturing on July 1, 2012), may be called prior to maturity at par plus a premium of 2% in 2002, 1% in 2003, and 0% thereafter. The term certificates are subject to mandatory sinking fund requirements beginning July 1, 2006, in amounts varying from \$3,105,000 in 2006 to \$9,115,000 in 2023.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One year
	June 30, 2006			June 30, 2007	
Certificates of participation	\$ 16,695,000	\$ -	\$ -	\$ 16,695,000	\$ -
Total	\$ 16,695,000	\$ -	\$ -	\$ 16,695,000	\$ -

Year ending June 30:	Principal	Interest	Total
2008	\$ -	\$ 1,126,913	\$ 1,126,913
2009	-	1,126,913	1,126,913
2010	3,775,000	999,506	4,774,506
2011	4,030,000	736,088	4,766,088
2012	4,300,000	454,950	4,754,950
2013	4,590,000	154,913	4,744,913
Total	\$ 16,695,000	\$ 4,599,283	\$ 21,294,283

Eastern Municipal Water District

Notes to the Basic Financial Statements

(continued)

5. Long-Term Liabilities (continued)

Bonds Payable

The District's general obligation bonds are callable prior to maturity, subject to certain call premiums. The liability for the general district bonds and improvements within the respective special districts, and the funds for retirement thereof, are derived from a bond redemption levy in the assessed valuation of the individual districts.

Bonds payable consist of the following at June 30:

	2007	2006
1995 General obligation refunding bonds: Interest rates of the various bond issues outstanding range from 3.9% to 5.5%. Bonds mature annually in varying amounts through 2009.	\$ 2,340,000	\$ 3,420,000
2005 General obligation bonds Interest rates of the various bond issues outstanding range from 3.0% to 5.0%. Bonds mature annually in varying amounts through 2035.	17,605,000	18,255,000
Total	19,945,000	21,675,000
Less current portion	1,805,000	1,730,000
Total long-term bonds payable	\$ 18,140,000	\$ 19,945,000

At June 30, 2007, general obligation bonds authorized but not issued total \$579,275,000.

	Beginning Balance June 30, 2006	Additions	Reductions	Ending Balance June 30, 2007	Due Within One year
General obligation bonds	\$ 21,675,000	\$ -	\$ (1,730,000)	\$ 19,945,000	\$1,805,000
Deferred refunding charges	(81,566)	-	29,661	(51,905)	(29,660)
Net bond premium/discount	167,331	-	30,171	197,502	(30,171)
Total	\$ 21,760,765	\$ -	\$ (1,670,168)	\$ 20,090,597	\$1,745,169

Year ending June 30:	Principal	Interest	Total
2008	\$ 1,805,000	\$ 911,020	\$ 2,716,020
2009	1,880,000	826,445	2,706,445
2010	710,000	734,345	1,444,345
2011	495,000	710,245	1,205,245
2012	515,000	690,045	1,205,045
2013-17	2,645,000	3,132,550	5,777,550
2018-22	2,790,000	2,600,128	5,390,128
2023-27	3,075,000	1,880,625	4,955,625
2028-32	3,020,000	1,145,000	4,165,000
2033-36	3,010,000	310,500	3,320,500
Total	\$ 19,945,000	\$ 12,940,903	\$ 32,885,903

Eastern Municipal Water District

Notes to the Basic Financial Statements

(continued)

5. Long-Term Liabilities (continued)

Reimbursable Agreements

The District enters into agreements with developers whereby certain facilities will be built by them that will support future development beyond their own. As this new development occurs, a portion of the connection fee revenue is allocated to a "reimbursement pool account" and a determination is made semi-annually based on a priority basis to remit these funds back to them.

Debt Service Reserve Funds

The District is required to maintain a Debt Service Reserve Fund to be used for the payment of principal and interest of its Certificates of Participation Bonds in the event that the District has not provided the Trustee with sufficient funds by the Installment Payment date to make the required Installment Sale Payments. The current required reserve amount as determined by the bond documents and the reserve balance at June 30, 2007 for each outstanding bond issue is:

	Required		Actual		Excess/(Deficiency)
1991/1998A COP	\$ 5,464,967		\$ 5,693,046		\$ 228,079
2001A/2007A COP	7,203,000		7,425,406		222,406
1993A/2001C/2003A	3,108,424		3,241,590		133,166
1993B COP	6,579,500		6,698,491		118,991
2001B COP	5,137,000		5,256,589		119,589
2003B COP	4,356,136		4,512,971		156,835
2006A COP	8,379,797		8,589,127		209,330
2006B COP	4,354,710		4,326,657		(28,053)*

* The 2006B COP reserve amount is invested in California municipal bonds. The shortage at June 30 is due to market value fluctuation and was offset by interest earnings on August 1, 2007.

Master Resolution

The District adopted Resolution No. 2667, entitled "A Resolution of the Board of Directors of the Eastern Municipal Water District Providing for the Allocation of Water and Sewer Revenues" (the "Master Resolution") to establish various reserves and covenants of which the following are required to be maintained:

- 1) Debt Coverage Ratio
The District has covenanted that Net Water and Sewer Revenues shall be at least 1.15 times the sum of all Debt Service on all Parity Obligations, plus the amount of all deposits required to be made to the Operating Reserve Fund. As of June 30, 2007, the District's debt coverage ratio was 3.8 times.
- 2) Operating Reserve Fund
The District has covenanted that it will maintain a minimum of ¼ of its annual maintenance and operating costs as set forth in its operating budget in a separate reserve fund. This reserve was \$29,126,581 at June 30, 2007 and \$28,034,296 at June 30, 2006.

Eastern Municipal Water District

Notes to the Basic Financial Statements

(continued)

5. Long-Term Liabilities (continued)

Defeasance of Debt

The District defeased or partially defeased certain certificates of participation and general obligation bonds by placing the proceeds of new debt in irrevocable trusts to provide for all future debt service payments on the defeased debt. Accordingly, the trusts' assets and the liability for the defeased debt issues are not included in the District's financial statements. The outstanding balances of the debt considered defeased as of June 30 are as follows:

	2007	2006
1988 Certificates of participation	\$ 7,205,000	\$ 10,410,000
1989 Certificates of participation	22,480,000	26,115,000
1991 Certificates of participation	82,075,000	85,180,000
1991A Refunding certificates of participation	75,260,000	77,685,000
1993A Certificates of participation	10,745,000	11,985,000
1997A Refunding certificates of participation	21,175,000	-
1989 General obligation bonds	2,650,000	3,835,000
Total	<u>\$ 221,590,000</u>	<u>\$ 215,210,000</u>

6. Defined Benefit Pension Plan

Plan Description

The District contributes to the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement, disability benefits, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the state of California. Copies of PERS' annual financial report can be obtained from its executive office at 400 P Street, Sacramento, CA 95814.

All full-time District employees are eligible to participate in PERS with benefits vesting after five years of service. District employees who retire at age 55 with five years of credited service are entitled to an annual retirement benefit, payable monthly for life, in increasing percentage increments up to 2.5% of their average salary during their last year of employment, for each year of credited service.

Funding Policy

District employees are required to contribute 8% of their annual salary to PERS. Of this 8%, the District funds 7% as agreed to in negotiations with its union. The District is required to contribute the remaining amount necessary to fund the benefits of its members, using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the Board of Administration. For the year ended June 30, 2007, the amount contributed by the District on behalf of the employees is \$2,738,460. The required employer contribution rate for fiscal year ended June 30, 2007 is 9.448% as determined by the annual PERS valuation. However, the District's effective employer contribution rate is 0% due to prepayment.

Eastern Municipal Water District

Notes to the Basic Financial Statements

(continued)

6. Defined Benefit Pension Plan *(continued)*

Annual Pension Cost

Under GASB 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period July 1, 2006 to June 30, 2007 has been determined by an actuarial valuation of the plan as of June 30, 2004. The contribution rate for the indicated period is 9.448% of payroll for the Retirement Program. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2007, this contribution rate, as modified by any amendments for the year, would be multiplied by the payroll of covered employees that was actually paid during the period July 1, 2006 to June 30, 2007.

A summary of principal assumptions and methods used to determine the ARC is shown below.

Valuation Date	June 30, 2004
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	23 Years as of the Valuation Date
Asset Valuation Method	15 Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	7.75% (net of administrative expenses)
Projected Salary Increases	3.25% to 14.45% depending on Age, Service, and type of employment
Inflation	3.00%
Payroll Growth	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into PERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of about 6% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30 year amortization period.

