

Eastern Municipal Water District

Comprehensive Annual Financial Report
for the Fiscal Year Ended June 30, 2012



Willow Walk Neighborhood Landscaping



Perris, California
www.emwd.org





EASTERN MUNICIPAL WATER DISTRICT

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED

JUNE 30, 2012

PREPARED BY THE FINANCE DEPARTMENT

Introductory Section



Hemet Water Filtration Plant



EASTERN MUNICIPAL WATER DISTRICT
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2012

Table of Contents

INTRODUCTORY SECTION

| | |
|---|-------|
| Table of Contents..... | i-ii |
| Letter of Transmittal..... | iii-x |
| GFOA Certificate of Achievement..... | xi |
| Service Area Map and Incorporated Cities..... | xii |
| District Officials..... | xiii |
| Organizational Chart..... | xiv |

FINANCIAL SECTION

| | |
|--|-------|
| Independent Auditors' Report..... | 1-2 |
| Management's Discussion and Analysis (Required Supplementary Information)..... | 3-11 |
| Basic Financial Statements: | |
| Statement of Net Assets..... | 12-13 |
| Statement of Revenues, Expenses and Changes in Net Assets..... | 14 |
| Statement of Cash Flows..... | 15-16 |
| Notes to the Basic Financial Statements..... | 17-65 |
| Required Supplementary Information: | |
| Schedule of Funding Progress - Pension Plan..... | 66 |
| Schedule of Funding Progress - Other Postemployment Benefits Plan..... | 66 |

STATISTICAL SECTION

| | |
|--|----|
| Statistical Section Contents..... | 67 |
| Financial Trends: | |
| Net Assets by Component - Last Ten Fiscal Years..... | 68 |
| Changes in Net Assets - Last Ten Fiscal Years..... | 69 |
| Revenues by Source - Last Ten Fiscal Years..... | 70 |
| Expenses by Function - Last Ten Fiscal Years..... | 71 |

EASTERN MUNICIPAL WATER DISTRICT
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2012

Table of Contents (Continued)

STATISTICAL SECTION (Continued)

Revenue Capacity:

| | |
|--|----|
| Water Produced and Consumed and Wastewater Treated - Last Ten Fiscal Years | 72 |
| Water and Sewer Rates - Last Ten Fiscal Years..... | 73 |
| Largest Domestic Water Customers - As of June 30, 2012..... | 74 |
| Largest Agricultural and Irrigation Water Customers - As of June 30, 2012..... | 74 |
| Largest Recycled Water Customers - As of June 30, 2012..... | 75 |
| Largest Sewer Customers - As of June 30, 2012 | 75 |
| Summary of Imported Water Rates - Last Ten Fiscal Years | 76 |
| Annual Domestic Consumption (AF) - Last Ten Fiscal Years | 77 |

Debt Capacity:

| | |
|---|----|
| Ratios of Outstanding Debt by Type - Last Ten Fiscal Years | 78 |
| Ratios of General Bonded Debt Outstanding - Last Ten Fiscal Years | 79 |
| Parity Debt Service Coverage - Last Ten Fiscal Years | 80 |

Demographic and Economic Information:

| | |
|---|----|
| Demographic and Economic Statistics - Last Ten Calendar Years | 81 |
| Principal Employers - Fiscal Year Ended June 30, 2012..... | 81 |

Operating Information:

| | |
|--|----|
| District Employees by Function - Last Seven Fiscal Years | 82 |
| Operating and Capital Indicators - Last Ten Fiscal Years | 83 |
| Customer Account Write Offs as a Percentage of Sales - Last Ten Fiscal Years | 84 |
| Bad Debt Reserves as a Percentage of Accounts Receivable Balance - Last Ten Fiscal Years..... | 84 |



Board of Directors

October 26, 2012

**President and
Treasurer**

Joseph J. Kuebler, CPA

Board of Directors
Eastern Municipal Water District

Vice President

Philip E. Paule

We are pleased to present the Eastern Municipal Water District's (District) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2012. State law and debt covenants require that the District publish, within six months and 180 days of the close of each fiscal year, respectively, a complete set of audited financial statements. This report is published to fulfill that requirement and to provide the Board of Directors (Board), the public and other interested parties these basic financial statements.

Ronald W. Sullivan
Randy A. Record
David J. Slawson

General Manager

Paul D. Jones II, P.E.

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

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

**Board Secretary and
Assistant to the
General Manager**
Rosemarie V. Howell

Legal Counsel
Redwine & Sherrill

Mayer Hoffman McCann P.C., a firm of licensed certified public accountants, has issued an unqualified ("clean") opinion on the District's financial statements for the year ended June 30, 2012. The independent auditors' report is presented as the first component of the financial section of this report.

Included are all disclosures management believes necessary to enhance your understanding of the financial condition of the District. Generally accepted accounting principles (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 in the financial section of this report.

Profile of the District

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 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.

Service Area

The District is located in southern California and its service area lies within the westerly third of Riverside County, encompassing approximately 352,000 acres (555 square miles). The map to the right indicates the location of the District's service area in southern California. When the District was annexed to the MWD by the District's voters in 1951, its service area consisted of 86 square miles. Growth has resulted from annexations ranging in area from 1 to 72,000 acres. The assessed valuation has grown from \$72.0 million when formed to approximately \$53.9 billion for this past fiscal year. The District is divided into separate regional service areas for water service and sewer service.



Riverside County's population increased to approximately 2.23 million as of January 2012. Of this population, the District serves approximately 768,000 (34 percent), including the cities of Temecula, Murrieta, Menifee, Hemet, San Jacinto, Moreno Valley, Perris and unincorporated areas in Riverside County.

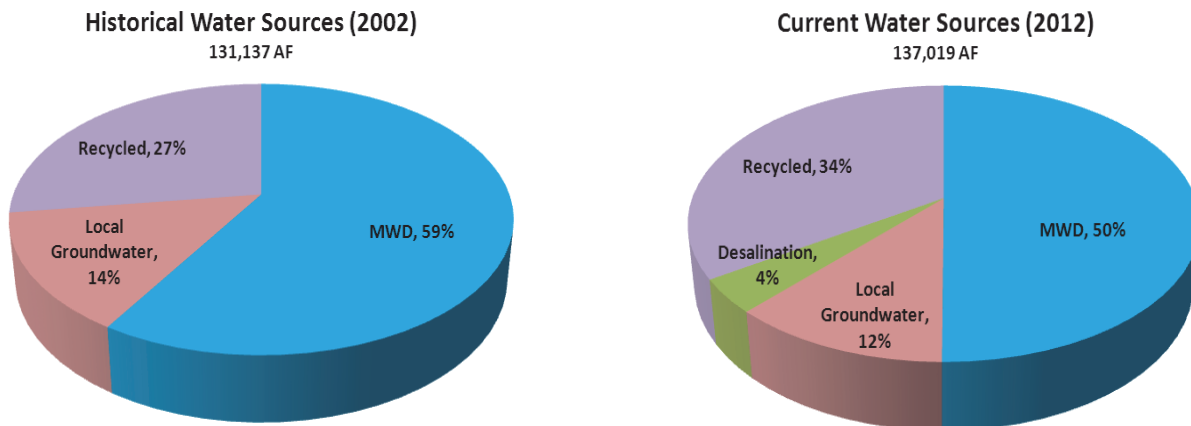
Governance

The District 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 is a member of the Metropolitan Water District of Southern California (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 representative on the MWD Board.

Water Supply and Reliability

The District's water supply for the fiscal year ended June 30, 2012 includes local groundwater (16 percent), imported water (50 percent) and recycled water (34 percent). The sole source of the District's imported water is MWD.

The District has made significant efforts to provide a safe and reliable supply of water and diversify the sources of water. In 2002, the District received 59 percent of its water through purchases from MWD, which in turn obtains its water supply from two primary imported sources: the Colorado River via the Colorado River Aqueduct, and the State Water Project via the Edmund G. Brown California Aqueduct. By 2012, the District reduced the level of imported water to 50 percent of supply as a result of investments in local groundwater, desalination, and recycled water improvements.



Sewer and Recycled Water Services

For the purposes of transmission, treatment and disposal of wastewater, the District is divided into five sewer service areas: Hemet/San Jacinto, Moreno Valley, Sun City, Temecula Valley, and Perris Valley. 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 63 million gallons per day (MGD) of wastewater and serve approximately 768,000 people. Customers' monthly bills include a daily service charge, which covers the fixed and variable costs of operating the sewer system and contributions to future infrastructure replacement costs. They are linked to a network of 1,756 miles of pipeline and 47 active lift stations.

The District currently generates approximately 45 MGD of effluent at its regional water reclamation facilities, which is expected to grow to 48 MGD by the year 2016. The District's goal is to reuse 100 percent of the water from the treatment plants and offer recycled water for sale to customers within the District's service area. In doing so, the District reduces the need to import water or to use local groundwater supply.

Information Useful in Assessing Economic Condition

Local Economy

The District is located within Riverside County in a metropolitan area referred to as the “Inland Empire”. The District’s population has grown by nearly 45% since 2000 and experienced modest new connections during the national economic downturn. Although the state and local economy face various economic challenges, several regions and industries within the District’s service area have rebounded in 2011 and into 2012.

In 2011, median household income (MHI) in Riverside County was higher than the U.S. and the County of Los Angeles. The household incomes for two of the fastest growing cities in the District, Temecula and Murrieta, are more than 25 percent higher than Riverside County. The wine region of Temecula drew a growing number of visitors and experienced a 7.4 percent increase in retail sales in 2011.

| 2011 MHI | |
|--------------------|-----------|
| United States | \$ 50,502 |
| Los Angeles County | 52,280 |
| Riverside County | 52,883 |
| - Temecula | 66,869 |
| - Murrieta | 72,496 |

Riverside County had a substantial increase in agricultural production in 2011. The agricultural industry, which supports nearly 30,000 jobs in Riverside County, produced the highest crop value in county history. Total crop production was approximately \$1.3 billion, a 17 percent increase over 2010. The District has also seen a significant shift towards organic farming in the region. The number of organic farms registered in the county has increase from 80 in 2005 to 138 in 2011. The higher agricultural production and shift towards organic farming results in increased recycled water demands, which is expected to continue for years to come.

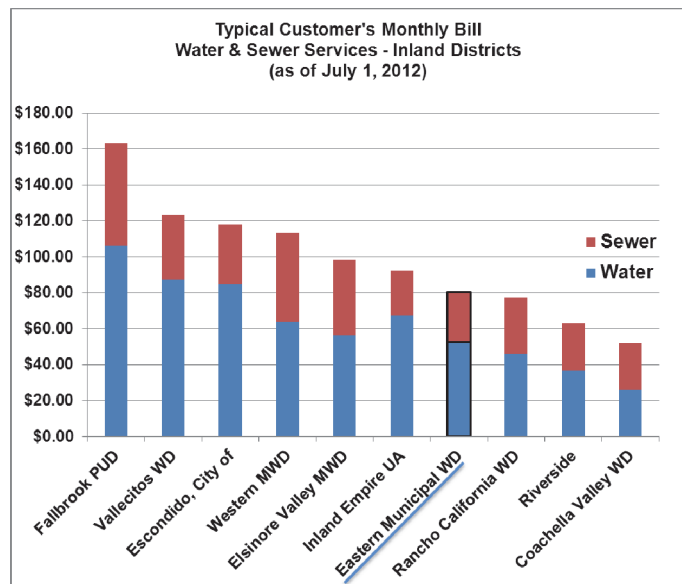
Sound Financial Policies

The District continues to manage funds to ensure financial stability and demonstrate responsible stewardship by sustaining reasonable rates for customers, containing costs through careful planning, preserving investments, safeguarding reserves, and active debt management.

Water and Sewer Rates

Four years ago, in fiscal year 2008/09, the District implemented a water budget-based tiered rate structure for water sales to its single and multi-family residential and landscape customers. This structure was required to provide customers with an adequate amount of water and is designed to reward customers who use water efficiently and to discourage those who waste water.

The District sets rates to recover the cost of service, and has some of the lowest rates relative to other special districts in the inland area, as shown by the chart to the right.



Financial Planning

The Board approves an annual operating budget as a management tool. The budget is developed with input from the various departments within the organization and adopted prior to the start of each fiscal year. Monthly comparison reports of budget to actual are prepared, and quarterly budget-to-actual results by system are provided to and discussed with the Board, along with financial position and other key performance information.

The District prepares a five-year financial plan to anticipate funding needs, reserve levels, and expected impacts to rates. A key component to the plan is the District's Capital Improvement Plan (CIP), which calls for total expenditures for water, sewer and recycled water facilities of approximately \$477 million for the period 2013 - 2017. The CIP is expected to be financed through a combination of property taxes, developer connection fees, rates and charges, publicly financed bond proceeds, reserves, grants and low-interest loans from the California State Revolving Fund. The CIP is modified on an annual basis to reflect updated assumptions regarding future growth within the District's service area.

Reserves Policy

The District adopted a 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. The reserves are essential for maintaining liquidity in the marketplace, which enables the District to access the lowest cost-of-capital borrowing opportunities.

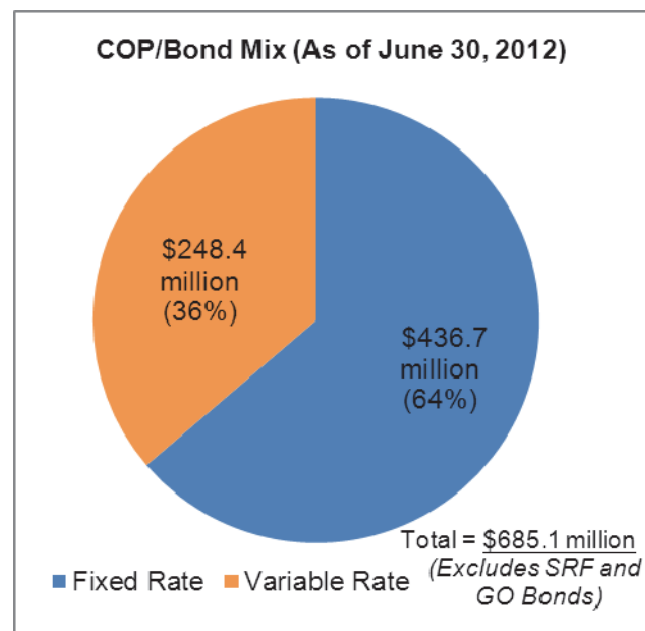
Investment Policy

The District invests its funds in instruments permitted by California Government Code sections 53601 et seq., and in accordance with its investment policy. The investment objectives of the District are to first preserve capital, followed by maintaining liquidity, and finally, maximizing the rate of return without compromising the first two objectives.