The total contribution paid to the PERS for 2007 and 2006 was \$3,210,747 and \$2,894,362, respectively. In 2007, the District paid \$2,738,460 and the employees paid \$391,209. In 2006, the District paid \$2,492,160 and the employees paid \$315,899. The contributions were made in accordance with actuarially determined requirements computed through an actuarial valuation performed prior to the beginning of each fiscal year by the PERS Actuarial Division. The combined employer and employee contribution consisted of 8.0% of current covered payroll.

Eastern Municipal Water District

Notes to the Basic Financial Statements

(continued)

6. Defined Benefit Pension Plan (continued)

Trend Information

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. The District's specific three-year trend information follows:

Three-year trend information for PERS (dollar amounts in millions):

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06/30/05	\$ 2.27	100%	\$ -
06/30/06	2.89	100%	-
06/30/07	3.21	100%	-

The following Schedule of Funding Progress for PERS (dollar amounts in millions) shows the recent history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded actuarial accrued liability to payroll.

Actuarial Valuation Date	(A) Entry Age Actuarial Accrued Liability (AAL)	(B) Actuarial Value of Assets	(C) Unfunded AAL (UAAL) (A)-(B)	Funded Ratio (B)(A)	(D) Covered Payroll	UAAL as a Percentage of Covered Payroll (C)(D)
06/30/04	\$ 133.81	\$ 121.93	\$ 11.88	91.1%	\$ 30.01	39.6%
06/30/05	149.00	137.93	11.07	92.6%	34.17	32.4%
06/30/06	170.08	153.22	16.86	90.1%	37.67	44.8%
06/30/07	(1)	(1)	(1)	(1)	39.12(2)	(1)

(1) Information not available.

(2) Actual PERS wages per District payroll records.

The information provided above for the Schedule of Funding Progress is based upon the most current information available from PERS.

7. Defined Contribution Plan

The District has a 401(a) money purchase defined contribution plan (Plan) covering all employees of the District who have completed one year of service. The Plan was adopted in January 1978 and may be amended by the District provided the trustee joins in such amendment. The District is required to contribute 7.15% of each eligible employee's compensation up to a maximum annual compensation of \$16,500. The District's contributions to the Plan were \$790,714 and \$743,317 in 2007 and 2006, respectively.

Eastern Municipal Water District

Notes to the Basic Financial Statements

(continued)

8. Post-Employment Benefits

The District provides post-employment health care benefits to all qualified employees, hired before August 1, 2005, who meet the District's California Public Employees' Retirement System (PERS) plan requirements. For all qualified regular District employees, five years of full-time, continuous employment with the District is required. In addition, the employee must be at least 50 years of age and have participated in the PERS plan for at least five years as well as receiving service retirement benefits pursuant to the terms and conditions of the District's PERS plan. The District pays a fixed sum, not to exceed 100% of the medical plan premium from the date of retirement for the life of the retired employee. Depending on the PERS payment plan chosen by the employee for spousal coverage after the death of the employee, the District would also cover the spouse for life under the same plan.

Employees hired on or after August 1, 2005 are eligible to continue coverage under the District's Group Health Insurance Program based on the Health Benefit Vesting Requirements found in Government Code Section 22893 (Vesting for Contracting Agency Employees). Health Benefit Vesting Requirements limit the District's contribution toward retiree health insurance premiums based on years of PERS and District service. Once employees have 10 years of PERS service (five years of which are with the District) they become eligible for 50% of the employer medical premium contribution. The employer contribution increases 5% with each year of service thereafter. With 20 years of service employees become eligible for 100% of the employer medical premium contribution.

The District finances the plan on a pay-as-you-go basis. In 2007 and 2006, the District paid \$1,528,855 and \$1,219,874 respectively, in post-employment health care benefits, net of retiree contributions, and had 225 and 215 retired eligible employees, respectively.

9. Restricted and Unrestricted Net Assets

Restricted Net Assets

Restricted for debt service/covenants represents constraints placed on certain net assets as required by the District's Master Resolution and third party general obligation bondholders. Restricted for construction represents constraints placed on certain net assets as a result of legally restricted monies received and unspent from developers as required by State law.

Unrestricted Net Assets

As required by GASB No. 34, net assets have been classified according to guidelines established for restricted assets. However, the unrestricted assets, although not legally restricted, have been established pursuant to Board Resolution No. 3359 and are primarily composed of reserves for various purposes. The unrestricted net assets at June 30, 2007 consist of:

Replacement and System Betterment Reserve	\$ 51,308,459
Operational Debt Service Reserve	7,342,391
General Liability and Workers Comp Reserve	1,023,726
Other Reserves and General Fund	2,997,825
Total Unrestricted Net Assets	<u>\$ 62,672,401</u>

Eastern Municipal Water District

Notes to the Basic Financial Statements

(continued)

10. Tunnel Water Seepage Agreement

In 1951, the District entered into an agreement with the Metropolitan Water District setting forth the terms and conditions of annexation to the Metropolitan Water District service area. Among other provisions, the agreement provided that for all future time, the tunnel water seepage of the Metropolitan Water District's San Jacinto tunnel would come under the control and be delivered free to the District. In 1953, the District established an intangible asset that represented the value of this agreement based on an engineering report by Warren O. Wagner, consulting hydraulic engineer. The original appraisal was established at \$1,669,000 based on an annual value of this additional water at 5,840 acre feet per year at \$10.00 per acre foot and a money value of 3.5%. This value was reevaluated in 1957 with Mr. Wagner and a revised value of \$1,750,900 was established based on \$12.00 per acre foot and a 4.0% value of money.

11. Commitments

Construction Contracts

The District is committed to approximately \$184.8 million of open construction contracts as of June 30, 2007. The ten largest contracts outstanding include:

	Contract Amount	Balance to Complete
PVRWRF Expansion Plant 3	\$ 149,250,000	\$ 139,801,195
San Jacinto Interceptor Sewer	13,728,148	13,053,148
N. San Jacinto Regional Sewer Phase 2	8,897,256	7,901,748
PVRWRF Tertiary Expansion	27,094,055	5,859,336
MVRWRF/TVRWRF WAS Thickening Exp	4,832,760	3,724,540
Lindenberger Road Waterlines	4,623,912	3,044,497
SJRWRF Equalization Basins	7,429,600	2,747,429
French Valley SWR Imp. Phase I & II	11,544,567	2,602,973
H/SJ IRRP Production Wells	1,969,884	1,394,514
Reach 4 P/L Phase I Improvements	1,027,800	996,966
	<u>\$ 230,397,982</u>	<u>\$ 181,126,346</u>

Claims and Judgments

The District is exposed to various risks of loss related to torts, theft, damage, and destruction of assets, error and omissions, road and walkway design hazards, vehicle accidents and natural disasters for which the District maintains various insurance programs. The District has entered into contracts to supervise and administer these programs.

The District retains risk for losses sustained because of liability imposed on the employer (District) by the Workers' Compensation Act. For general liability, the District maintains excess insurance coverage of \$10 million per occurrence with a \$1,000,000 self-insured retention.

Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. The liability for claims and judgments is included in other accrued expenses. Changes in claims payable for the years ended June 30 are shown on the following page:

Eastern Municipal Water District

Notes to the Basic Financial Statements

(continued)

11. Commitments *(continued)*

Claims and Judgments *(continued)*

	2007	2006
Unpaid claims, beginning	\$ 983,004	\$ 982,100
Incurred claims and changes in estimates	1,419,198	1,150,915
Claim payments	(1,191,417)	(1,150,011)
Unpaid claims, ending	<u>\$ 1,210,785</u>	<u>\$ 983,004</u>

There was no significant reduction in insurance coverage by major categories of risk from fiscal year 2005/06 to fiscal year 2006/07. Furthermore, there has been no settlement which exceeded insurance coverage for the past three fiscal years.

Special Funding District Bonds

These bonds are not direct liabilities of the District, and their payment is secured by valid liens on certain lands. Reserves have been established from the bond proceeds to meet delinquencies should they occur. Neither the faith and credit nor the taxing power of the District is pledged to the payment of the bonds. If delinquencies occur beyond the amounts held in those reserves, the District has no duty to pay those delinquencies out of any other available funds. The District acts solely as an agent for those paying assessments or special taxes and the bond holders. The Special Funding District Bonds outstanding at June 30, 2007 and 2006, were \$203,561,272 and \$160,601,912 respectively, and are not included in the District's financial statements.

12. Contingencies

The District is a defendant in various legal actions. Management believes that the ultimate resolution of these actions will not have a significant effect on the District's financial position or results of operations.

13. Santa Ana Watershed Project Authority

The Santa Ana Watershed Project Authority was formed in 1975, pursuant to the provisions of Article I, Chapter 5, Division 7, Title I of the Government Code of the State of California relating to the joint exercise powers common to public agencies, for the purpose of undertaking projects for water quality control and protection and pollution abatement in the Santa Ana Watershed. The authority is governed by a 10-member Board of Commissioners, constituting of two members from each of the five-member agencies. Eastern Municipal Water District became a member in September 1984. An independent audit report is prepared annually and is available for public inspection at the offices of the Authority.

14. Advances from Developers

The District receives deposits from developers in advance to cover various costs for both sewer and water related projects. At June 30, 2007 and 2006, the amount of refundable deposits was \$37,159,800 and \$28,411,588, respectively. However, when a project is closed, the developer is refunded only the amount remaining after offsetting all accumulated work in process costs. If costs exceed the deposit amount during the project, the developer is billed for additional deposits.



Supplementary Section



The mission of EMWD's Education Program is to foster understanding of water and recycled water issues and to promote wise water use among our future community leaders. Programs for elementary school students include a poster contest, assembly presentations and classroom visits from Dewie the Dragon and Zowie the Magic Fairy, who teach children how to be water-wise through story telling and songs. Students in grades 3-12 can tour several water treatment and water reclamation facilities.

More information about the Education Program can be found at www.emwd.org/learning/index.html

Eastern Municipal Water District Schedule of Revenues, Expenses and Changes in Net Assets – Actual and Budget

For the Fiscal Year Ended June 30, 2007

The table below compares revenues and expenses of the District compared to budgeted and/or projected figures used by the District to monitor performance during the year. The overall change in net assets was budgeted at a positive \$112.3 million vs. an actual of \$118.6 million. The favorable variance of \$6.3 million is attributed to a favorable capital contributions variance of \$27.4 million offset by a negative variance in income before capital contributions of \$21.0 million.

	2006/07 Actual	2006/07 Budget	Variance with Budget-Positive (Negative)	% Change
Revenues				
Water sales	\$ 92,679,789	\$ 87,872,355	\$ 4,807,434	5.2%
Sewer service charges	50,318,414	48,030,500	2,287,914	4.5%
Recycled water sales	2,748,328	2,750,000	(1,672)	-0.1%
Connection fees	52,894,363	88,217,676	(35,323,313)	-66.8%
Interest	29,287,538	21,120,000	8,167,538	27.9%
Property taxes – general levy	31,293,863	25,262,492	6,031,371	19.3%
Property taxes – bond levy	3,555,565	2,718,797	836,768	23.5%
Standby charges	4,667,297	4,568,750	98,547	2.1%
Other non-operating revenues	9,321,989	7,356,800	1,965,189	21.1%
Total Revenues	276,767,146	287,897,370	(11,130,224)	-4.0%
Expenses				
Purchased water	43,866,732	39,393,650	(4,473,082)	10.2%
Water operations	35,332,561	35,888,279	555,718	-1.6%
Sewer operations	37,404,662	35,452,479	(1,952,183)	5.2%
Recycled water operations	4,379,135	5,027,242	648,107	-14.8%
General and administrative	25,292,047	24,103,612	(1,188,435)	4.7%
Depreciation and amortization	45,255,839	44,000,000	(1,255,839)	2.8%
Interest – certificates of participation	22,670,400	22,145,935	(524,465)	2.3%
Interest – bond and other	1,490,671	1,528,797	38,126	-2.6%
Other expenses	4,828,485	3,104,135	(1,724,350)	35.7%
Total expenses	220,520,532	210,644,129	(9,876,403)	4.5%
Income before contributions	56,246,614	77,253,241	(21,006,627)	-37.3%
Capital contributions	62,355,126	35,000,000	27,355,126	43.9%
Changes in net assets	\$ 118,601,740	\$ 112,253,241	\$ 6,348,499	5.4%

Eastern Municipal Water District Notes to Supplementary Schedule

Major Budget Variances

The following denotes explanations for some of the major variances between actual and budget for the previous table:

- Water sales exceeded the budgeted amount primarily due to the actual water sales exceeding budget by 4,580 acre feet (AF) or 4.4% coupled with average \$/AF slightly higher than budget.
- Sewer service charges were primarily higher due to 0.8% more accounts and an average rate 3.9% greater than budget.
- Connection fees were budgeted at 10,910 water hook ups and 12,856 sewer hook ups. Actual connections were 5,757 and 8,475, or 47% and 34% less than expected, respectively due to a slower growth level in development.
- Interest income was higher due to a larger District portfolio balance, invested construction funds relating to the 2006 A and B COPs, an increased yield on investments and a favorable increase in market value of approximately \$5.3 million.
- The increase in property taxes was primarily due to an actual assessed valuation increase of 26%, while the budgeted increase was 20%.
- General obligation bond revenues increased due to a higher assessed valuation tax base than what was assumed for the budget.
- Other non-operating revenue variances were due to greater than budgeted customer fees and charges of \$1.9 million, excavation revenues from dirt sales of \$0.5 million, assessment District administrative charges of \$0.2 million, tax delinquency charges of \$0.3 million, and rental and other revenues of \$0.3 million offset by excavation revenues from dirt sales less than the budgeted amount of \$1.2 million.
- Purchased water costs were higher due to increased water purchases relating to higher than expected water sales.
- Water operating costs were slightly lower due to less operating costs associated with less desalter and water treatment production.
- Sewer operating costs were higher for collection, transmission, treatment and disposal due to lost efficiencies from ongoing plant expansions and retrofits at the various treatment plants.
- Recycled water expenses were lower due to the lower than expected pumping costs associated with the discharge of the recycled water that could not be sold.
- General and administrative expenses were higher mainly due to unexpected legal costs relating to a lawsuit the District is involved in.

Eastern Municipal Water District Notes to Supplementary Schedule

(continued)

Major Budget Variances *(continued)*

- Depreciation expenses were higher due to increased depreciable assets from closing out and capitalizing more construction in progress than what was budgeted and also higher than expected capital contributions from developers.
- COP interest expense was slightly greater this year by \$0.5 million primarily due to higher interest rates on the variable rate debt.
- Other expenses were greater this year by \$1.7 million primarily due to higher than expected costs relating to environmental reports and studies.
- Capital contributions were greater this year by \$27.4 million due to continued development, which was stronger than anticipated.



Statistical Section



EMWD offers rebates to commercial customers who use a high-velocity water broom instead of a hose to wash down work areas. Water brooms can save up to 50,000 gallons of water per year, clean food spills and dirt better, decrease area dry-time and require 70% less labor. For more information about water broom rebates go to www.emwd.org/conservation/index.html

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, notes to the basic financial statements, and required supplementary information 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

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

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. *The District implemented GASB Statement 34 in 2002.*

**NET ASSETS BY COMPONENT
LAST SIX FISCAL YEARS**

<u>Fiscal Year</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Invested in capital assets, net of related debt	\$ 564,160,887	\$ 615,364,770	\$ 670,647,558	\$ 747,790,921	\$ 864,024,679	\$ 963,472,752
Restricted for debt service/covenants	45,553,269	45,912,373	49,428,231	50,932,809	58,964,117	57,377,104
Restricted for construction	106,195,442	140,113,828	186,769,808	179,216,380	193,659,075	238,268,776
Unrestricted	<u>130,885,167</u>	<u>90,953,153</u>	<u>84,967,519</u>	<u>96,710,649</u>	<u>86,541,422</u>	<u>62,672,401</u>
Total net assets	<u>\$ 846,794,765</u>	<u>\$ 892,344,124</u>	<u>\$ 991,813,116</u>	<u>\$ 1,074,650,759</u>	<u>\$ 1,203,189,293</u>	<u>\$ 1,321,791,033</u>
% Increase		5.4%	11.1%	8.4%	12.0%	9.9%

Note:

The information shown is retroactive to implementation of Statement 34.