Debt Administration

The District actively manages its debt portfolio, seeking to minimize its total debt costs. This goal is met by issuing both fixed and variable rate debt to fund its capital projects. The District has primarily issued certificates of participation (COPs) and revenue bonds to fund the CIP, along with occasional use of state revolving fund (SRF) and general obligation (GO) bond debt. As of June 30, 2012, the District's total COPs and Bonds outstanding was \$685.1 million, of which 64 percent were fixed interest rate and 36 percent were variable interest rate, with a weighted average cost of funds of 3.03 percent.

The District issues variable interest rate debt to access historically low interest rates (average of 0.16 percent in fiscal year 2011/12). The variable rate COPs have historically required a standby liquidity agreement with



a third-party financial institution to protect the investor. In 2012, the District refunded existing variable rate COPs with the 2012A Revenue Bonds, which are indexed to an interest rate index (SIFMA). By issuing the 2012A Revenue Bonds, the District is no longer required to pay for a standby liquidity agreement and has reduced the third-party counterparty risk. This is discussed further in the Financial Section in Note 16 under Subsequent Events.

The District's long-term debt was rated AA+, Aa2, AA by Fitch Ratings, Moody's Investors Service, Inc. and Standard & Poor's Rating Services, respectively, as of June 30, 2012. Fitch Ratings' report dated June 28, 2012, stated that the District's "financial management is experienced and capable".

Major Initiatives

Water Supply Development and Management

Future growth within the District's service area will put increasing pressure on local groundwater, emphasizing the need to optimally manage and augment this important domestic water supply. The District is implementing plans to increase local groundwater yields by identifying useable groundwater that is currently underutilized, determining geohydrological and water quality parameters, and developing integrated groundwater management strategies and the facilities necessary for optimal use. These programs include the following elements:

- *Groundwater Management* – The District is working with water agencies, municipalities and private well owners in the Hemet and San Jacinto basins to implement a cooperative groundwater management plan for the area. This plan will provide for the protection and enhancement of water quality of the basins and preserve basin yield, increase basin storage, and will also increase the District's ability to sustain local groundwater production.
- *Brackish Groundwater Desalination* – The District has constructed two desalters with a combined annual capacity of 9,600 acre feet. A third desalter is in the final design phase and will expand the desalination program capacity to 15,000 acre feet per year. In addition, the District is conducting research and investigating the feasibility of reducing waste brine volume to increase potable water recovery at its desalination plants, as well as reduce brine disposal costs.
- *Recycled Water* – Recycled water is fully utilized during summer months, when it is primarily sold for agricultural, irrigation and industrial uses. In winter months, excess recycled water can be used to augment natural groundwater recharge, or sold at a reduced price to users with the capacity to store the water until it is needed. The District continues to investigate alternatives, including indirect potable reuse (through advanced treatment and groundwater recharge) as a key future strategy for achieving 100 percent year-round utilization of available recycled water supplies, as well as expanding its wastewater treatment plants to produce additional recycled water.

Operational Efficiencies

The District continues to focus its efforts in areas that will increase efficiency, improve service, and reduce costs, and has made considerable progress in organizational efficiency through several recent initiatives and cost-saving measures:

- In 2012, the District instituted an organizational restructuring and vacated 28 positions mainly through a voluntary retirement incentive program. This effort is expected to save the District nearly \$3.4 million in fiscal year 2012/13 and millions more in subsequent years;
- The District established an Other Post Employment Benefit (OPEB) trust to fund certain retirement benefits, resulting in a reduction of nearly \$30 million in long-term liabilities;
- In the past five years, the District has secured \$90 million in grants that have helped fund vital infrastructure projects;
- All of the District's fleet vehicles are equipped with global positioning system (GPS) units, which have resulted in a 98 percent decrease in vehicle liability claims over the past three years; and
- The District is switching to automated metering infrastructure, resulting in a reduction of staff hours for meter-reading, more real-time information about water usage, and greater tools for increasing water use efficiencies.

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 GAAP. Management follows the concept of reasonable assurance in recognizing that the cost of a control should not exceed the benefits likely to be derived and that the valuation of costs and benefits requires estimates and judgments. 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.

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 the Eastern Municipal Water District for its comprehensive annual financial report for the fiscal year ended June 30, 2011. This was the ninth 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.

The preparation of this report would not have been possible without the skill, effort, and dedication of the entire staff of the Finance department. We wish to thank all departments for their assistance in providing the data necessary to prepare this report. We would also like to thank the Board of Directors for their unfailing support for maintaining the highest standards of professionalism in the management of the District's finances.

Respectfully submitted,



Paul D. Jones, II P.E.
General Manager



Deborah S. Cherney, CPA
Assistant General Manager,
Finance and Administration

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, 2011

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



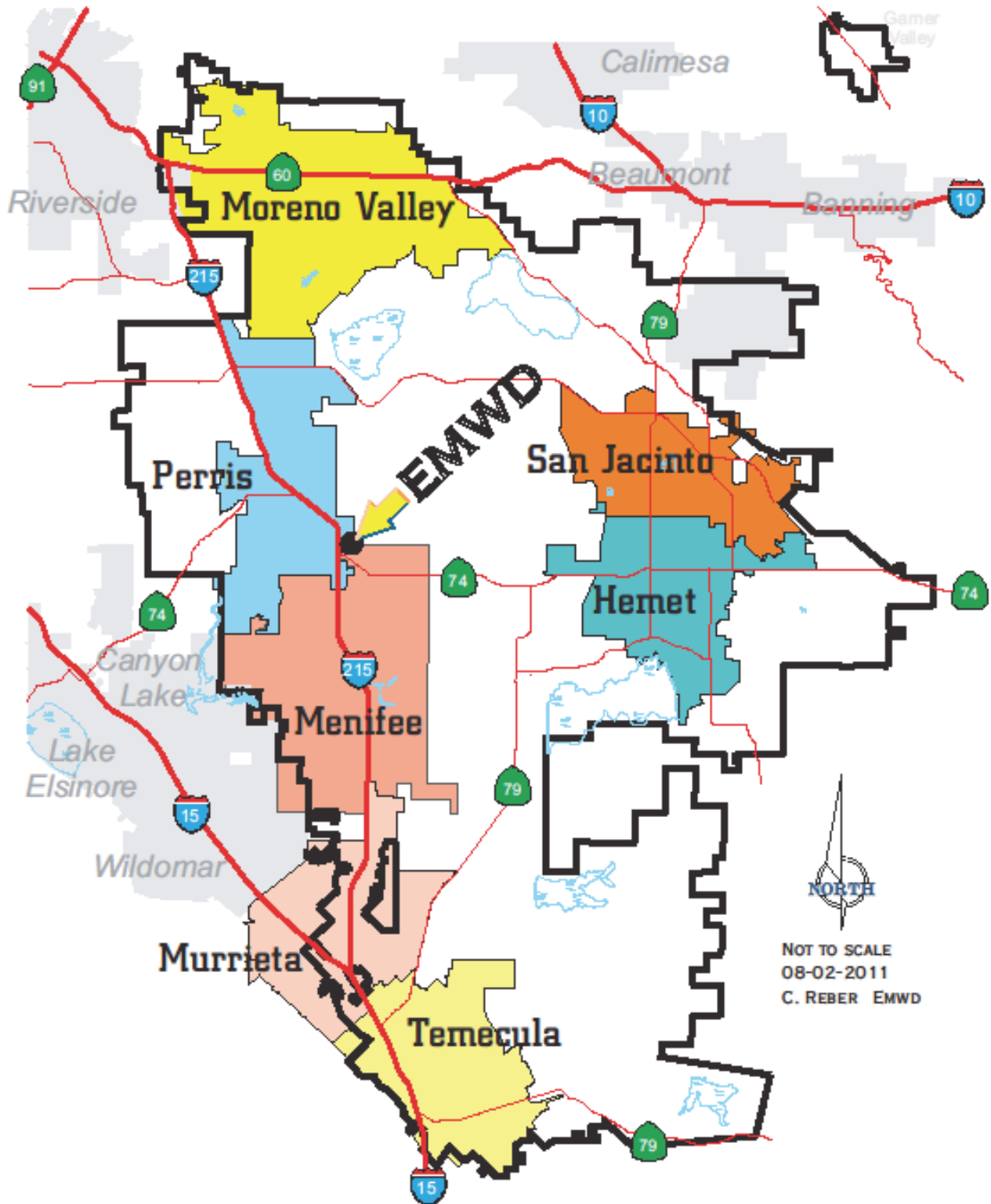
Linda C. Davison

President

Jeffrey R. Emer

Executive Director

Service Area Map and Incorporated Cities



District Officials

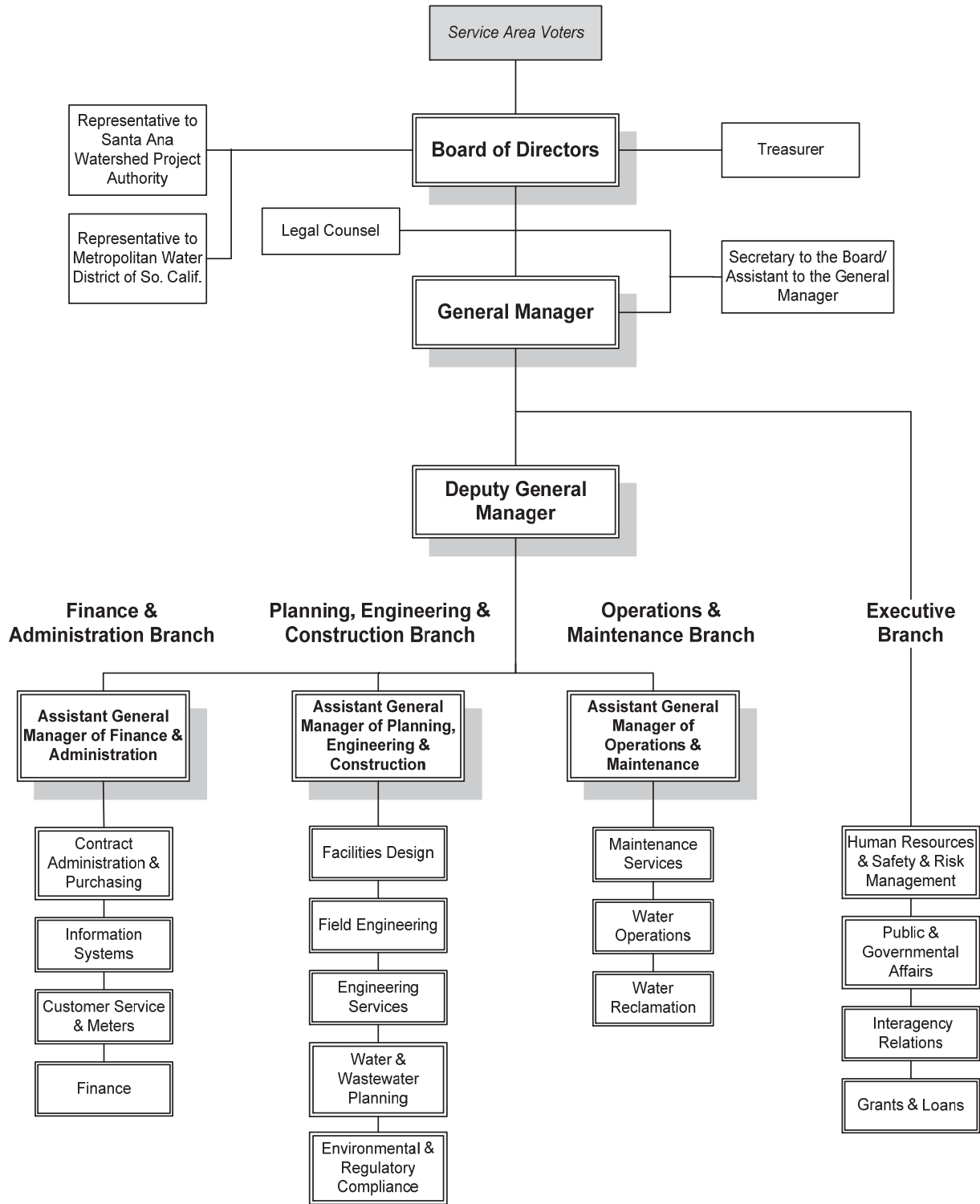
Elected Board of Directors

| <u>Position</u> | <u>Name</u> | <u>Elected</u> | <u>Current Term of Office</u> |
|---------------------|------------------------|----------------|-------------------------------|
| President/Treasurer | Joseph J. Kuebler, CPA | 4/2006 | 1/2011 – 1/2015 |
| Vice President | Philip E. Paule | 1/2007 | 1/2011 – 1/2015 |
| Director | Ronald W. Sullivan | 1/2003 | 1/2009 – 1/2013 |
| Director | Randy A. Record | 1/2001 | 1/2009 – 1/2013 |
| Director | David J. Slawson | 1/1995 | 1/2011 – 1/2015 |

District Management

| <u>Position</u> | <u>Name</u> |
|--|---------------------------|
| General Manager | Paul D. Jones II, P.E. |
| Deputy General Manager | Parameshwaran Ravishanker |
| Assistant General Manager, Operations and Maintenance | Michael A. Luker |
| Assistant General Manager, Planning and Construction | Charles J. Bachmann |
| Assistant General Manager, Finance and Administration | Deborah S. Cherney, CPA |

Organizational Chart



Financial Section



Financial Section

Perris Valley Regional Water Reclamation Facility





Mayer Hoffman McCann P.C.

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Board of Directors
Eastern Municipal Water District
Perris, California

Independent Auditors' Report

We have audited the accompanying financial statements of Eastern Municipal Water District (the District) as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the management of the District. Our responsibility is to express opinions 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, 2011 and, were audited by other auditors whose report dated October 27, 2011, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2012, and the changes in financial position and cash flows, where applicable, of the District for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that *management's discussion and analysis* and *required supplementary information* be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Board of Directors
Eastern Municipal Water District
Perris, California
Page Two

Our audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise the District's basic financial statements. The introductory section and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion or provide any assurance on it.