Source: Eastern Municipal Water District

**CHANGES IN NET ASSETS
LAST SIX FISCAL YEARS**

Fiscal Year	Operating Revenues		Operating Expenses		Operating Loss	Total Nonoperating Revenues/ (Expenses)	Income before Capital Contributions	Capital Contributions ¹	Change in Net Assets
	Water	Wastewater	Water	Wastewater					
2002	\$ 58,355,346	\$ 29,008,146	\$ 69,924,459	\$ 44,954,646	\$ (27,515,613)	\$ 42,575,251	\$ 15,059,638	\$ 11,251,237	\$ 26,310,875
2003	60,565,819	31,382,908	75,448,383	48,285,185	(31,784,841)	61,427,456	29,642,615	15,906,744	45,549,359
2004	64,796,401	35,565,428	76,225,644	52,199,401	(28,063,216)	94,022,649	65,959,433	33,509,559	99,468,992
2005	66,258,221	41,238,057	85,135,040	59,332,209	(36,970,971)	89,195,075	52,224,104	30,613,539	82,837,643
2006	77,611,474	47,407,080	96,891,371	67,918,954	(39,791,771)	120,029,885	80,238,114	48,300,420	128,538,534
2007	92,679,789	53,066,742	113,677,146	77,853,830	(45,784,445)	102,031,059	56,246,614	62,355,126	118,601,740

Notes:

The information shown is retroactive to implementation of Statement 34.

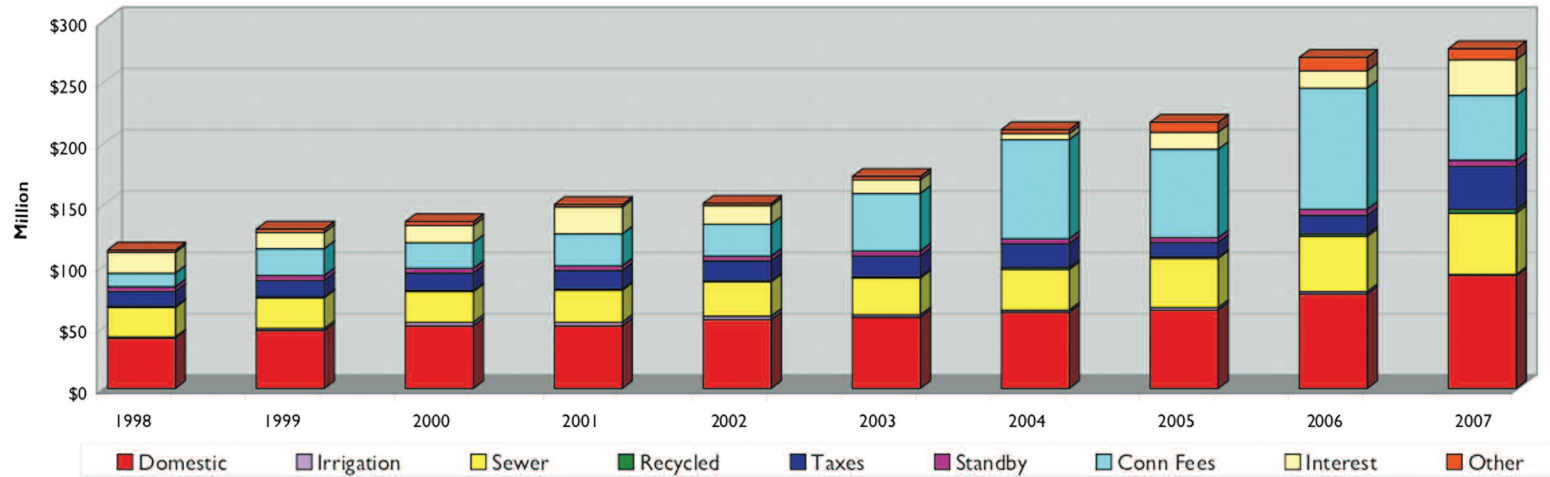
1. Increased construction activity relating to growth and market conditions accounts for the increases in contributed infrastructure over the last four years.

Source: Eastern Municipal Water District

REVENUES BY SOURCE LAST TEN FISCAL YEARS

Fiscal Year	Domestic Water Sales	% of Total	Ag & Irrig Water Sales	% of Total	Sewer Service Charges	% of Total	Recycled Water	% of Total	Taxes & Assessments ¹	% of Total	Standby Charges	% of Total	Connection Fees ²	% of Total	Interest Income ³	% of Total	Other	% of Total	Total Revenues
1998	\$ 40,862,625	36.6%	\$ 1,359,320	1.2%	\$ 23,665,927	21.2%	\$ 645,259	0.6%	\$ 12,241,405	10.9%	\$ 3,797,564	3.4%	\$ 10,760,006	9.6%	\$ 16,640,821	14.9%	\$ 1,793,344	1.6%	\$ 111,766,271
1999	46,822,291	36.6%	1,767,339	1.4%	25,020,585	19.5%	1,078,322	0.9%	12,827,333	10.0%	3,771,928	2.9%	21,572,990	16.9%	12,575,306	9.8%	2,592,730	2.0%	128,028,824
2000	51,382,241	37.8%	2,636,349	2.0%	25,361,569	18.7%	1,102,441	0.8%	13,882,413	10.2%	3,816,486	2.8%	20,767,021	15.3%	14,289,528	10.5%	2,560,252	1.9%	135,798,300
2001	51,360,308	34.1%	2,859,387	1.9%	26,123,677	17.3%	1,364,456	0.9%	15,164,499	10.0%	3,858,132	2.6%	25,949,508	17.2%	22,194,517	14.7%	1,901,955	1.3%	150,776,439
2002	55,736,727	37.1%	2,618,619	1.7%	27,825,278	18.5%	1,182,868	0.8%	15,744,074	10.5%	3,929,860	2.6%	25,740,750	17.1%	15,407,309	10.2%	2,283,437	1.5%	150,468,922
2003	58,351,059	33.6%	2,214,760	1.3%	29,973,084	17.2%	1,409,824	0.8%	16,914,346	9.7%	4,006,786	2.3%	46,960,911	27.1%	11,219,083	6.5%	2,712,153	1.6%	173,762,006
2004	62,824,662	29.6%	1,971,739	0.9%	33,496,234	15.8%	2,069,194	1.0%	18,698,381	8.8%	4,172,104	2.0%	80,804,323	38.0%	5,186,086	2.4%	3,183,193	1.5%	212,405,916
2005	64,092,906	29.5%	2,165,315	1.0%	39,739,370	18.3%	1,498,687	0.7%	11,517,848	5.3%	4,354,591	2.0%	72,445,434	33.4%	13,576,749	6.2%	7,693,026	3.5%	217,083,926
2006	76,543,807	28.5%	1,067,667	0.4%	45,462,646	16.9%	1,944,434	0.7%	14,747,589	5.5%	4,518,411	1.7%	99,485,272	37.1%	13,804,446	5.2%	10,808,046	4.0%	268,382,318
2007	91,596,156	33.2%	1,083,633	0.4%	50,318,414	18.2%	2,748,328	1.0%	34,849,428	12.6%	4,667,297	1.7%	52,894,363	19.1%	29,287,538	10.5%	9,321,989	3.3%	276,767,146

57



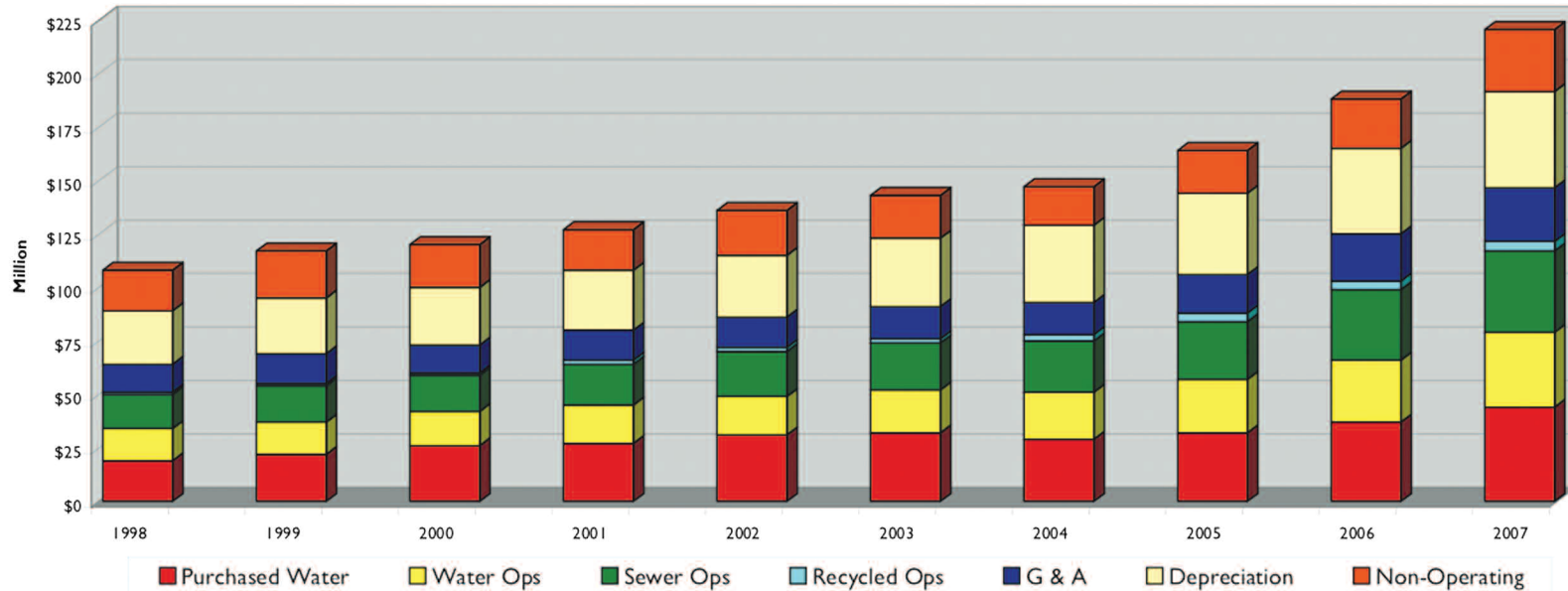
Notes:

1. In 2007, the District received its full share of property taxes, which were lower for the prior two years due to the state mandated property tax shift from local governments. The increase is also due to a 20% increase in assessed valuations and growth in customer base.
2. The decrease in connection fees is due to lower construction activity in 2007.
3. Increased interest income for 2006/07 is due to a higher average portfolio balance and higher average yields.

Source: Eastern Municipal Water District

EXPENSES BY FUNCTION LAST TEN FISCAL YEARS

Fiscal Year	Purchased Water	% of Total	Water Operations	% of Total	Sewer Operations	% of Total	Recycled Water Operations	% of Total	General & Administrative	% of Total	Depreciation & Amortization	% of Total	Total Non-Operating Expenses	% of Total	Total Expenses
1998	\$ 18,577,818	17.3%	\$ 14,556,360	13.6%	\$ 15,662,378	14.6%	\$ 1,337,147	1.2%	\$ 13,459,580	12.6%	\$ 24,555,656	22.9%	\$ 19,030,418	17.8%	\$ 107,179,357
1999	21,788,173	18.7%	14,845,543	12.7%	17,219,223	14.7%	1,439,250	1.2%	13,909,581	11.9%	25,976,208	22.2%	21,741,837	18.6%	116,919,815
2000	26,331,029	21.6%	16,348,960	13.4%	17,453,978	14.3%	1,313,145	1.1%	13,429,893	11.0%	27,279,095	22.4%	19,790,677	16.2%	121,946,777
2001	26,985,006	21.2%	17,606,824	13.8%	19,313,651	15.2%	1,922,568	1.5%	14,463,535	11.4%	27,887,507	21.9%	19,062,414	15.0%	127,241,505
2002	30,632,930	22.6%	17,886,826	13.2%	20,540,533	15.2%	1,988,321	1.5%	14,395,481	10.6%	29,435,014	21.7%	20,530,179	15.2%	135,409,284
2003	32,307,403	22.4%	19,534,843	13.6%	22,151,919	15.4%	2,410,213	1.7%	15,317,533	10.9%	31,911,657	22.2%	20,385,823	14.1%	144,019,391
2004	29,104,840	19.9%	21,777,484	14.9%	23,789,668	16.2%	2,992,339	2.0%	15,186,601	10.4%	35,574,113	24.3%	18,021,438	12.3%	146,446,483
2005	32,380,524	19.6%	25,111,134	15.2%	27,194,672	16.5%	3,789,915	2.3%	18,418,043	11.2%	37,572,961	22.8%	20,392,573	12.4%	164,859,822
2006	36,817,458	19.6%	29,030,238	15.4%	33,061,321	17.6%	4,289,919	2.3%	21,520,070	11.4%	40,091,319	21.3%	23,333,879	12.4%	188,144,204
2007	43,866,732	19.9%	35,332,561	16.0%	37,404,662	17.0%	4,379,135	2.0%	25,292,047	11.5%	45,255,839	20.5%	28,989,556	13.1%	220,520,532



**WATER PRODUCED AND CONSUMED AND WASTEWATER TREATED
LAST TEN FISCAL YEARS**

Fiscal Year	← Gallons Produced ¹ →				Water ← Gallons Consumed →					Gallons of Wastewater Treated	← Total Direct Rate Water →		
	Purchased	Wells	Desalters ²	Total	Domestic	Ag & Irrig	Total	Total	Avg %		Base Rate ³	Usage Rate ⁴	Sewer ⁵
1998	15,598	5,631	-	21,229	18,799	1,450	20,250	979	4.6%	10,833	\$ 6.02	\$ 29.52	\$ 15.38
1999	18,041	6,553	-	24,594	20,835	1,875	22,709	1,885	7.7%	11,213	6.02	29.52	15.43
2000	21,690	6,777	-	28,467	24,518	2,577	27,095	1,372	4.8%	11,873	6.02	29.48	15.18
2001	22,128	6,596	-	28,724	24,590	2,893	27,483	1,241	4.3%	12,082	6.02	29.46	14.68
2002	25,096	6,032	-	31,128	26,748	2,656	29,404	1,723	5.5%	11,903	6.02	29.46	14.84
2003	26,056	5,925	95	32,076	28,315	2,135	30,450	1,626	5.1%	12,760	7.27	29.50	15.18
2004	24,722	5,763	536	31,020	27,092	1,689	28,781	2,239	7.2%	13,925	7.45	30.10	16.17
2005	24,532	5,352	217	30,101	26,247	1,698	27,945	2,157	7.2%	15,805	7.70	31.04	17.40
2006	25,818	6,353	944	33,115	29,688	771	30,459	2,656	8.0%	16,352	8.15	32.36	18.86
2007	29,866	6,071	1,613	37,549	33,883	1,263	35,147	2,402	6.4%	16,790	8.43	34.40	19.64

Notes:

The information shown does not include recycled water.

1. Gallons are presented in millions.

2. No desalter facilities existed prior to 2003.

3. Rate shown is for meters up to and including 1".

4. Rate shown is an average rate for 20 billing units. A billing unit is 100 cubic feet of water or 748 gallons.

5. Rate shown is an average rate for one month of service.

Source: Eastern Municipal Water District

**WATER AND SEWER RATES
LAST TEN FISCAL YEARS**

Fiscal Year Water Rates	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Monthly base rate (meter size)										
<=1"	\$ 6.02	\$ 6.02	\$ 6.02	\$ 6.02	\$ 6.02	\$ 7.27	\$ 7.45	\$ 7.70	\$ 8.15	\$ 8.43
1 1/2"	9.03	9.03	9.03	9.03	9.03	10.90	11.19	11.56	12.23	12.65
2"	12.05	12.05	12.05	12.05	12.05	14.54	14.90	15.39	16.30	16.85
3"	24.09	24.09	24.09	24.09	24.09	29.08	29.81	30.78	32.61	33.70
4"	30.11	30.11	30.11	30.11	30.11	36.35	37.26	38.48	40.76	42.16
6"	42.16	42.16	42.16	42.16	42.16	50.89	52.16	53.87	57.06	59.01
8"	48.18	48.18	48.18	48.18	48.18	58.16	59.62	61.56	65.21	67.40
Usage rate (per billing unit)¹	\$ 29.52	\$ 29.52	\$ 29.48	\$ 29.46	\$ 29.46	\$ 29.50	\$ 30.10	\$ 31.04	\$ 32.36	\$ 34.40
Sewer Rates (avg per month)²	\$ 15.38	\$ 15.43	\$ 15.18	\$ 14.68	\$ 14.84	\$ 15.18	\$ 16.17	\$ 17.40	\$ 18.86	\$ 19.64

Notes:

The information shown does not include recycled water.