In accordance with Government Auditing Standards, we have also issued a report dated October 26, 2012 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Mayer Hoffman McCann P.C.

Irvine, California
October 26, 2012

Management's Discussion and Analysis

We offer readers this narrative overview and analysis of the financial statements of the Eastern Municipal Water District (District) for the fiscal year ended June 30, 2012. Readers are encouraged to consider the information presented in this section in conjunction with the accompanying financial statements and additional information furnished in our letter of transmittal.

Operations

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 of Southern California (MWD); 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 presents the financial position of the District at the end of the fiscal year. This statement provides information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). The difference between total assets and liabilities is shown as net assets, an indicator of the District's current fiscal health and its financial position over time. This statement also provides the basis for 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, investments, and financing activities 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, 2012 and 2011

| | 2012 | 2011 | <u>Increase/(Decrease)</u> | |
|--|-------------------------|------------------|----------------------------|-------------|
| | | | Amount | % Change |
| Assets | | | | |
| Current assets | \$ 264,533,292 | \$ 250,990,698 | \$ 13,542,594 | 5.4 |
| Restricted assets | 259,334,174 | 274,619,686 | (15,285,512) | -5.6 |
| Net capital assets | 2,022,163,581 | 1,925,091,987 | 97,071,594 | 5.0 |
| Other assets | 31,341,815 | 24,003,029 | 7,338,786 | 30.6 |
| Total assets | 2,577,372,862 | 2,474,705,400 | 102,667,462 | 4.1 |
| Liabilities | | | | |
| Current liabilities | 98,212,209 | 76,615,671 | 21,596,538 | 28.2 |
| Other liabilities | 224,141,997 | 131,721,064 | 92,420,933 | 70.2 |
| Long-term debt outstanding | 733,028,716 | 754,502,800 | (21,474,084) | -2.8 |
| Total liabilities | 1,055,382,922 | 962,839,535 | 92,543,387 | 9.6 |
| Net assets | | | | |
| Invested in capital assets, net of related debt | 1,231,275,509 | 1,182,870,831 | 48,404,678 | 4.1 |
| Restricted for debt service/covenants | 64,333,290 | 65,433,313 | (1,100,023) | -1.7 |
| Restricted for construction | 99,513,601 | 127,083,266 | (27,569,665) | -21.7 |
| Unrestricted | 126,867,540 | 136,478,455 | (9,610,915) | -7.0 |
| Total net assets | \$ 1,521,989,940 | \$ 1,511,865,865 | \$ 10,124,075 | 0.7 |
| Liabilities to assets ratio | <u>41%</u> | <u>39%</u> | | |

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, increased slightly, however total net assets increased \$10.1 million. Overall, the financial position of the District has improved for the fiscal year ended June 30, 2012 and remains strong, providing a foundation for continued growth.

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

- Current assets increased by \$13.5 million due to an increase in grants receivable of \$9.7 million relating to District construction projects; an increase of \$2.7 million in utility accounts receivable; and a net increase of \$1.1 million in various other current assets.
- Restricted assets decreased by a net \$15.3 million due to decreases of \$25.1 million in construction cash used to finance District construction projects; and \$3.2 million in debt service cash; offset by an added \$13.0 million Soboba reimbursement receivable related

to the Soboba Settlement Agreement (refer to Note 11 to the basic financial statements for more information about this agreement).

- Net capital assets increased by a net \$97.1 million due to \$126.3 million of operating assets added to the system; added land of \$3.3 million; and added equipment and general facilities of \$2.6 million; an increase in construction in progress of \$37.7 million; and an increase in accumulated depreciation totaling \$72.8 million.
- Other assets increased by a net \$7.3 million due to an increase of \$8.0 million in the deferred outflow of resources relating to the District's two swap contracts. Both contracts were determined to be hedge effective for fiscal years 2011 and 2012. The remaining \$0.7 million decrease relates to amortization of prepaid PERS contributions net pension assets, and debt issuance costs.
- Current liabilities increased by a net \$21.6 million due to increases of \$10.8 million in accounts and other payables relating mainly to accruals of \$4.3 million for voluntary termination benefits, \$1.7 million of payroll expense that was paid in July, and invoices for May and June water purchases that were \$4.0 million higher than the previous year; a net \$5.0 million in current debt service relating mainly to the added debt maturity payment for the 2006A COP; \$4.6 million in settlement payable relating to the Soboba Settlement Agreement; and a net increase of \$1.2 million in various other current liabilities.
- Other liabilities increased by \$92.4 million due to the additions of \$65.4 million in construction deposits relating to state revolving loan reimbursements for the Acid Phase Anerobic Digester (APAD), Secondary Clarifier and Tertiary Treatment Expansion (SCATT), and San Jacinto Valley RWRF and Temecula Valley RWRF Expansion projects; increases of \$12.6 million in net other postemployment benefits, \$8.0 in fair value of swap contracts; \$5.4 million in settlement payable relating to the Soboba Settlement Agreement; and a net increase of \$1.0 million in various other liabilities.
- Long-term debt outstanding decreased by \$21.5 million due to \$2.0 million, \$12.3 million, and \$2.4 million in payments that were made in the 2012 fiscal year for advances for construction, notes and assessments payable, COPs, and GO Bonds, respectively; and a decrease of \$4.8 million relating to refinancing the 2001A, 2001C, and portions of the 2008D and 2008E COPs with the 2011A revenue bonds. Also see Note 5 to the basic financial statements regarding debt payments and outstanding balances.
- The District's net assets increased \$10.1 million; or 0.7 percent over the prior year. This can be attributed to a net non-operating income of \$33.8 million offset by a net operating loss of \$80.5 million plus contributed capital from developers of \$34.2 million and contributed capital from grants of \$22.6 million for the year. Further information regarding restrictions and commitments associated with net assets can be found in Notes 10 and 11 to the basic financial statements.

Revenues, Expenses and Changes in Net Assets
For the Fiscal Years Ended June 30, 2012 and 2011

| | <u>2012</u> | | <u>2011</u> | | <u>Increase/(Decrease)</u> | |
|--|------------------------|--------------|-----------------|------------|----------------------------|----------|
| | Amount | % of Total | Amount | % of Total | Amount | % Change |
| Operating revenues: | | | | | | |
| Water sales – domestic | \$ 103,226,203 | 58.7 | \$ 100,198,290 | 59.2 | \$ 3,027,913 | 3.0 |
| Water sales – irrigation | 1,515,039 | 0.9 | 1,811,255 | 1.1 | (296,216) | -16.4 |
| Sewer service charges | 65,983,462 | 37.5 | 62,609,731 | 37.0 | 3,373,731 | 5.4 |
| Recycled water sales | 5,135,186 | 2.9 | 4,504,923 | 2.7 | 630,263 | 14.0 |
| Total operating revenues | 175,859,890 | 100.0 | 169,124,199 | 100.0 | 6,735,691 | 4.0 |
| Non-operating revenues: | | | | | | |
| Property taxes – general levy | 26,574,300 | 37.7 | 25,884,964 | 39.8 | 689,336 | 2.7 |
| Property taxes – GO bond levy | 5,156,450 | 7.3 | 4,469,721 | 6.9 | 686,729 | 15.4 |
| Availability (standby) assessments | 5,600,661 | 7.9 | 5,569,818 | 8.6 | 30,843 | 0.6 |
| Water and sewer connection fees | 12,150,826 | 17.3 | 10,815,294 | 16.7 | 1,335,532 | 12.3 |
| Interest – operations and restricted funds | 7,431,966 | 10.5 | 10,677,951 | 16.4 | (3,245,985) | -30.4 |
| Net increase (decrease) in fair value of investments | 1,712,864 | 2.4 | (3,203,812) | -4.9 | 4,916,676 | -153.5 |
| Interest – GO bond funds | 63,693 | 0.1 | 79,213 | 0.1 | (15,520) | -19.6 |
| Grant revenues | 373,285 | 0.5 | 517,888 | 0.8 | (144,603) | -27.9 |
| Other revenues | 11,230,942 | 15.9 | 9,665,568 | 14.9 | 1,565,374 | 16.2 |
| Gain on disposal of fixed assets | 302,569 | 0.4 | 452,063 | 0.7 | (149,494) | -33.1 |
| Total non-operating revenues | 70,597,556 | 100.0 | 64,928,668 | 100.0 | 5,668,888 | 8.7 |
| Total revenues | 246,457,446 | | 234,052,867 | | 12,404,579 | 5.3 |
| Operating expenses: | | | | | | |
| Purchased water | 52,697,993 | 20.6 | 46,489,850 | 19.7 | 6,208,143 | 13.4 |
| Water operations | 41,593,438 | 16.2 | 41,364,910 | 17.5 | 228,528 | 0.6 |
| Sewer operations | 42,055,885 | 16.4 | 41,247,883 | 17.4 | 808,002 | 2.0 |
| Recycled water operations | 5,895,069 | 2.3 | 6,103,502 | 2.6 | (208,433) | -3.4 |
| General and administrative | 28,106,037 | 11.0 | 26,707,578 | 11.3 | 1,398,459 | 5.2 |
| Depreciation and amortization | 73,369,622 | 28.6 | 65,354,991 | 27.6 | 8,014,631 | 12.3 |
| Net other postemployment benefits | 12,594,411 | 4.9 | 9,180,682 | 3.9 | 3,413,729 | 37.2 |
| Total operating expenses | 256,312,455 | 100.0 | 236,449,396 | 100.0 | 19,863,059 | 8.4 |
| Non-operating expenses: | | | | | | |
| Interest – COPs/revenue bonds | 17,801,597 | 48.4 | 12,268,928 | 51.8 | 5,532,669 | 45.1 |
| Interest – GO bonds | 2,025,501 | 5.5 | 2,097,993 | 8.8 | (72,492) | -3.5 |
| Interest – other | 827,234 | 2.3 | 963,140 | 4.1 | (135,906) | -14.1 |
| GO bond service fees | 79,338 | 0.2 | 79,834 | 0.3 | (496) | -0.6 |
| Other expenses | 16,018,125 | 43.6 | 8,310,730 | 35.0 | 7,707,395 | 92.7 |
| Total non-operating expenses | 36,751,795 | 100.0 | 23,720,625 | 100.0 | 13,031,170 | 54.9 |
| Total expenses | 293,064,250 | | 260,170,021 | | 32,894,229 | 12.6 |
| Loss before contributions | (46,606,804) | | (26,117,154) | | (20,489,650) | 78.5 |
| Capital contributions: | | | | | | |
| Developer contributions | 34,177,609 | 60.2 | 23,910,155 | 60.5 | 10,267,454 | 42.9 |
| Capital grants | 22,553,270 | 39.8 | 15,620,018 | 39.5 | 6,933,252 | 44.4 |
| Total capital contributions | 56,730,879 | 100.0 | 39,530,173 | 100.0 | 17,200,706 | 43.5 |
| Change in net assets | 10,124,075 | | 13,413,019 | | (3,288,944) | -24.5 |
| Total net assets at beginning of year, restated | 1,511,865,865 | | 1,498,452,846 | | 13,413,019 | 0.9 |
| Total net assets at end of year | \$1,521,989,940 | | \$1,511,865,865 | | \$ 10,124,075 | 0.7 |

Changes in Financial Performance of the District

The charts in the statistical section of this report on pages 70 and 71 illustrate revenues by source and expenses by function, respectively, for the last ten fiscal years. The following denotes explanations for the major changes between the 2012 and 2011 fiscal years as shown in the previous table.

- Total revenues – Combined revenues including capital contributions for the fiscal year totaled \$303.2 million compared to a prior year of \$273.6 million. This is an increase of approximately 10.8 percent. The table on the previous page presents a comparison of revenues by major source for the two fiscal years 2012 and 2011.
- Total expenses – Combined expenses for the fiscal year totaled \$293.1 million compared to a prior year of \$260.2 million. This is an increase of approximately 12.6 percent. The table on the previous page presents a comparison of expenses by category for the two fiscal years 2012 and 2011.
- Water sales – Total domestic and irrigation sales increased approximately \$2.7 million. This change reflects an increase in tiered water rates and a 4.0 percent increase in acre-foot sales.
- Sewer service - Wastewater service charges increased \$3.4 million (5.4 percent) over the previous years total to end at \$66.0 million. This is primarily attributed to an additional 1,600 sewer hook-ups and a 3.6 percent rate increase effective July 1, 2011.
- Property taxes - general – The District’s general property tax revenue increased by \$0.7 million (2.7 percent) as a result of stabilizing assessed valuations and allocation of additional taxes due to the dissolution of redevelopment agencies within the District’s service area.
- Connection fees – These revenues increased by a net \$1.3 million over the prior year. The Board adopted a 22 percent connection fee rate increase effective January 1, 2012. Sewer hookups were 1,600 compared to the prior year’s 1,710, representing a decrease of 6.4 percent and water hookups were 1,054 compared to the prior year’s 1,157, representing a decrease of 8.9 percent.
- Interest earnings – The current fiscal year’s interest earnings were lower by \$3.2 million (30.4 percent) compared to the prior years, due to an average portfolio balance decline from the previous years by \$25.1 million, along with yields on investments averaging 1.63 percent for the year compared to 2.14 percent for the previous year.
- Net (decrease) increase in fair value of investments – In accordance with Governmental Accounting Standards Board Statement No. 31, the District adjusts the value of investments each fiscal year end to reflect fair value. This adjustment amount was \$4.9 million greater than the prior year amount due to a decline in short term interest rates during the year.
- Water operations – The net increase in expenses of \$0.2 million is primarily a result of meter replacements, including conversion from standard turbine meters to electronic, fixed-read (FlexNet) meters. The District continues to install the fixed-read meters to reduce the need for manual meter-reading and to provide real-time meter data to customers.
- Sewer operations – The net increase in expenses of \$0.8 million is primarily a result of higher treatment and chemical expenses.