Rates are adopted by the Board of Directors annually with a January 1 effective date.

1. Rate shown is an average for 20 billing units. A billing unit is 100 cubic feet of water or 748 gallons.

2. The District charges a fixed daily service rate for sewer service for each of its 5 sewer service areas. The average per month is calculated as the weighted average daily rate, times 365 days per year, divided by 12 months per year.

Source: Eastern Municipal Water District

**LARGEST DOMESTIC WATER CUSTOMERS
AS OF JUNE 30, 2007**

	Customer Name	Annual Water		Percentage
		Sales in Acre Feet	Annual Revenues	
1	City of Perris ¹	2,530	\$ 1,554,088	43.9%
2	Nuevo Mutual Water Company ¹	974	536,013	15.1%
3	Western Municipal Water District ²	522	321,509	9.1%
4	Sun Cal McSweeny Farms	307	270,798	7.6%
5	County of Riverside Building Dept	258	196,179	5.5%
6	Moreno Valley School District	221	163,371	4.6%
7	GBW Investments	204	151,146	4.3%
8	Western State Mobile Home Park	318	133,794	3.8%
9	City of Murrieta	159	120,029	3.4%
10	Soboba Springs	129	95,119	2.7%
	Total	5,622	\$ 3,542,046	
	Total domestic water sales	103,984	\$ 91,596,156	
	Percentage of total	5.4%	3.9%	

Notes:

Information for fiscal year ended June 30, 1998 is not available.

Data includes potable water sales to all non-agricultural customers.

1. Wholesale customer.

2. Sales relate to Murrieta County Water District customers. This water district was purchased by the Western Municipal Water District.

Source: Eastern Municipal Water District

**LARGEST AGRICULTURAL & IRRIGATION WATER CUSTOMERS
AS OF JUNE 30, 2007**

	Customer Name	Annual Water		Percentage
		Sales in Acre Feet	Annual Revenues	
1	C & R Farms	294	\$ 115,800	19.3%
2	Kevin and Pauline Doan	158	91,528	15.3%
3	Abacherli Dairy	106	61,666	10.3%
4	Metropolitan Water District	93	53,952	9.0%
5	Sunnymead Ranch PCA	90	50,423	8.4%
6	Mc Anally Egg Enterprises	86	49,710	8.3%
7	Valley Wide Recreation & Park	79	45,803	7.6%
8	Sunnydale Farms	107	44,831	7.5%
9	San Jacinto Cemetery District ¹	148	43,671	7.3%
10	H P Mobile Home Estates	73	42,448	7.1%
	Total	1,234	\$ 599,832	
	Total ag. & irrigation water sales	3,877	\$ 1,083,633	
	Percentage of total	31.8%	55.4%	

Notes:

Information for fiscal year ended June 30, 1998 is not available.

The District has a number of irrigation water rates depending upon service area and whether deliveries are scheduled or unscheduled.

1. Sales include only well water which is sold at a lesser rate than imported water.

Source: Eastern Municipal Water District

**LARGEST RECYCLED WATER CUSTOMERS
AS OF JUNE 30, 2007**

		Annual Water		
	Customer Name	Sales in Acre Feet	Annual Revenues	Percentage
1	Hemet Golf Club Landmark	626	\$ 210,588	17.8%
2	SCGA Members Club	750	176,265	14.9%
3	A G Sod	3,058	158,912	13.5%
4	Agri Empire	2,340	147,581	12.5%
5	West Coast Turf	3,317	131,645	11.1%
6	Rancho California Water District	823	120,237	10.2%
7	Sun City Golf Course LLC	413	98,077	8.3%
8	Li Ling	654	48,035	4.1%
9	Don Bean	650	45,992	3.9%
10	North Golf Course	183	43,561	3.7%
	Total	12,814	\$ 1,180,893	
	Total recycled water sales	24,869	\$ 2,748,328	
	Percentage of total	51.5%	43.0%	

Notes:

Information for fiscal year ended June 30, 1998 is not available.

The District has a number of recycled water rates depending upon size of pipe, agricultural or non-agricultural usage and level of treatment.

Source: Eastern Municipal Water District

**LARGEST SEWER CUSTOMERS
AS OF JUNE 30, 2007**

	Customer Name	Annual Revenues	Percentage
1	Pechanga Resort & Casino	\$ 432,492	34.8%
2	United Dominion Realty Trust	115,605	9.3%
3	Stonegate Apartments	115,399	9.3%
4	Western States Mobile Home Park	93,941	7.6%
5	Montego Home Owners Assn	89,181	7.2%
6	Eagle Glen Apartments LLC	88,080	7.1%
7	Riverside County Regional Med. Ctr	87,506	7.0%
8	Golden Village RV Resort	77,235	6.2%
9	Enclave at Meniffee	71,375	5.7%
10	Sienna Pointe Apartments LP	71,190	5.7%
	Total	\$ 1,242,004	
	Total sewer revenue	\$ 50,318,414	
	Percentage of total revenue	2.5%	

Notes:

Information for fiscal year ended June 30, 1998 is not available.

Source: Eastern Municipal Water District

**SUMMARY OF IMPORTED WATER RATES
LAST TEN FISCAL YEARS
(dollars per acre-foot)**

Rates Effective Beginning January ¹	Full Service Domestic Groundwater		Interim Agricultural Program		Shift Seasonal Storage		Recycled	Long Term Seasonal Storage	
	Replenishment and Reservoir								
	Treated	Untreated	Treated	Untreated	Treated	Untreated		Treated	Untreated
1998	\$ 431	\$ 349	\$ 294	\$ 236	\$ 301	\$ 244	\$ 113	\$ 290	\$ 233
1999	431	349	294	236	312	255	113	290	233
2000	431	349	294	236	323	266	113	290	233
2001	431	349	294	236	334	277	113	290	233
2002	431	349	294	236	345	288	113	290	233
2003 Tier 1	408	326	294	236	-	-	-	290	233
Tier 2	489	407	n/a	n/a	-	-	-	n/a	n/a
2004 Tier 1	418	326	304	236	-	-	-	300	233
Tier 2	499	407	n/a	n/a	-	-	-	n/a	n/a
2005 Tier 1	443	331	329	241	-	-	-	325	238
Tier 2	524	412	n/a	n/a	-	-	-	n/a	n/a
2006 Tier 1	453	331	339	241	-	-	-	335	238
Tier 2	549	427	n/a	n/a	-	-	-	n/a	n/a
2007 Tier 1	478	331	364	241	-	-	-	360	238
Tier 2	574	427	n/a	n/a	-	-	-	n/a	n/a

Note:

1. MWD implemented a new two-tiered commodity rate structure effective January 1, 2003.

Source: (MWD) Metropolitan Water District of Southern California

ANNUAL DOMESTIC CONSUMPTION (AF) LAST TEN FISCAL YEARS

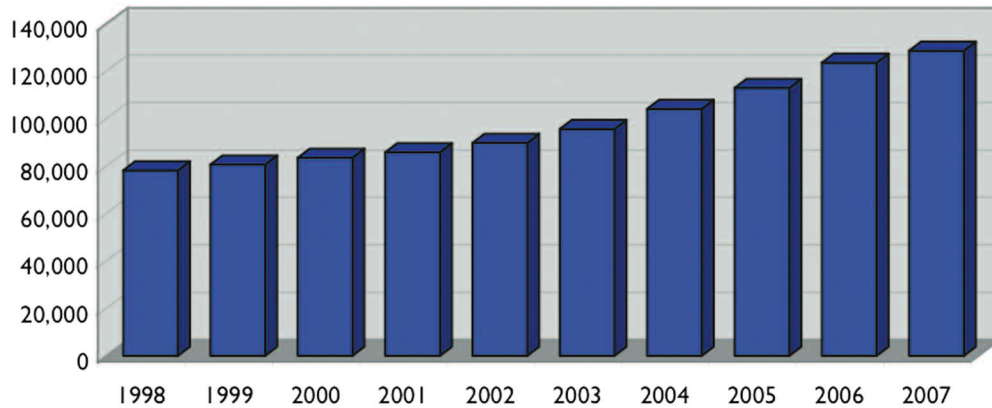
Fiscal Year	Usage (AF)	Active Accounts	Average AF per Account
1998	48,825	78,078	0.63
1999	54,212	80,517	0.67
2000	61,007	83,293	0.73
2001	60,231	85,638	0.70
2002	66,293	89,569	0.74
2003	67,345	95,449	0.71
2004	79,006	103,919	0.76
2005	77,066	112,845	0.68
2006	87,488	123,384	0.71
2007	99,658	128,506	0.78