-
- General and administrative – The \$1.4 million net increase is primarily due to recording an addition to worker’s compensation liability, offset by lower expenses resulting from cost containment measures.
 - Depreciation and amortization – The District capitalized a net additional \$170.6 million of depreciable assets over the course of the year and two large assets with costs totaling \$197.0 million were capitalized in June 2011. These added assets resulted in the \$8.0 million of additional expense.
 - Interest – certificates of participation/revenue bonds – The \$5.5 million net increase is primarily due a lower amount of interest expense being capitalized in the current fiscal year compared to the prior year, combined with lower interest rates on variable rate debt.
 - Other non-operating expenses – The \$7.7 million increase is primarily due to recording \$4.3 million in accrued expense for voluntary termination benefits (refer to Note 15 to the basic financial statements) and \$5.3 million for a legal settlement with San Jacinto Z LLC.
 - Capital contributions from developers - Facilities built by developers and turned over to the District to operate and maintain increased to \$34.2 million compared to \$23.9 million in the previous year, an increase of \$10.3 million. This increase mainly relates to recording a \$6.4 million contribution relating to the Soboba Settlement Agreement.
 - Capital contributions from grants - The District actively pursues grant funding and revenues vary from year to year. Major capital grant revenues for fiscal year 2012 include state of California funding of \$3.1 million for the Title 22 Tertiary Treatment Upgrades and Plant 2 Facilities at the San Jacinto Valley RWRf, \$5.2 million for construction of the Enchanted Heights Sewer Infrastructures, and \$8.3 million for the Menifee/Perris Desalters Iron and Manganese Removal project.
 - Net assets - The financial condition of the District has improved slightly from the previous year. The District’s net assets increased by \$10.1 million to \$1,522.0 million. This is a 0.7 percent increase over the prior year and is illustrated on the table on page 4 that compares the various categories of assets, liabilities and net assets for the two fiscal years 2012 and 2011.

Capital Assets

Net of accumulated depreciation, the District reported capital assets of \$2,022.2 million in fiscal year 2012 compared to \$1,925.1 million in fiscal year 2011. A comparison of this 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, 2012 and 2011

| | 2012 | 2011 | Increase/(Decrease) | |
|----------------------------------|------------------|------------------|---------------------|-------------|
| | | | Amount | % Change |
| Land | \$ 42,939,724 | \$ 39,624,376 | \$ 3,315,348 | 8.4 |
| Tunnel water seepage agreement | 1,750,900 | 1,750,900 | - | 0.0 |
| Water capacity rights | 29,657,807 | 23,832,124 | 5,825,683 | 24.4 |
| Plans and designs | - | 7,518,748 | (7,518,748) | -100.0 |
| Water plant, lines and equipment | 921,785,081 | 859,277,862 | 62,507,219 | 7.3 |
| Sewer plant, lines and equipment | 1,410,717,410 | 1,345,270,137 | 65,447,273 | 4.9 |
| Equipment and general facilities | 114,620,733 | 112,011,835 | 2,608,898 | 2.3 |
| Construction in progress | 276,611,214 | 238,925,619 | 37,685,595 | 15.8 |
| Total capital assets | 2,798,082,869 | 2,628,211,601 | 169,871,268 | 6.5 |
| Less accumulated depreciation | 775,919,288 | 703,119,614 | 72,799,674 | 10.4 |
| Net capital assets | \$ 2,022,163,581 | \$ 1,925,091,987 | \$ 97,071,594 | 5.0 |

Significant additions to capital assets include \$34.2 million in contributed capital from developers. Most of the contributed assets were water and sewer line additions relating to development in the area. Other additions resulted from the completion and capitalization of \$87.3 million construction in progress.

The three largest District projects that were capitalized during the 2012 fiscal year include the Moreno Valley Regional Water Reclamation Facility (RWRF) Expansion - SCATT project (\$40.3 million), the Perris Valley RWRF Fuel Cell Cogeneration project (\$10.6 million), and the San Jacinto Valley RWRF Pipeline Northern Alignment Phase I project (\$5.9 million).

The Moreno Valley RWRF Expansion Secondary Clarifier and Tertiary Treatment (SCATT) project included the design, construction and installation of tertiary cloth disc filters, secondary clarifiers, additional chlorine contact basins, waste activated sludge pumping modifications, polymer facilities and Plant 1 modifications. The SCATT project will add secondary and tertiary capacity to bring overall Plant 1 and Plant 2 capacities to 15.8 MGD, based on annual average flows. This project was substantially complete as of June 30, 2012, with final work to be completed by October 31, 2012.

The Perris Valley RWRF Fuel Cell Cogeneration project included the design, construction and installation of two 300-kilowatt fuel cells, including fuel and water treatment systems, to produce electricity for plant usage. The fuel cells will utilize all of the digester gas produced from anaerobic digestion and will utilize natural gas as a supplement to digester gas. This facility is designed for ease of future expansion to 1,500 kilowatts. In addition, a 3.8 million British thermal units per hour dual fuel boiler will be installed next to the boiler room. To prevent flaring and wasting of fuel, the boiler will utilize any digester gas not utilized by the fuel cells. This project was substantially complete as of June 30, 2012, with final work to be completed by September 30, 2012.

The San Jacinto Valley RWRP Pipeline Northern Alignment Phase I project included the design and construction of approximately 22,500 linear feet of 36-inch recycled water pipeline, from east of the plant to the District's Alessandro recycled water ponds. The expansion of the recycled water pipeline is expected to facilitate the delivery of up to 1,255 acre feet of water per year, in addition to facilitating flow-through operations. This project was substantially complete as of January 31, 2012, with final work to be completed by September 30, 2012.

The District had \$87,574,781 in construction contract commitments as of June 30, 2012. 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 \$124.9 million. Some of the major projects currently underway and where expenditures in fiscal year 2012 exceeded \$2.0 million include:

| | <u>Millions</u> |
|--|-----------------|
| • San Jacinto Valley RWRP Expansion to 14 MGD | \$ 53.0 |
| • Menifee/Perris Desalters Iron and Manganese Removal | 11.8 |
| • Temecula Valley RWRP 18 MGD Reliable Capacity Upgrade | 9.5 |
| • Moreno Valley RWRP - APAD | 8.1 |
| • Enchanted Heights Sewer Infrastructures | 4.4 |
| • Moreno Valley RWRP - SCATT | 3.8 |
| • Perris Valley RWRP Plant No. 3 Expansion | 3.0 |
| • Longfellow Road Recycled Water Storage Tank | 2.7 |
| • Temecula Valley RWRP Effluent Storage Expansion | 2.5 |
| • Conservation Measures for Hemet/San Jacinto Integrated Water Recharge | 2.5 |
| • Nine water and sewer projects between \$1,000,000 - \$2,000,000 | 12.2 |
| • Fourteen water and sewer projects between \$500,000 - \$1,000,000 | 9.7 |
| • Remaining water and sewer projects with expenditures less than \$500,000 | 1.7 |
| | <u>\$ 124.9</u> |

Noncurrent Liabilities

Noncurrent liabilities consist of debt, including advances for construction, notes and assessments, revenue bonds, certificates of participation (COPs), and general obligation (GO) bonds; unamortized deferred amounts for premiums/discounts and refundings relating to debt issuances; State Revolving Fund (SRF) construction advances; settlement payable relating to the Soboba Settlement Agreement (refer to Note 11 to the basic financial statements); advances from developers; other accrued expenses; compensated absences; net other postemployment benefits obligation and the fair value of swap contracts. Detailed information relating to the net other postemployment benefits obligation of \$44.2 million is presented in Note 9 to the basic financial statements.

The District had \$995.1 million in total outstanding long-term debt and other noncurrent liabilities at June 30, 2012, a net increase of \$83.7 million or 9.2 percent from the prior year. Long-term debt decreased \$16.5 million to \$754.5 million due to scheduled debt payments and the amount of debt due within one year totaled \$21.5 million. Increases in noncurrent liabilities included receipts of \$65.4 million in construction advances from the SRF; the addition of \$10.0 million of settlement payable per the Soboba Settlement Agreement; an added \$12.6 million in net OPEB obligation, and \$8.0 million in fair value of swap contracts; and a net \$4.2 million in the various other noncurrent liabilities. The District's COP debt has been assigned an AA+, Aa2 and AA

rating from Fitch Ratings, Moody's Investors Service, Inc., and Standard & Poor's Rating Services, respectively. More detailed information about the District's long-term debt and other noncurrent 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, 2012

(with prior year data for comparison purposes only)

| | June 30 | |
|--|-------------------------|-------------------------|
| | 2012 | 2011 |
| Assets | | |
| Current assets: | | |
| Cash and investments (Note 2) | \$ 201,134,353 | \$ 199,873,564 |
| Utility accounts receivable, net of allowances | 25,277,912 | 22,579,582 |
| Property taxes receivable | 11,961,212 | 11,572,595 |
| Accrued interest receivable | 982,816 | 2,375,504 |
| Other receivables | 1,541,722 | 1,242,349 |
| Prepaid expenses | 2,854,847 | 2,503,739 |
| Materials and supplies inventory | 3,194,808 | 2,930,964 |
| Grants receivable | 17,585,622 | 7,912,401 |
| Total current assets | 264,533,292 | 250,990,698 |
| Noncurrent assets: | | |
| Restricted assets: | | |
| Debt service/covenants cash and investments (Note 2) | 133,884,143 | 137,154,579 |
| Property taxes receivable | 1,252,658 | 1,118,047 |
| Soboba reimbursement receivable (Note 11) | 12,998,778 | - |
| Construction cash and investments (Note 2) | 111,138,065 | 136,229,512 |
| Notes receivable | 60,530 | 117,548 |
| Total restricted assets | 259,334,174 | 274,619,686 |
| Capital assets: (Note 3) | | |
| Land | 42,939,724 | 39,624,376 |
| Tunnel water seepage agreement | 1,750,900 | 1,750,900 |
| Structures, improvements and water rights | 2,362,160,298 | 2,235,898,871 |
| Equipment and general facilities | 114,620,733 | 112,011,835 |
| Construction in progress | 276,611,214 | 238,925,619 |
| Total capital assets | 2,798,082,869 | 2,628,211,601 |
| Less accumulated depreciation | (775,919,288) | (703,119,614) |
| Net capital assets | 2,022,163,581 | 1,925,091,987 |
| Other assets: | | |
| Net pension assets (Note 4) | 4,560,128 | 5,091,076 |
| Deferred outflow of resources – swap contracts (Note 6) | 23,122,858 | 15,116,413 |
| Unamortized debt issuance costs | 3,658,829 | 3,795,540 |
| Total other assets | 31,341,815 | 24,003,029 |
| Total noncurrent assets | 2,312,839,570 | 2,223,714,702 |
| Total assets | \$ 2,577,372,862 | \$ 2,474,705,400 |

| | June 30 | |
|---|-------------------------|-------------------------|
| | 2012 | 2011 |
| Liabilities: | | |
| Current liabilities: | | |
| Accounts payable | \$ 40,856,544 | \$ 30,017,975 |
| Accrued salaries and benefits | 1,569,166 | 3,063,854 |
| Customer deposits | 6,751,494 | 6,526,565 |
| Compensated absences (Note 5) | 4,819,955 | 5,489,745 |
| Accrued interest | 8,935,598 | 9,211,663 |
| Other payables | 2,169,379 | 2,591,224 |
| Advances for construction, notes and assessments (Note 5) | 2,852,156 | 3,002,221 |
| Revenue bonds (Note 5) | 7,905,327 | - |
| Certificates of participation (Note 5) | 8,305,357 | 11,182,330 |
| General obligation bonds (Note 5) | 2,410,890 | 2,335,890 |
| Settlement payable (Note 11) | 4,639,572 | - |
| Advances from developers (Note 14) | 5,539,200 | 2,389,618 |
| Other accrued expenses (Note 5) | 1,457,571 | 804,586 |
| Total current liabilities | 98,212,209 | 76,615,671 |
| Noncurrent liabilities: | | |
| Advances for construction, notes and assessments (Note 5) | 30,798,945 | 32,815,861 |
| State Revolving Fund construction advances (Note 5) | 122,532,960 | 57,096,562 |
| Revenue bonds (Note 5) | 50,484,880 | - |
| Certificates of participation (Note 5) | 611,010,277 | 678,541,435 |
| General obligation bonds (Note 5) | 40,734,614 | 43,145,504 |
| Settlement payable (Note 11) | 5,360,428 | - |
| Advances from developers (Note 14) | 16,683,165 | 17,153,943 |
| Other accrued expenses (Note 5) | 4,242,043 | 4,061,813 |
| Compensated absences (Note 5) | 8,009,372 | 6,695,573 |
| Net other postemployment benefits obligation (Note 9) | 44,191,171 | 31,596,760 |
| Fair value of swap contracts (Note 6) | 23,122,858 | 15,116,413 |
| Total noncurrent liabilities | 957,170,713 | 886,223,864 |
| Total liabilities | \$ 1,055,382,922 | \$ 962,839,535 |
| Net assets: | | |
| Invested in capital assets, net of related debt | \$ 1,231,275,509 | \$ 1,182,870,831 |
| Restricted for debt service/covenants | 64,333,290 | 65,433,313 |
| Restricted for construction | 99,513,601 | 127,083,266 |
| Unrestricted | 126,867,540 | 136,478,455 |
| Total net assets | \$ 1,521,989,940 | \$ 1,511,865,865 |

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, 2012
(with prior year data for comparison purposes only)

| | Fiscal Year Ended June 30 | |
|--|---------------------------|------------------|
| | 2012 | 2011 |
| Operating revenues: | | |
| Water sales – domestic | \$ 103,226,203 | \$ 100,198,290 |
| Water sales – irrigation | 1,515,039 | 1,811,255 |
| Sewer service charges | 65,983,462 | 62,609,731 |
| Recycled water sales | 5,135,186 | 4,504,923 |
| Total operating revenues | <u>175,859,890</u> | 169,124,199 |
| Operating expenses: | | |
| Purchased water | 52,697,993 | 46,489,850 |
| Water operations | 41,593,438 | 41,364,910 |
| Sewer operations | 42,055,885 | 41,247,883 |
| Recycled water operations | 5,895,069 | 6,103,502 |
| General and administrative | 28,106,037 | 26,707,578 |
| Depreciation and amortization | 73,369,622 | 65,354,991 |
| Net other postemployment benefits | 12,594,411 | 9,180,682 |
| Total operating expenses | <u>256,312,455</u> | 236,449,396 |
| Loss from operations | (80,452,565) | (67,325,197) |
| Non-operating revenues (expenses): | | |
| Property taxes – general levy | 26,574,300 | 25,884,964 |
| Property taxes – general obligation bond levy | 5,156,450 | 4,469,721 |
| Availability (standby) assessments | 5,600,661 | 5,569,818 |
| Water and sewer connection fees | 12,150,826 | 10,815,294 |
| Interest – operations and restricted funds | 7,431,966 | 10,677,951 |
| Net increase (decrease) in fair value of investments | 1,712,864 | (3,203,812) |
| Interest – general obligation bond funds | 63,693 | 79,213 |
| Grant revenues | 373,285 | 517,888 |
| Other revenues | 11,230,942 | 9,665,568 |
| Gain on disposal of capital assets | 302,569 | 452,063 |
| Interest – certificates of participation/revenue bonds | (17,801,597) | (12,268,928) |
| Interest – general obligation bonds | (2,025,501) | (2,097,993) |
| Interest – other | (827,234) | (963,140) |
| General obligation bond service fees | (79,338) | (79,834) |
| Other expenses | (16,018,125) | (8,310,730) |
| Total non-operating revenues | <u>33,845,761</u> | 41,208,043 |
| Loss before contributions | (46,606,804) | (26,117,154) |
| Capital contributions: | | |
| Developer contributions | 34,177,609 | 23,910,155 |
| Capital grants | 22,553,270 | 15,620,018 |
| Total capital contributions | <u>56,730,879</u> | 39,530,173 |
| Change in net assets | <u>10,124,075</u> | 13,413,019 |
| Total net assets at beginning of year | <u>1,511,865,865</u> | 1,498,452,846 |
| Total net assets at end of year | <u>\$ 1,521,989,940</u> | \$ 1,511,865,865 |

See accompanying notes to the basic financial statements.

Eastern Municipal Water District

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2012
(with prior year data for comparison purposes only)

| | Fiscal Year Ended June 30 | |
|---|---------------------------|----------------|
| | 2012 | 2011 |
| Cash flows from operating activities | | |
| Cash received from customers | \$ 173,769,845 | \$ 168,665,550 |
| Cash payments for water | (52,697,993) | (46,489,851) |
| Cash payments to employees for services | (65,606,664) | (62,766,903) |
| Cash payments to suppliers for goods and services | (51,595,955) | (55,360,454) |
| Cash payments for energy and utilities | (12,892,071) | (13,733,950) |
| Other operating revenues | 14,159,404 | 12,565,660 |
| Net cash provided by operating activities | 5,136,566 | 2,880,052 |
| Cash flows from noncapital financing activities | | |
| Proceeds from property taxes, general levy | 26,222,570 | 25,793,470 |
| Proceeds from availability (standby) assessments | 5,563,774 | 5,534,218 |
| Proceeds from grants | 373,285 | 517,888 |
| Net cash provided by noncapital financing activities | 32,159,629 | 31,845,576 |
| Cash flows from capital and related financing activities | | |
| Acquisitions and construction of capital assets | (136,525,821) | (125,581,202) |
| Proceeds from sale of capital assets | 613,194 | 751,163 |
| Proceeds from long-term debt issuance | 61,994,842 | - |
| Proceeds from SRF construction advances | 63,946,657 | 37,488,529 |
| Repayment of notes, bonds and certificates of participation | (78,611,981) | (18,402,786) |
| Interest paid | (21,184,575) | (16,267,208) |
| Proceeds from property taxes, GO bond levy | 5,021,839 | 4,471,854 |
| Proceeds from water and sewer connection fees | 12,150,826 | 10,815,294 |
| Proceeds from developer advances | 29,802,787 | 36,920,939 |
| Payments of developer advances | (27,545,828) | (39,256,463) |
| Proceeds from grants | 12,880,049 | 15,620,018 |
| Net cash (used for) capital and related financing activities | (77,458,011) | (93,439,862) |
| Cash flows from investing activities | | |
| Purchases of investment securities | (493,119,811) | (408,287,715) |
| Proceeds from sales and maturities of investment securities | 590,710,235 | 418,027,858 |
| Proceeds from earnings on investments | 8,952,486 | 11,286,916 |
| Net cash provided by investing activities | 106,542,910 | 21,027,059 |
| Total (decrease) increase in cash and cash equivalents | 66,381,094 | (37,687,175) |
| Cash and cash equivalents at beginning of year | 51,541,092 | 89,228,267 |
| Cash and cash equivalents at end of year (Note 2) | \$ 117,922,186 | \$ 51,541,092 |

(Continued on next page)

Eastern Municipal Water District

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2012
(with prior year data for comparison purposes only)
(continued)

| | Fiscal Year Ended June 30 | |
|---|----------------------------------|-----------------|
| | 2012 | 2011 |
| Reconciliation of loss from operations to net cash provided by operating activities: | | |
| Loss from operations | \$ (80,452,565) | \$ (67,325,197) |
| Adjustments to reconcile loss from operations to net cash provided by operating activities: | | |
| Operating activities: | | |
| Depreciation and amortization | 73,369,622 | 65,354,991 |
| Other revenues/expenses | (4,866,521) | 1,275,004 |
| Changes in assets and liabilities: | | |
| (Increase) decrease in utility accounts receivable | (2,698,330) | 274,875 |
| (Increase) decrease in other receivables | (299,373) | (4,732,666) |
| (Increase) decrease in prepaid expenses | (351,108) | 21,393 |
| (Increase) decrease in materials and supplies inventory | (263,844) | 260,108 |
| (Increase) decrease in Soboba reimb. receivable | (12,998,778) | - |
| (Increase) decrease in notes receivable | 57,018 | 549,745 |
| Increase (decrease) in accounts payable | 10,838,569 | (4,450,907) |
| Increase (decrease) in accrued expenses | (661,473) | 645,849 |
| Increase (decrease) in customer deposits | 224,929 | 618,676 |
| Increase (decrease) in settlement payable | 10,000,000 | - |
| Increase (decrease) in compensated absences | 644,009 | 1,207,499 |
| Increase (decrease) in net other postemployment benefits obligation | 12,594,411 | 9,180,682 |
| Net cash provided by operating activities | \$ 5,136,566 | \$ 2,880,052 |
| Reconciliation of cash and cash equivalents to statement of net assets: | | |
| Current cash and investments | \$ 201,134,353 | \$ 199,873,564 |
| Restricted cash and investments: | | |
| Debt service/covenants | 133,884,143 | 137,154,579 |
| Construction | 111,138,065 | 136,229,512 |
| Total cash and investments | 446,156,561 | 473,257,655 |
| Less investments | 328,234,375 | 421,716,563 |
| Cash and cash equivalents (Note 2) | \$ 117,922,186 | \$ 51,541,092 |
| Noncash capital, financing, and investing activities | | |
| Contributions of capital assets from developers | \$ 34,177,609 | \$ 23,910,155 |
| Net increase (decrease) in fair value of investments | 1,712,864 | (3,203,812) |
| Amortized costs - prepaid PERS, net pension assets and long-term debt | 1,078,905 | 1,861,389 |

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, 2012

1. 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 346,691 acres (542 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 76 percent of its water supply from the Metropolitan Water District of Southern California (MWD) and derives the remaining 24 percent 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 blended 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.

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

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

Basis of Accounting and Measurement Focus

The District accounts for its operations 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.

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 stated at their fair value, which represents the quoted or stated market value. Investments that are not traded on a market, such as investments in external pools, are valued based on the stated fair value as represented by the external pool. Guaranteed investment contracts are carried at cost because they are not transferable and 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 facilities built by developers and turned over to the District to operate and maintain; and federal, state and private grants used for capital purposes. Non-operating expenses mainly consist of debt service interest and debt-related fees.

Eastern Municipal Water District
Notes to the Basic Financial Statements

(continued)

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

Capital Assets

Both purchased capital assets and self-constructed capital assets are recorded at cost. The cost of self-constructed assets includes direct labor, material, contracted services, overhead and interest on funds borrowed to finance construction. Contributed capital assets are recorded at fair market value at the time they are received. These assets consist primarily of distribution lines and connections constructed and donated by developers. The District follows the below capitalization thresholds for all purchased or constructed assets. 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.

| Asset Group | Amount (Minimum) | Estimated Useful Life |
|--|-----------------------------|----------------------------------|
| Department tools and equipment; computer hardware and software | \$ 5,000 | > than 3 years |
| Facilities plant and equipment | 10,000 | > than 5 years |
| Fleet vehicles | 10,000 | > than 3 years |
| Operations and maintenance improvement/replacement projects | 10,000 | > than 5 years |

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

| Assets | Years |
|--|--------------|
| Water source of supply and treatment | 30-40 |
| Water storage and distribution | 20-40 |
| Wastewater collection system and lift stations | 35-100 |
| Wastewater treatment plants | 40-50 |
| Recycled water storage and distribution | 40-50 |
| Capacity rights | 40 |
| Meters and service connections | 20-25 |
| Buildings and improvements | 10-35 |
| Office and general equipment | 5-10 |
| Automotive pool | 5-10 |

Allowance for Doubtful Accounts

An allowance for doubtful accounts has been established for utility accounts receivables that are 60 or more days delinquent at year-end. This allowance is netted against the receivable on the Statement of Net Assets and amounts to \$676,182 and \$610,537 at June 30, 2012 and 2011, respectively.

Inventories

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

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

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

Restricted Assets

Amounts shown as restricted assets have been restricted by bond indenture, 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 and are used for specific types of projects for which such funding is designated. When both restricted and unrestricted resources are available for use, the District may use restricted resources or unrestricted resources, depending upon the type of project or activity, as determined by Board action.

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 \$6,202,339 and \$6,704,031 at June 30, 2012 and 2011, respectively.

Property Taxes

Property tax in California is levied in accordance with Article XIII A of the State Constitution at 1 percent 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 |

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

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

Debt Issuance Costs

General obligation bond, revenue bond, and certificate of participation premiums and discounts, deferred amounts on refunding (amortized over the shorter life of the new or old bonds), and issuance costs are deferred and amortized over the term of the bonds using the effective interest method. Net bond and certificate of participation premiums/discounts and deferred amounts 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 percent of their unused sick leave up to 625 hours and 50 percent for all hours in excess 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 percent of their then unused sick leave at their regular payroll rate. The District has provided for these future costs by accruing 100 percent of all earned and unused sick leave and 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. Accordingly, actual results could differ from those estimates.

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.

Interest Rate Swap Contracts

The District entered into interest rate swap contracts to fix the interest rates on certain outstanding variable rate debt. These contracts are recorded at fair value.

On July 1, 2009, the District implemented GASB Statement No. 53 which requires that the fair value of financial instruments be recognized on the Statement of Net Assets. The changes in fair value of hedging financial instruments do not affect investment revenue, but are recorded as deferred outflows. As of June 30, 2012 and June 30, 2011, all potential hedging instruments of the District are considered effective hedges.

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:

| | 2012 | 2011 |
|------------------------|-----------------------|----------------|
| Current assets | \$ 201,134,353 | \$ 199,873,564 |
| Restricted assets: | | |
| Debt service/covenants | 133,884,143 | 137,154,579 |
| Construction | 111,138,065 | 136,229,512 |
| Totals | \$ 446,156,561 | \$ 473,257,655 |

Cash and investments at June 30 consisted of the following:

| | 2012 | 2011 |
|--|-----------------------|----------------|
| Cash on hand | \$ 4,900 | \$ 4,900 |
| Deposits with financial institutions * | (3,439,163) | (1,649,204) |
| Investments | 449,590,824 | 474,901,959 |
| Total cash and investments | \$ 446,156,561 | \$ 473,257,655 |

* The credit balance for fiscal year 2012 relates to payments issued but not yet drawn on the bank. The District had \$8.6 million in outstanding checks at June 30, 2012.

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

| | 2012 | 2011 |
|---|-----------------------|----------------|
| Demand accounts and on hand | \$ (3,434,263) | \$ (1,644,304) |
| Local Agency Investment Fund (LAIF) | 57,759,960 | 28,432,899 |
| Investment Trust of California (CalTRUST) | 29,255,814 | 512,501 |
| Money market mutual funds | 34,340,675 | 24,239,996 |
| Total cash and cash equivalents | \$ 117,922,186 | \$ 51,541,092 |

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

The table on the next 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 | No | 5 Years | None | None |
| LAIF | Yes | None | None | \$50,000,000 |
| Local agency bonds | No | 5 Years | None | None |
| Mutual funds | No | N/A | None | None |
| 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 | 15% | 15% |
| Investment contracts | Yes | None | 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 | 1 Year | 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 |
| LAIF | None | None | None |

Eastern Municipal Water District
Notes to the Basic Financial Statements

(continued)

2. Cash and Investments (continued)

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 remaining 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) | \$ 12,465,250 | \$ - | \$ - | \$ 12,465,250 | \$ - |
| Federal Home Loan Bank (FHLB) | 31,384,839 | - | - | 31,384,839 | - |
| Federal Home Loan Mortgage Corp. (FHLMC) | 40,235,298 | - | - | 40,235,298 | - |
| Federal National Mortgage Assn. (FNMA) | 187,648,888 | - | - | 187,648,888 | - |
| LAIF | 49,020,201 | 49,020,201 | - | - | - |
| Investment Trust of California (CalTRUST) | 29,255,814 | 29,255,814 | - | - | - |
| Money market mutual funds | 2,436,739 | 2,436,739 | - | - | - |
| Held by trustee: | | | | | |
| LAIF | 8,739,759 | 8,739,759 | - | - | - |
| Money market mutual funds | 31,903,936 | 31,903,936 | - | - | - |
| Guaranteed investment contracts (GICs) * | 11,512,451 | - | - | - | 11,512,451 |
| U.S. agency securities: FNMA | 44,987,649 | - | - | - | 44,987,649 |
| Total investments | \$ 449,590,824 | \$ 121,356,449 | \$ - | \$ 271,734,275 | \$ 56,500,100 |

* The District has GICs with Assured Guaranty Municipal Corporation (Assured) and AIG Matched Funding Corporation (AIG) with values of \$8,379,797 and 3,322,654, respectively, as of June 30, 2012. The contract with Assured requires securities as collateral in value relative to the investment balance amounting to at least 100% cash, 104% government securities, or 105% FNMA and FHLMC in the event Assured's rating is downgraded to Aa3/AA- by both Moody's and S&P. As of June 30, 2012, Assured was rated Aa3/AA- by Moody's and S&P. The contract with AIG required AIG to deposit securities as collateral with Wells Fargo Bank Minnesota, NA at a value of at least 105% of the investment balance. The termination of the investment contract and release of collateral would occur in the event of default by AIG. As of June 30, 2012, AIG was not in default and the value of the investment exceeded 105% of the investment balance.