Note:

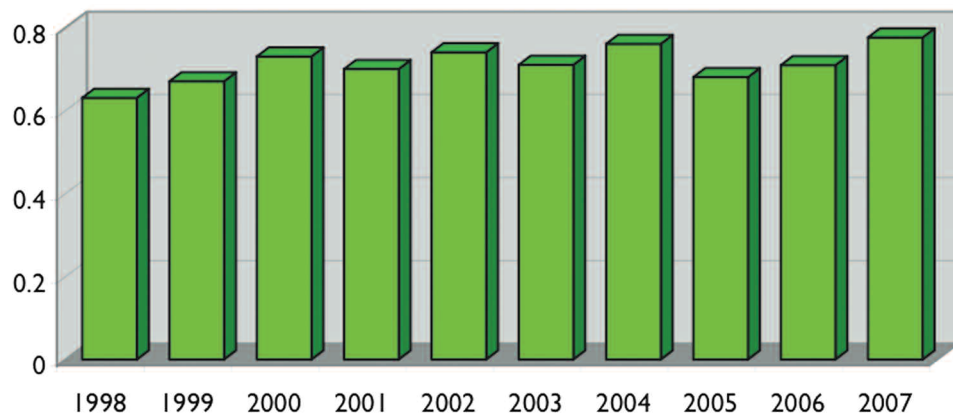
Amounts exclude commercial accounts.

Source: Eastern Municipal Water District

Number of Accounts

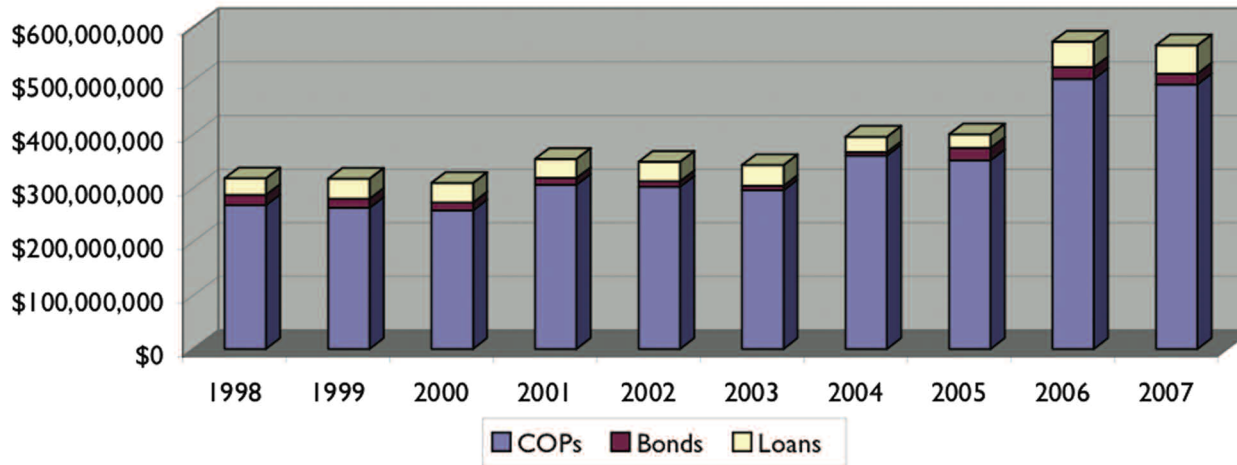


AF/Account



**RATIO OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS**

Fiscal Year	Certificates of Participation ¹	General Obligation Bonds	Loans ²	Total	Percentage of Assessed Value ³
1998	\$ 267,805,000	\$ 19,280,000	\$ 30,549,767	\$ 317,634,767	1.70%
1999	263,000,000	16,975,000	37,175,525	317,150,525	1.70%
2000	258,075,000	14,790,000	36,556,179	309,421,179	1.59%
2001	305,615,000	12,675,000	35,588,494	353,878,494	1.65%
2002	301,880,000	10,515,000	36,124,905	348,519,905	1.47%
2003	295,475,000	8,450,000	38,556,914	342,481,914	1.29%
2004	360,370,000	6,455,000	28,603,485	395,428,485	1.31%
2005	351,615,000	22,695,000	25,705,169	400,015,169	1.10%
2006	502,990,000	21,675,000	48,103,473	572,768,473	1.25%
2007	493,190,000	19,945,000	52,874,716	566,009,716	0.98%



Notes:

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

1. The District issued over \$160 million of new certificates of participation in 2006.

2. The District has a loan contract with the State of California Department of Water Resources.

The future loan commitment for this contract is approximately \$33.6 million at June 30, 2007.

3. Assessed value includes both secured and unsecured property.

Source: Eastern Municipal Water District

**REVENUE BOND COVERAGE
LAST TEN FISCAL YEARS**

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
OPERATING REVENUES:										
Water Sales	\$ 42,221,945	\$ 48,589,630	\$ 54,018,590	\$ 54,219,695	\$ 58,355,346	\$ 60,565,819	\$ 64,796,401	\$ 66,258,221	\$ 77,611,474	\$ 92,679,789
Sewer Service Sales	23,665,927	25,020,585	25,361,569	26,123,677	27,825,278	29,973,084	33,496,234	39,739,370	45,462,646	50,318,414
Recycled Water	645,259	1,078,322	1,102,441	1,364,456	1,182,868	1,409,824	2,069,194	1,498,687	1,944,434	2,748,328
Total Operating Revenues	66,533,131	74,688,537	80,482,600	81,707,828	87,363,492	91,948,727	100,361,829	107,496,278	125,018,554	145,746,531
OPERATING EXPENSES:										
Water Purchases	18,577,818	21,788,173	26,331,029	26,985,006	30,632,930	32,307,403	29,104,840	32,380,524	36,817,458	43,866,732
Water Operations	14,556,360	14,845,543	16,348,960	17,606,824	17,886,826	19,634,843	21,777,484	25,111,134	29,030,238	35,332,561
Sewer Operations	16,999,525	18,658,473	18,767,123	21,236,219	22,528,854	24,562,132	26,782,007	30,984,587	37,351,240	41,783,797
General & Administrative	13,459,580	13,909,581	13,429,893	14,463,535	14,395,481	15,317,533	15,186,601	18,418,043	21,520,070	25,292,047
Total Operating Expenses	63,593,283	69,201,770	74,877,005	80,291,584	85,444,091	91,821,911	92,850,932	106,894,288	124,719,006	146,275,137
OPERATING INCOME (LOSS)	2,939,848	5,486,767	5,605,595	1,416,244	1,919,401	126,816	7,510,897	601,990	299,548	(528,606)
NON-OPERATING REVENUES:										
Property taxes - General Purpose	9,236,496	9,804,684	10,778,537	11,753,408	12,887,334	14,477,271	16,531,907	8,707,881	11,213,568	31,293,863
Standby charges	3,797,564	3,771,928	3,816,486	3,858,132	3,929,860	4,006,786	4,172,104	4,354,591	4,518,411	4,667,297
Water and Sewer Connection Fees	10,760,006	21,572,990	20,767,021	25,949,508	25,740,750	46,960,911	80,804,323	72,445,434	99,485,272	52,894,363
Interest income	16,314,378	12,262,116	13,948,178	21,827,134	15,105,192	10,986,525	4,987,397	13,354,263	13,545,983	28,899,522
Other income/(expense)	(374,807)	(2,539,326)	(978,297)	(2,107,544)	(1,637,861)	(1,564,986)	780,603	3,077,188	7,088,624	4,093,851
Total Non-Operating Revenues	39,733,637	44,872,392	48,331,925	61,280,638	56,025,275	74,866,507	107,276,334	101,939,357	135,851,858	121,848,896
NON-OPERATING EXPENSES:										
Debt Service Interest Payments	15,312,712	15,260,659	15,069,255	14,033,057	15,736,862	15,427,928	15,042,051	15,358,957	18,404,817	22,670,400
Total non-operating expenses	15,312,712	15,260,659	15,069,255	14,033,057	15,736,862	15,427,928	15,042,051	15,358,957	18,404,817	22,670,400
EXCESS OF REVENUE OVER EXPENSES BEFORE EXTRAORDINARY ITEM	27,360,773	35,098,500	38,868,265	48,663,825	42,207,814	59,565,395	99,745,180	87,182,390	117,746,589	98,649,890
Add back for COP interest	15,312,712	15,260,659	16,069,255	14,033,057	15,736,862	15,427,928	15,042,051	15,358,957	18,404,817	22,670,400
Net Revenues for Debt Coverage	42,673,485	50,359,159	54,937,520	62,696,882	57,944,676	74,993,323	114,787,231	102,541,347	136,151,406	121,320,290
COP Principal and Interest	19,512,712	20,065,659	20,994,255	19,233,057	19,471,862	21,832,928	21,737,051	24,113,957	27,374,817	32,005,400
Debt Coverage Ratio	2.2	2.5	2.6	3.3	3.0	3.4	5.3	4.3	5.0	3.8