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

2. Cash and Investments (continued)

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 a table showing the minimum rating required by the California Government Code, the District's investment policy, or debt agreements, and the actual Standard & Poor's credit rating as of year end for each investment type.

| Investment Type | Total Amount | Min. Legal Rating | Rating at End of Year | | | |
|---------------------------------|-----------------------|-------------------|-----------------------|-----------------------|-------------|----------------------|
| | | | AAA | AA | A+ | Unrated |
| U.S. agency securities: | | | | | | |
| FFCB | \$ 12,465,250 | N/A | \$ - | \$ 12,465,250 | \$ - | \$ - |
| FHLB | 31,384,839 | N/A | - | 31,384,839 | - | - |
| FHLMC | 40,235,298 | N/A | - | 40,235,298 | - | - |
| FNMA | 187,648,888 | N/A | - | 187,648,888 | - | - |
| LAIF | 49,020,201 | N/A | - | - | - | 49,020,201 |
| CalTRUST | 29,255,814 | N/A | - | - | - | 29,255,814 |
| Money market mutual funds | 2,436,739 | AAA(1) | 2,436,739 | - | - | - |
| Held by trustee: | | | | | | |
| LAIF | 8,739,759 | N/A | - | - | - | 8,739,759 |
| Money market mutual funds | 31,903,936 | N/A | 31,903,936 | - | - | - |
| Guaranteed investment contracts | 11,512,451 | N/A | - | - | - | 11,512,451 |
| U.S. agency securities: | | | | | | |
| FNMA | 44,987,649 | N/A | - | 44,987,649 | - | - |
| Total investments | \$ 449,590,824 | | \$ 34,340,675 | \$ 316,721,924 | \$ - | \$ 98,528,225 |

(1) Money market mutual funds are rated AAAm by S&P and Aaa-mf by Moodys at June 30, 2012. These ratings meet minimum rating requirements.

Concentration of Credit Risk

This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Investments in any one issuer other than U.S. Treasury securities, mutual funds and external investment pools that represent five percent or more of the District's total investments are shown below as of June 30, 2012.

| Issuer | Investment Type | Reported Amount |
|--------|------------------------|-----------------|
| FNMA | U.S. Agency Securities | \$ 232,636,537 |
| FHLMC | U.S. Agency Securities | 40,235,298 |
| FHLB | U.S. Agency Securities | 31,384,839 |

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. The market value of the pledged securities in the collateral pool must equal 110 percent 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 percent of the secured public deposits. As of June 30, 2012, 100 percent of the District's investments were held in the District's name.

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. Additional information about the State of California's LAIF can be found on their website: www.treasurer.ca.gov/pmia-laif.

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 June 30, 2011 | Additions | Reductions | Transfers | Ending Balance June 30, 2012 |
|--|--|----------------------|-----------------------|------------------|---|
| Capital assets, not being depreciated: | | | | | |
| Land | \$ 39,624,376 | \$ 3,412,031 | \$ (96,683) | \$ - | \$ 42,939,724 |
| Tunnel Water Seepage Agreement | 1,750,900 | - | - | - | 1,750,900 |
| Plans and designs | 7,518,748 | - | - | (7,518,748) | - |
| Construction in progress | 238,925,619 | 124,947,155 | (87,261,560) | - | 276,611,214 |
| Total capital assets, not being depreciated | 287,819,643 | 128,359,186 | (87,358,243) | (7,518,748) | 321,301,838 |
| Capital assets, being depreciated: | | | | | |
| Water plant, lines and equipment | 859,277,862 | 55,591,532 | (142,609) | 7,058,296 | 921,785,081 |
| Water capacity rights | 23,832,124 | 5,825,683 | - | - | 29,657,807 |
| Sewer plant, lines and equipment | 1,345,270,137 | 65,106,427 | (119,606) | 460,452 | 1,410,717,410 |
| Equipment and general facilities | 112,011,835 | 3,082,162 | (473,264) | - | 114,620,733 |
| Total capital assets, being depreciated | 2,340,391,958 | 129,605,804 | (735,479) | 7,518,748 | 2,476,781,031 |
| Less accumulated depreciation for: | | | | | |
| Water plant, lines and equipment | 261,988,503 | 29,843,514 | (75,752) | - | 291,756,265 |
| Water capacity rights | 5,200,632 | 634,162 | - | - | 5,834,794 |
| Sewer plant, lines and equipment | 365,347,780 | 36,290,295 | (21,456) | - | 401,616,619 |
| Equipment and general facilities | 70,582,699 | 6,601,651 | (472,740) | - | 76,711,610 |
| Total accumulated depreciation | 703,119,614 | 73,369,622 | (569,948) | - | 775,919,288 |
| Total capital assets, being depreciated, net | 1,637,272,344 | 56,236,180 | (165,530) | 7,518,748 | 1,700,861,742 |
| Capital assets, net | <u>\$1,925,091,987</u> | <u>\$184,595,368</u> | <u>\$(87,523,774)</u> | <u>\$ -</u> | <u>\$2,022,163,581</u> |

Net interest cost capitalized during fiscal years ended June 30, 2012 and 2011 was \$1,258,944 and \$8,602,199, respectively.

Depreciation expense breakdown for 2012:

| | |
|---------------|----------------------|
| Water | \$ 25,423,801 |
| Sewer | 35,398,460 |
| Recycled | 5,066,995 |
| General/Admin | 7,480,366 |
| Total | <u>\$ 73,369,622</u> |

The District entered into a Tunnel Water Seepage Agreement with the Metropolitan Water District (MWD) in 1951 to set forth the terms and conditions of annexation to the MWD service area. Among other provisions, the agreement provided that for all future time, the tunnel water seepage of MWD'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

Eastern Municipal Water District Notes to the Basic Financial Statements

(continued)

3. Capital Assets (continued)

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 percent. 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 percent value of money. This agreement is not amortized because it has an indefinite useful life.

4. Net Pension Assets

The District amended its California Public Employees Retirement System (PERS) contract on January 4, 1998 to implement a 2.0 percent 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 percent 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 \$1,152,691 at June 30, 2012.

The District amended its PERS contract on August 5, 2005 to implement a 2.5 percent 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 percent 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 \$3,407,437 at June 30, 2012.

5. Noncurrent Liabilities

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

| | Beginning Balance June 30, 2011 | Additions | Reductions | Ending Balance June 30, 2012 | Due Within One Year |
|---|---------------------------------------|----------------|------------------|------------------------------------|---------------------------|
| Long-term Debt | | | | | |
| Advances for construction, notes and assessments | \$ 35,818,082 | \$ 1,000,000 | \$ (3,166,981) | \$ 33,651,101 | \$ 2,852,156 |
| Revenue bonds | - | 58,810,534 | (420,327) | 58,390,207 | 7,905,327 |
| Certificates of participation | 689,723,765 | - | (70,408,131) | 619,315,634 | 8,305,357 |
| General obligation bonds | 45,481,394 | - | (2,335,890) | 43,145,504 | 2,410,890 |
| Sub-total | 771,023,241 | 59,810,534 | (76,331,329) | 754,502,446 | 21,473,730 |
| Other Noncurrent Liabilities | | | | | |
| State Revolving Fund construction advances | 57,096,562 | 65,436,398 | - | 122,532,960 | - |
| Advances from developers | 19,543,561 | 21,629,694 | (18,950,890) | 22,222,365 | 5,539,200 |
| Settlement payable | - | 10,000,000 | - | 10,000,000 | 4,639,572 |
| Other accrued expenses | 4,866,399 | 115,244,761 | (114,411,546) | 5,699,614 | 1,457,571 |
| Compensated absences | 12,185,318 | 11,354,509 | (10,710,500) | 12,829,327 | 4,819,955 |
| Net OPEB obligation | 31,596,760 | 12,594,411 | - | 44,191,171 | - |
| Fair value of swap contracts | 15,116,413 | 8,006,445 | - | 23,122,858 | - |
| Sub-total | 140,405,013 | 244,266,218 | (144,072,936) | 240,598,295 | 16,456,298 |
| Total noncurrent liabilities | \$ 911,428,254 | \$ 304,076,752 | \$ (220,404,265) | \$ 995,100,741 | \$ 37,930,028 |

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

5. Noncurrent Liabilities (continued)

The future maturities of long-term debt as of June 30, 2012 are as follows:

| Year Ending June 30: | Principal | Interest | Total |
|--|----------------|----------------|------------------|
| 2013 | \$ 21,727,156 | \$ 22,838,282 | \$ 44,565,438 |
| 2014 | 21,238,546 | 21,872,807 | 43,111,353 |
| 2015 | 22,443,617 | 20,940,131 | 43,383,748 |
| 2016 | 21,502,226 | 19,956,376 | 41,458,602 |
| 2017 | 22,645,808 | 18,961,268 | 41,607,076 |
| 2018-22 | 131,255,413 | 81,240,935 | 212,496,348 |
| 2023-27 | 138,696,377 | 61,051,601 | 199,747,978 |
| 2028-32 | 141,766,958 | 40,449,233 | 182,216,191 |
| 2033-37 | 167,750,000 | 13,521,837 | 181,271,837 |
| 2038-39 | 72,460,000 | 515,506 | 72,975,506 |
| Sub-total | 761,486,101 | 301,347,976 | 1,062,834,077 |
| Less: Unamortized premium/discount and deferred refunding charges | (6,983,655) | - | (6,983,655) |
| Total | \$ 754,502,446 | \$ 301,347,976 | \$ 1,055,850,422 |

Advances for Construction, Notes and Assessments

Advances for construction, notes and assessments consist of the following at June 30:

| | 2012 | 2011 |
|---|----------------------|---------------|
| State of California Department of Water Resources- Safe, Clean, Reliable Water Supply Act (Proposition 204) | \$ 28,827,502 | \$ 30,252,920 |
| State of California Department of Water Resources- Safe, Clean, Reliable Water Supply Act (Proposition 204) | 1,232,090 | 1,326,444 |
| State of California Department of Water Resources- Water Conservation Bond Law of 1988 (Proposition 82) | 1,944,395 | 2,093,297 |
| Santa Ana Watershed Project Authority | - | 344,340 |
| 1992 State of California Agricultural Drainage Water Management Loan | 811,874 | 1,801,081 |
| San Jacinto Z Agreement | 835,240 | - |
| Total | 33,651,101 | 35,818,082 |
| Less: Current portion | (2,852,156) | (3,002,221) |
| Total long-term advances for construction, notes and assessments | \$ 30,798,945 | \$ 32,815,861 |

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

5. Noncurrent Liabilities (continued)

Advances for Construction, Notes and Assessments (continued)

Safe, Clean, Reliable Water Supply Act (Proposition 204)

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 was completed in November 2007.

The total loan amount to the District was \$42,098,388 repayable in semiannual payments of approximately \$1,052,460 including principal and imputed interest. The loan contract required 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 totaled \$8,419,718. The loan contract carries no stated interest rate; however interest has been imputed at approximately 2.273 percent with calculated amounts ranging from \$11,825 to \$382,705. Semiannual payments began January 1, 2009 with the final payment scheduled for July 1, 2028.

| Year Ending June 30: | Principal | Interest | Total |
|-----------------------------|----------------------|---------------------|----------------------|
| 2013 | \$ 1,457,998 | \$ 646,921 | \$ 2,104,919 |
| 2014 | 1,491,322 | 613,597 | 2,104,919 |
| 2015 | 1,525,408 | 579,512 | 2,104,920 |
| 2016 | 1,560,272 | 544,647 | 2,104,919 |
| 2017 | 1,595,934 | 508,986 | 2,104,920 |
| 2018-22 | 8,543,781 | 1,980,816 | 10,524,597 |
| 2023-27 | 9,565,829 | 958,768 | 10,524,597 |
| 2028-29 | 3,086,958 | 70,421 | 3,157,379 |
| Total | <u>\$ 28,827,502</u> | <u>\$ 5,903,668</u> | <u>\$ 34,731,170</u> |

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 percent.

| Year Ending June 30: | Principal | Interest | Total |
|-----------------------------|---------------------|-------------------|---------------------|
| 2013 | \$ 97,158 | \$ 33,755 | \$ 130,913 |
| 2014 | 99,827 | 31,087 | 130,914 |
| 2015 | 102,642 | 28,272 | 130,914 |
| 2016 | 105,485 | 25,429 | 130,914 |
| 2017 | 108,557 | 22,357 | 130,914 |
| 2018-22 | 590,209 | 64,361 | 654,570 |
| 2023 | 128,212 | 2,701 | 130,913 |
| Total | <u>\$ 1,232,090</u> | <u>\$ 207,962</u> | <u>\$ 1,440,052</u> |

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

5. Noncurrent Liabilities (continued)

Advances for Construction, Notes and Assessments (continued)

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 percent.

| Year Ending June 30: | Principal | Interest | Total |
|-----------------------------|---------------------|-------------------|---------------------|
| 2013 | \$ 153,328 | \$ 53,270 | \$ 206,598 |
| 2014 | 157,540 | 49,059 | 206,599 |
| 2015 | 161,982 | 44,617 | 206,599 |
| 2016 | 166,469 | 40,130 | 206,599 |
| 2017 | 171,317 | 35,281 | 206,598 |
| 2018-22 | 931,423 | 101,569 | 1,032,992 |
| 2023 | 202,336 | 4,262 | 206,598 |
| Total | <u>\$ 1,944,395</u> | <u>\$ 328,188</u> | <u>\$ 2,272,583</u> |

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 percent; annual payment including principal and interest of \$365,000 through June 30, 2012. The final payment for this loan was remitted in June 2012.

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 percent.

| Year Ending June 30: | Principal | Interest | Total |
|-----------------------------|-------------------|------------------|-------------------|
| 2013 | \$ 811,874 | \$ 20,065 | \$ 831,939 |
| Total | <u>\$ 811,874</u> | <u>\$ 20,065</u> | <u>\$ 831,939</u> |

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

5. Noncurrent Liabilities (continued)

Advances for Construction, Notes and Assessments (continued)

San Jacinto Z Agreement

The Board approved a settlement agreement with San Jacinto Z LLC (SJZ) on November 16, 2011. The agreement provides for the District to pay \$1,000,000 to SJZ, to be amortized in semi-annual payments over 3 years at an interest rate of 0.92 percent. Payments are due by June 1 and December 1 each year until paid in full.

| <u>Year Ending June 30:</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------------|-------------------|------------------|-------------------|
| 2013 | \$ 331,798 | \$ 6,923 | \$ 338,721 |
| 2014 | 334,857 | 3,863 | 338,720 |
| 2015 | 168,585 | 775 | 169,360 |
| Total | <u>\$ 835,240</u> | <u>\$ 11,561</u> | <u>\$ 846,801</u> |

Clean Water State Revolving Fund (SRF) Construction Advances

On June 23, 2009 and September 15, 2009, respectively, the District executed project financing agreements with the California State Water Resources Control Board to provide financing under the Clean Water State Revolving Fund. These financing agreements are for planning, design and construction costs relating to two projects located at the Moreno Valley RWRf, the Secondary Clarifier and Tertiary Treatment (SCATT) project and the Acid Phase Anaerobic Digestion (APAD) project. Both projects consist of upgrading various current and adding new facilities that will result in increased secondary and tertiary treatment capacity. The SCATT project focuses on the treatment of liquid waste and the APAD project focuses on the treatment of solid waste. Construction for the SCATT project was completed in December 2011 and payment on the 20-year loan of approximately \$38,076,320 with an interest rate of 1.000 percent is scheduled to begin July 2013. Construction advances totaling \$35,415,400 were received through June 30, 2012 (amounts received are net of capitalized interest). The APAD project is scheduled to be completed in March 2013. The future 20-year loan is anticipated to be \$43,546,128 with an interest rate of 0.422 percent, of which \$39,110,906 in construction advances were received through June 30, 2012. Loan repayment is anticipated to begin March 2014.

On March 23, 2011, the District executed a project financing agreement with the California State Water Resources Control Board to provide financing under the Clean Water State Revolving Fund. This financing agreement is for planning, design and construction costs relating to the San Jacinto Valley RWRf Title 22 Tertiary Treatment Upgrade and Plant 2 Facilities project. This project consists of modifying and constructing new facilities to increase reliable capacity from 7.5 to 14.0 MGD with improved efficiency and better effluent quality. The agreement provides \$145,000,000 in funding with a 20-year loan at an interest rate of 2.700 percent. Loan repayment is expected to begin in November 2016. Construction advances totaling \$38,000,021 for this project were received through June 30, 2012.

Eastern Municipal Water District
Notes to the Basic Financial Statements

(continued)

5. Noncurrent Liabilities (continued)

Clean Water State Revolving Fund (SRF) Construction Advances (continued)

On August 19, 2011, the District executed a project financing agreement with the California State Water Resources Control Board to provide financing under the Clean Water State Revolving Fund. This loan is for planning, design and construction costs relating to the Temecula Valley RWRP 18 MGD Reliable Capacity Upgrade project. This project consists of increasing tertiary treatment to comply with reliability standards effectively attaining the 18 MGD permitted capacity and replacing portions of existing facilities and equipment to improve operational efficiencies. The agreement provides \$18,422,420 in funding with a 20-year loan at an interest rate of 2.600 percent. Loan repayment is expected to begin in December 2015. Construction advances totaling \$8,516,892 for this project were received through June 30, 2012.

Debt service requirements to maturity have not been presented for any of these obligations because they have not yet been determined by the lending party. A schedule of payments will be determined upon completion of the funding for the projects and payments will begin approximately one year after completion of construction.

Revenue Bonds

Revenue bonds consist of the following at June 30:

| | 2012 | 2011 |
|--|----------------------|------|
| 2011A refunding revenue bonds | \$ 56,255,000 | \$ - |
| Total | 56,255,000 | - |
| Less: Current portion | (7,485,000) | - |
| Total noncurrent revenue bonds payable | \$ 48,770,000 | \$ - |
| | | |
| Total current portion | \$ 7,485,000 | \$ - |
| Less: Net unamortized discount/premium and deferred refunding charges | 420,327 | - |
| Total net current portion | \$ 7,905,327 | \$ - |
| | | |
| Total noncurrent portion | \$ 48,770,000 | \$ - |
| Less: Net unamortized discount/premium and deferred refunding charges | 1,714,880 | - |
| Total net noncurrent portion | \$ 50,484,880 | \$ - |

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

5. Noncurrent Liabilities (continued)

Revenue Bonds (continued)

In July 2011, the District issued \$56,225,000 of Refunding Water and Sewer Revenue Bonds, Series 2011A. The net proceeds were used to pay the costs of executing and delivering the 2011A Bonds, provide \$4.8 million capital project funding and to refund the certificates of participation shown in the following table.

| Prepaid Certificates | Principal Prepaid / Retired | Use of Proceeds |
|------------------------------|-----------------------------|---------------------------------|
| 2001A Refunding Certificates | \$ 40,175,000 | Deposited in 1991A Escrow Fund |
| 2001C Refunding Certificates | 3,470,000 | Deposited in 1993A Escrow Fund |
| 2008D Refunding Certificates | 8,180,000 | Retired COPs maturing 2012-2016 |
| 2008E Refunding Certificates | 10,005,000 | Retired COPs maturing 2012-2016 |

The proceeds of the 2011A Bonds were deposited in irrevocable trusts with an escrow agent for the payment of the 2001A and 2001C Certificates and subsequently, all 2001A and 2001C Certificates were redeemed on August 22, 2011. As a result, these certificates are considered to be defeased and the liability for those bonds has been removed from the statement of net assets.

The reacquisition price exceeded the net carrying amount of the old debt by \$3,625,886. This amount is being netted against the new debt and amortized over the remaining lives of the refunded debt, which are shorter or equal to the life of the 2011A Bonds. The District issued the 2011A Bonds to reduce its total debt service payments over nine years by \$6,380,281 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$5,860,780.

The 2011A Bonds include principal installments due in varying amounts from \$4,145,000 to \$8,400,000 annually from July 1, 2012 to July 1, 2020, with interest payable semiannually beginning January 1, 2012, at varying rates from 2.00 to 5.00 percent per annum.

| | Beginning Balance June 30, 2011 | Additions | Reductions | Ending Balance June 30, 2012 | Due Within One Year |
|----------------------------|---------------------------------------|----------------------|---------------------|------------------------------------|------------------------|
| Revenue bonds | \$ - | \$ 56,255,000 | \$ - | \$ 56,255,000 | \$ 7,485,000 |
| Deferred refunding charges | - | (3,625,886) | 563,773 | (3,062,113) | (563,773) |
| Net bond premium/discount | - | 6,181,420 | (984,100) | 5,197,320 | 984,100 |
| Total | \$ - | \$ 58,810,534 | \$ (420,327) | \$ 58,390,207 | \$ 7,905,327 |

| Year Ending June 30: | Principal | Interest | Total |
|----------------------|----------------------|----------------------|----------------------|
| 2013 | \$ 7,485,000 | \$ 2,241,650 | \$ 9,726,650 |
| 2014 | 6,940,000 | 2,028,000 | 8,968,000 |
| 2015 | 7,665,000 | 1,735,900 | 9,400,900 |
| 2016 | 8,015,000 | 1,382,225 | 9,397,225 |
| 2017 | 8,420,000 | 1,013,450 | 9,433,450 |
| 2018-21 | 17,730,000 | 1,802,995 | 19,532,995 |
| Total | \$ 56,255,000 | \$ 10,204,220 | \$ 66,459,220 |

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

5. Noncurrent Liabilities (continued)

Certificates of Participation

Certificates of participation consist of the following at June 30:

| | Issue Date | 2012 | 2011 |
|--|-----------------------|-----------------------|----------------|
| 2008H certificates of participation | Aug 2008 | \$ 140,035,000 | \$ 140,035,000 |
| 2008D refunding certificates of participation | Jul 2008 | 45,175,000 | 53,790,000 |
| 2008E refunding certificates of participation | Jul 2008 | 48,645,000 | 60,470,000 |
| 2008F certificates of participation | Jul 2008 | 50,000,000 | 50,000,000 |
| 2008G certificates of participation | Jul 2008 | 50,000,000 | 50,000,000 |
| 2008C refunding certificates of participation | Jun 2008 | 53,355,000 | 53,725,000 |
| 2008B refunding certificates of participation | Mar 2008 | 54,575,000 | 54,575,000 |
| 2008A refunding certificates of participation | Jan 2008 | 55,625,000 | 55,895,000 |
| 2007A refunding certificates of participation | May 2007 | 20,480,000 | 20,560,000 |
| 2006A certificates of participation | Feb 2006 | 106,320,000 | 106,320,000 |
| 2001A refunding certificates of participation | Apr 2001 | - | 43,610,000 |
| 2001C refunding certificates of participation | Apr 2001 | - | 5,105,000 |
| 1991 certificates of participation | Mar 1991 | 4,590,000 | 8,890,000 |
| Total | | 628,800,000 | 702,975,000 |
| Less: Current portion | | (9,045,000) | (12,345,000) |
| Total noncurrent certificates of participation payable | | \$ 619,755,000 | \$ 690,630,000 |
| | | | |
| Total current portion | | \$ 9,045,000 | \$ 12,345,000 |
| Less: Net unamortized discount/premium and deferred refunding charges | | (739,643) | (1,162,670) |
| Total net current portion | | \$ 8,305,357 | \$ 11,182,330 |
| | | | |
| Total noncurrent portion | | \$ 619,755,000 | \$ 690,630,000 |
| Less: Net unamortized discount/premium and deferred refunding charges | | (8,744,723) | (12,088,565) |
| Total net noncurrent portion | | \$ 611,010,277 | \$ 678,541,435 |

Eastern Municipal Water District
Notes to the Basic Financial Statements

(continued)

5. Noncurrent Liabilities (continued)

Certificates of Participation (continued)

2008H Certificates of Participation

In August 2008, the Facilities Corporation issued \$140,035,000 of Water and Sewer Revenue Fixed Rate Certificates of Participation, Series 2008H. Proceeds of the sale of certificates are for the purpose of financing a portion of the cost of the design, acquisition and construction of the 2008H Projects. The 2008H Projects include, among others, the following capital improvements to the District's Water and Sewer System: (1) construct new and replacement improvements to the Hemet/San Jacinto Integrated Recharge and Recovery Program; (2) expand the Perris Valley RWRf (Plant 3); and (3) add the Scott Road Booster and Pipeline to the Keller 1698 Power Zone.

The 2008H Certificates include principal installments due in varying amounts from \$5,185,000 to \$23,470,000 annually from July 1, 2024 to July 1, 2035, with interest payable semiannually beginning July 1, 2009, at a 5.00 percent rate per annum.

| | Beginning Balance June 30, 2011 | Additions | Reductions | Ending Balance June 30, 2012 | Due Within One Year |
|-------------------------------|--|------------------|-------------------|---|--------------------------------|
| Certificates of participation | \$ 140,035,000 | \$ - | \$ - | \$ 140,035,000 | \$ - |
| COP discount | (1,941,970) | - | 80,915 | (1,861,055) | (80,915) |
| Total | \$ 138,093,030 | \$ - | \$ 80,915 | \$ 138,173,945 | \$ (80,915) |

| Year Ending June 30: | Principal | Interest | Total |
|-----------------------------|-----------------------|-----------------------|-----------------------|
| 2013 | \$ - | \$ 7,001,750 | \$ 7,001,750 |
| 2014 | - | 7,001,750 | 7,001,750 |
| 2015 | - | 7,001,750 | 7,001,750 |
| 2016 | - | 7,001,750 | 7,001,750 |
| 2017 | - | 7,001,750 | 7,001,750 |
| 2018-22 | - | 35,008,750 | 35,008,750 |
| 2023-27 | 16,730,000 | 33,790,750 | 50,520,750 |
| 2028-32 | 42,965,000 | 26,457,125 | 69,422,125 |
| 2033-36 | 80,340,000 | 8,649,500 | 88,989,500 |
| Total | \$ 140,035,000 | \$ 138,914,875 | \$ 278,949,875 |

Eastern Municipal Water District
Notes to the Basic Financial Statements

(continued)

5. Noncurrent Liabilities (continued)

Certificates of Participation (continued)

2008D Refunding Certificates of Participation

In July 2008, the Facilities Corporation issued \$54,760,000 in Water and Sewer Revenue Refunding Certificates of Participation, Series 2008D. The net proceeds of \$57,942,400 were used to refund the District's outstanding 1998A and 2003A Certificates in the amounts of \$27,265,000 and \$24,260,000, respectively, maturing July 1, in the years 2009 through 2023; to fund a debt service reserve fund for the 2008D Certificates; and to pay the costs of executing and delivering the 2008D Certificates. The proceeds of the 2008D Certificates were deposited in irrevocable trusts with an escrow agent for the payment of the 1998A and 2003A Certificates and subsequently, all 1998A and 2003A Certificates were redeemed on September 2, 2008. As a result, these 1998A and 2003A series certificates are considered to be defeased and the liability for those bonds has been removed from the statement of net assets.

In July 2011, the District issued \$56,255,000 Refunding Water and Sewer Revenue Bonds Series, 2011A. A portion of the net proceeds of the 2011A Bonds was used to prepay the 2008D principal installments due and payable on or before July 1, 2016 totaling \$8,180,000.