Source: Eastern Municipal Water District

**DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST SEVEN CALENDAR YEARS**

Calendar Year	Population¹	Personal Income² (thousands of \$)	Per Capita Personal Income²	Unemployment Rate²
2000	450,000	\$ 37,014,951	\$ 23,728	5.4%
2001	480,000	\$ 39,974,556	\$ 24,668	5.5%
2002	501,000	\$ 42,010,066	\$ 24,797	6.5%
2003	520,300	\$ 42,655,266	\$ 24,814	6.5%
2004	553,000	\$ 45,016,790	\$ 25,337	6.0%
2005	596,000	\$ 49,443,185	\$ 26,342	5.4%
2006	629,000	\$ 53,246,505	\$ 27,449	5.0%

Notes: 1. Data is for the District's service area.
2. Data is for the County of Riverside. The District is located within the County.

Sources: Riverside County Economic Development Agency
County of Riverside

PRINCIPAL EMPLOYERS - COUNTY OF RIVERSIDE¹
FISCAL YEAR ENDED JUNE 30, 2007

Employer²	Location	Industry
CA State Transportation	Lake Elsinore	Government
Conduit Networks, Inc.	Murrieta	Computer
Crossroads Truck Dismantling	Mira Loma	Auto Dismantle/Recycle
Desert Regional Medical Center	Palm Springs	Hospital
Eisenhower Medical Center	Rancho Mirage	Clinic
Guidant Corp.	Temecula	Medical Equip Mfg
Hemet Valley Medical System	Hemet	Hospital
La Quinta Resort & Club	La Quinta	Hotel/Motel
Labtechniques	Rancho Mirage	Medical Laboratory
Marriott Desert Springs Resort	Palm Desert	Hotel/Motel
Morongo Casino Resort & Spa	Cabazon	Casino
Oasis Distributing	Thermal	Grower/Shipper
Pechanga Development	Temecula	Casino
Riverside Community College	Riverside	College/University
Riverside Community Hospital	Riverside	Hospital
Riverside Forklift Training	Riverside	Industrial Trucks
Robertson's Ready Mix	Corona	Concrete Mfg
Starcrest Products - CA	Perris	Internet/Catalog Sales
Sun World Intl., LLC	Coachella	Grower/Shipper
T Michael Intl.	Perris	Internet/Catalog Sales
University of California	Riverside	College/University
Watson Pharmaceuticals Inc.	Corona	Drug Mfg

Notes:

Information for fiscal year ended June 30, 1998 is not available.

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

2. Employers in the District's service area are shown highlighted.

Source: California Employment Development Department

**DISTRICT EMPLOYEES BY FUNCTION
LAST TWO FISCAL YEARS**

<u>Water Operations</u>	<u>2007</u>	<u>2006</u>
Water Resources Development and Management	13	12
Water Quality	18	17
Water Operations and Distribution	57	60
<u>Wastewater Operations</u>		
Wastewater Collection	15	13
Source Control	10	12
Water Reclamation Plant	76	75
<u>Maintenance Services</u>		
Maintenance	20	19
Auto and Fabrication	14	14
Mechanical	27	26
Electrical and Controls	20	20
Field and Grounds	37	36
<u>Engineering Services</u>		
General Engineering ¹	52	61
Inspections and Construction Management	44	36
New Business Development ¹	34	20
<u>Administration</u>		
Environmental and Regulatory Compliance	9	8
Executive and Administration	8	8
Billing/Customer Service	47	41
Meter Reading	25	24
Finance and Accounting	18	18
Human Resources	12	12
Legislative Affairs	3	3
Information Systems	35	37
Purchasing, Warehouse and Records Management	28	28
Community Involvement	13	10
Total	<u>635</u>	<u>610</u>

Notes: All directors and managers are included with their divisions.
Temporary, contract and summer help employees are not included.
Data is not available for fiscal years prior to 2006.

I. The General Engineering and New Business Development departments were reorganized.

Source: Eastern Municipal Water District

**OPERATING AND CAPITAL INDICATORS
LAST FIVE FISCAL YEARS**

	Fiscal Year				
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
<u>POTABLE WATER SYSTEM</u>					
Miles of pipeline: transmission and distribution	2,442	2,345	2,051	1,867	1,528
Number of storage tanks	81	81	81	80	78
Maximum storage capacity (million gallons)	194	194	194	190	176
Number of pumping plants	87	88	85	85	75
Number of active domestic wells	18	18	22	18	17
Well production capacity: gallons per minute	21,575	19,747	19,000	17,953	18,179
acre-feet per year	34,807	31,858	30,407	28,959	29,310
Number of service connections: active domestic accounts	132,880	123,384	112,845	103,919	95,449
active agriculture and irrigation accounts	129	130	139	153	167
<u>SEWER SYSTEM</u>					
Miles of sewer lines	1,857	1,750	1,500	1,400	1,200
Number of treatment plants	5	5	5	5	5
Treatment capacity (million gallons per day)	59	56	53	53	53
Average million gallons per day treated	46.0	44.8	43.3	38.4	36.6
Percentage of capacity utilized	78%	80%	82%	72%	69%
Number of lift stations	46	46	43	40	35
<u>RECYCLED SYSTEM</u>					
Miles of pipeline: transmission and distribution	192	174	159	139	123
Number of pumping facilities	18	18	18	15	15
Number of acre feet storage & percolation ponds	5,992	5,870	5,968	5,968	5,968
<u>GENERAL INFORMATION</u>					
Service area: acres	352,000	352,000	352,000	352,000	352,000
square miles	555	555	555	555	555
Average years of service of employees	9.98	9.80	10.63	10.90	10.86

Source: Eastern Municipal Water District

**CUSTOMER ACCOUNT WRITE OFFS
AS A PERCENTAGE OF SALES
LAST TEN FISCAL YEARS**

Fiscal Year	Retail Sales	Write Offs	% of Sales
1998	\$ 53,116,341	\$ 462,803	0.9%
1999	58,067,579	376,289	0.6%
2000	63,682,193	259,197	0.4%
2001	63,691,389	244,161	0.4%
2002	68,291,381	236,168	0.3%
2003	70,041,876	301,164	0.4%
2004	83,551,697	255,260	0.3%
2005	88,297,280	259,410	0.3%
2006	103,371,554	384,329	0.4%
2007	121,769,923	724,045	0.6%
Total	\$ 773,881,213	\$ 3,502,826	0.5%

Note: Excludes sales collected by other agencies.

Source: Eastern Municipal Water District

**BAD DEBT RESERVES AS A PERCENTAGE
OF ACCOUNTS RECEIVABLE BALANCE
LAST TEN FISCAL YEARS**

Fiscal Year	Year End A/R Balance	Reserves	% of A/R
1998	\$ 3,543,152	\$ 227,463	6.4%
1999	4,525,491	222,503	4.9%
2000	5,501,355	116,267	2.1%
2001	5,070,308	56,097	1.1%
2002	5,477,258	69,363	1.3%
2003	5,499,953	56,569	1.0%
2004	5,707,462	89,413	1.6%
2005	5,973,588	91,578	1.5%
2006	7,350,203	187,390	2.5%
2007	9,278,477	368,961	4.0%

Note: Reserves equal accounts over 60 days.

Source: Eastern Municipal Water District



a p r e c i o u s c o m m o d i t y



2270 Trumble Road • Box 8300 • Perris, CA 92572-8300 • www.amwd.org