The remaining 2008D Certificates include principal installments due in varying amounts from \$2,645,000 to \$11,820,000 annually from July 1, 2017 to July 1, 2023; with interest payable monthly at a variable rate for a weekly period. The District may prepay all or part of the remaining certificates at any time at par. The future interest amounts shown below are calculated using the interest rate in effect at June 30, 2012, which was 0.12 percent. The average annual interest rate experienced in the fiscal year was 0.11 percent and the actual interest paid was \$49,527 and \$107,654 for the fiscal years ended June 30, 2012 and June 30, 2011.

| | Beginning Balance June 30, 2011 | Additions | Reductions | Ending Balance June 30, 2012 | Due Within One Year |
|-------------------------------|--|------------------|-----------------------|---|--------------------------------|
| Certificates of participation | \$ 53,790,000 | \$ - | \$ (8,615,000) | \$ 45,175,000 | \$ - |
| Deferred refunding charges | (3,326,215) | - | 726,586 | (2,599,629) | (216,636) |
| COP discount | (61,832) | - | 13,507 | (48,325) | (4,027) |
| Total | \$ 50,401,953 | \$ - | \$ (7,874,907) | \$ 42,527,046 | \$ 220,663 |

| Year Ending June 30: | Principal | Interest | Total |
|-----------------------------|----------------------|-------------------|----------------------|
| 2013 | \$ - | \$ 54,210 | \$ 54,210 |
| 2014 | - | 54,210 | 54,210 |
| 2015 | - | 54,210 | 54,210 |
| 2016 | - | 54,210 | 54,210 |
| 2017 | - | 54,210 | 54,210 |
| 2018-22 | 21,925,000 | 238,650 | 22,163,650 |
| 2023-24 | 23,250,000 | 42,084 | 23,292,084 |
| Total | \$ 45,175,000 | \$ 551,784 | \$ 45,726,784 |

Eastern Municipal Water District
Notes to the Basic Financial Statements

(continued)

5. Noncurrent Liabilities (continued)

Certificates of Participation (continued)

2008E Refunding Certificates of Participation

In July 2008, the Facilities Corporation issued \$64,110,000 in Water and Sewer Revenue Refunding Certificates of Participation, Series 2008E. The net proceeds of \$68,541,548 were used to refund the District's outstanding 2003B Certificates in the amount of \$62,815,000 maturing July 1, 2033; to fund a debt service reserve fund for the 2008E Certificates; and to pay the costs of executing and delivering the 2008E Certificates. The proceeds of the 2008E Certificates were deposited in an irrevocable trust with an escrow agent for the payment of the 2003B Certificates and subsequently, all 2003B Certificates were redeemed on September 2, 2008. As a result, these 2003B series certificates are considered to be defeased and the liability for those bonds has been removed from the statement of net assets.

In July 2011, the District issued \$56,255,000 Refunding Water and Sewer Revenue Bonds Series, 2011A. A portion of the net proceeds of the 2011A Bonds was used to prepay the 2008E principal installments due and payable on or before July 1, 2016 totaling \$10,005,000.

The remaining 2008E Certificates include principal installments due in varying amounts from \$2,215,000 to \$3,640,000 annually from July 1, 2017 to July 1, 2033; with interest payable monthly at a variable rate for a weekly period. The District may prepay all or part of the remaining certificates at any time at par. The future interest amounts shown below are calculated using the interest rate in effect at June 30, 2012, which was 0.11 percent. The average annual interest rate experienced in the fiscal year was 0.11 percent and the actual interest paid was \$51,624 and \$125,214 for the fiscal years ended June 30, 2012 and June 30, 2011.

| | Beginning Balance June 30, 2011 | Additions | Reductions | Ending Balance June 30, 2012 | Due Within One Year |
|-------------------------------|--|------------------|------------------------|---|--------------------------------|
| Certificates of participation | \$ 60,470,000 | \$ - | \$ (11,825,000) | \$ 48,645,000 | \$ - |
| Deferred refunding charges | (964,230) | - | 199,257 | (764,973) | (34,772) |
| COP discount | (79,356) | - | 16,399 | (62,957) | (2,862) |
| Total | \$ 59,426,414 | \$ - | \$ (11,609,344) | \$ 47,817,070 | \$ (37,634) |

| Year Ending June 30: | Principal | Interest | Total |
|-----------------------------|----------------------|-------------------|----------------------|
| 2013 | \$ - | \$ 53,510 | \$ 53,510 |
| 2014 | - | 53,510 | 53,510 |
| 2015 | - | 53,510 | 53,510 |
| 2016 | - | 53,510 | 53,510 |
| 2017 | - | 53,510 | 53,510 |
| 2018-22 | 11,715,000 | 242,297 | 11,957,297 |
| 2023-27 | 13,710,000 | 173,806 | 13,883,806 |
| 2028-32 | 16,055,000 | 93,396 | 16,148,396 |
| 2033-34 | 7,165,000 | 11,886 | 7,176,886 |
| Total | \$ 48,645,000 | \$ 788,935 | \$ 49,433,935 |

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

5. Noncurrent Liabilities (continued)

Certificates of Participation (continued)

2008F Certificates of Participation

In July 2008, the Facilities Corporation issued \$50,000,000 of Water and Sewer Revenue Certificates of Participation, Series 2008F. Proceeds of the sale of certificates are for the principal purpose of financing a portion of the cost of the design, acquisition and construction of the 2008F Projects. The 2008F Projects includes an undivided fifty percent (50 percent) interest in, among others, the following capital improvements to the District's Water and Sewer System: (1) expansion of the Cactus Ave Feeder and Pump Station; (2) construction of a portion of the San Jacinto Valley Interceptor Sewer Pipeline; (3) construction of the Western Way Pump Station; (4) construction of the Perris Water Filtration Plant State Project Water Supply Pipeline and installation of a new service connection "EM-22" from MWD; and (5) construction of the Oleander Pump Station Transmission Pipeline.

The 2008F Certificates include principal installments due in varying amounts from \$16,000,000 to \$17,290,000 annually from July 1, 2036 to July 1, 2038; with interest payable monthly at a variable rate for a weekly period. The District may prepay all or part of the certificates at any time at par. The future interest amounts shown below are calculated using the interest rate in effect at June 30, 2012, which was 0.14 percent. The average annual interest rate experienced in the fiscal year was 0.13 percent and the actual interest paid was \$62,105 and \$111,096 for the fiscal years ended June 30, 2012 and June 30, 2011.

| | Beginning Balance June 30, 2011 | Additions | Reductions | Ending Balance June 30, 2012 | Due Within One Year |
|-------------------------------|--|------------------|-------------------|---|--------------------------------|
| Certificates of participation | \$ 50,000,000 | \$ - | \$ - | \$ 50,000,000 | \$ - |
| COP discount | (63,526) | - | 2,352 | (61,174) | (2,353) |
| Total | \$ 49,936,474 | \$ - | \$ 2,352 | \$ 49,938,826 | \$ (2,353) |

| Year Ending June 30: | Principal | Interest | Total |
|-----------------------------|----------------------|---------------------|----------------------|
| 2013 | \$ - | \$ 70,000 | \$ 70,000 |
| 2014 | - | 70,000 | 70,000 |
| 2015 | - | 70,000 | 70,000 |
| 2016 | - | 70,000 | 70,000 |
| 2017 | - | 70,000 | 70,000 |
| 2018-22 | - | 350,000 | 350,000 |
| 2023-27 | - | 350,000 | 350,000 |
| 2028-32 | - | 350,000 | 350,000 |
| 2033-37 | 16,000,000 | 350,000 | 16,350,000 |
| 2038-39 | 34,000,000 | 71,806 | 34,071,806 |
| Total | \$ 50,000,000 | \$ 1,821,806 | \$ 51,821,806 |

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

5. Noncurrent Liabilities (continued)

Certificates of Participation (continued)

2008G Certificates of Participation

In July 2008, the Facilities Corporation issued \$50,000,000 of Water and Sewer Revenue Certificates of Participation, Series 2008G. Proceeds of the sale of certificates are for the principal purpose of financing a portion of the cost of the design, acquisition and construction of the 2008G Projects. The 2008G Projects includes an undivided fifty percent (50 percent) interest in, among others, the following capital improvements to the District's Water and Sewer System: (1) expansion of the Cactus Ave Feeder and Pump Station; (2) construction of a portion of the San Jacinto Valley Interceptor Sewer Pipeline; (3) construction of the Western Way Pump Station; (4) construction of the Perris Water Filtration Plant State Project Water Supply Pipeline and installation of a new service connection "EM-22" from MWD; and (5) construction of the Oleander Pump Station Transmission Pipeline.

The 2008G Certificates include principal installments due in varying amounts from \$16,000,000 to \$17,290,000 annually from July 1, 2036 to July 1, 2038; with interest payable monthly at a variable rate for a weekly period. The District may prepay all or part of the certificates at any time at par. The future interest amounts shown below are calculated using the interest rate in effect at June 30, 2012, which was 0.11 percent. The average annual interest rate experienced in the fiscal year was 0.11 percent and the actual interest paid was \$54,196 and \$109,438 for the fiscal years ended June 30, 2012 and June 30, 2011.

| | Beginning Balance June 30, 2011 | Additions | Reductions | Ending Balance June 30, 2012 | Due Within One Year |
|-------------------------------|--|------------------|-------------------|---|--------------------------------|
| Certificates of participation | \$ 50,000,000 | \$ - | \$ - | \$ 50,000,000 | \$ - |
| COP discount | (63,329) | - | 2,347 | (60,982) | (2,345) |
| Total | \$ 49,936,671 | \$ - | \$ 2,347 | \$ 49,939,018 | \$ (2,345) |

| Year Ending June 30: | Principal | Interest | Total |
|-----------------------------|----------------------|---------------------|----------------------|
| 2013 | \$ - | \$ 55,000 | \$ 55,000 |
| 2014 | - | 55,000 | 55,000 |
| 2015 | - | 55,000 | 55,000 |
| 2016 | - | 55,000 | 55,000 |
| 2017 | - | 55,000 | 55,000 |
| 2018-22 | - | 275,000 | 275,000 |
| 2023-27 | - | 275,000 | 275,000 |
| 2028-32 | - | 275,000 | 275,000 |
| 2033-37 | 16,000,000 | 275,000 | 16,275,000 |
| 2038-39 | 34,000,000 | 56,419 | 34,056,419 |
| Total | \$ 50,000,000 | \$ 1,431,419 | \$ 51,431,419 |

Eastern Municipal Water District
Notes to the Basic Financial Statements

(continued)

5. Noncurrent Liabilities (continued)

Certificates of Participation (continued)

2008C Refunding Certificates of Participation

In June 2008, the Facilities Corporation issued \$54,400,000 in Water and Sewer Revenue Refunding Certificates of Participation, Series 2008C. The net proceeds of \$57,189,288 were used to advance refund the District's outstanding 1993B Certificates in the amount of \$55,445,000 maturing July 1, in the years 2008 through 2020, to fund a debt service reserve fund for the 2008C Certificates; and to pay the costs of executing and delivering the 2008C Certificates.

The 2008C Certificates include principal installments due in varying amounts from \$330,000 to \$7,955,000 annually from July 1, 2009 to July 1, 2020; with interest payable monthly at a variable rate for a weekly period. The District may prepay all or part of the certificates at any time at par.

| | Beginning Balance June 30, 2011 | Additions | Reductions | Ending Balance June 30, 2012 | Due Within One Year |
|-------------------------------|--|------------------|---------------------|---|------------------------------------|
| Certificates of participation | \$ 53,725,000 | \$ - | \$ (370,000) | \$ 53,355,000 | \$ 375,000 |
| Deferred refunding charges | (2,253,100) | - | 225,310 | (2,027,790) | (225,310) |
| COP discount | (105,878) | - | 10,587 | (95,291) | (10,588) |
| Total | \$ 51,366,022 | \$ - | \$ (134,103) | \$ 51,231,919 | \$ 139,102 |

The following table incorporates the net swap payments associated with the 2008C Certificates and the related financial instrument. Using a variable interest rate of 0.14 percent as of June 30, 2012, the debt service requirements of the 2008C Certificates and the associated swap payments, assuming the current and the reference interest rates remain the same for their term, are as follows. As rates vary, the variable rate interest payments and net swap payments on the financial instrument will vary. Refer to note 6 for additional information regarding the financial instrument associated with the 2008C Certificates.

| Year Ending June 30: | Principal | Interest | Net Payment to Counterparty | Total |
|-------------------------------------|----------------------|-------------------|--|----------------------|
| 2013 | \$ 375,000 | \$ 76,974 | \$ 2,522,041 | \$ 2,974,015 |
| 2014 | 5,435,000 | 69,674 | 2,283,119 | 7,787,793 |
| 2015 | 5,735,000 | 61,360 | 2,010,741 | 7,807,101 |
| 2016 | 6,055,000 | 52,727 | 1,723,106 | 7,830,833 |
| 2017 | 6,385,000 | 43,339 | 1,420,329 | 7,848,668 |
| 2018-21 | 29,370,000 | 70,250 | 2,302,270 | 31,742,520 |
| Total | \$ 53,355,000 | \$ 374,324 | \$ 12,261,606 | \$ 65,990,930 |

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

5. Noncurrent Liabilities (continued)

Certificates of Participation (continued)

2008B Refunding Certificates of Participation

In March 2008, the Facilities Corporation issued \$54,575,000 in Water and Sewer Revenue Refunding Certificates of Participation, Series 2008B. The net proceeds of \$54,575,000 were used to advance refund the District's outstanding 2006B Certificates in the amount of \$54,025,000 maturing July 1, in the years 2024 through 2035, and to pay the costs of executing and delivering the 2008B Certificates. As of June 30, 2008, no 2006B Certificates remain outstanding.

The 2008B Certificates include principal installments due in varying amounts from \$3,805,000 to \$5,370,000 annually from July 1, 2024 to July 1, 2035; with interest payable monthly at a variable rate for a weekly period. The future interest amounts shown below are calculated using the interest rate in effect at June 30, 2012, which was 0.10 percent. The average annual interest rate experienced in the fiscal year was 0.10 percent and the actual interest paid was \$55,757 and \$109,898 for the fiscal years ended June 30, 2012 and June 30, 2011.

| | Beginning Balance June 30, 2011 | Additions | Reductions | Ending Balance June 30, 2012 | Due Within One Year |
|-------------------------------|--|------------------|-------------------|---|--------------------------------|
| Certificates of participation | \$ 54,575,000 | \$ - | \$ - | \$ 54,575,000 | \$ - |
| COP discount | (117,157) | - | 4,881 | (112,276) | (4,882) |
| Total | \$ 54,457,843 | \$ - | \$ 4,881 | \$ 54,462,724 | \$ (4,882) |

| Year Ending June 30: | Principal | Interest | Total |
|-----------------------------|----------------------|---------------------|----------------------|
| 2013 | \$ - | \$ 54,575 | \$ 54,575 |
| 2014 | - | 54,575 | 54,575 |
| 2015 | - | 54,575 | 54,575 |
| 2016 | - | 54,575 | 54,575 |
| 2017 | - | 54,575 | 54,575 |
| 2018-22 | - | 272,875 | 272,875 |
| 2023-27 | 11,810,000 | 261,320 | 12,071,320 |
| 2028-32 | 22,255,000 | 170,740 | 22,425,740 |
| 2033-36 | 20,510,000 | 52,105 | 20,562,105 |
| Total | \$ 54,575,000 | \$ 1,029,915 | \$ 55,604,915 |

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

5. Noncurrent Liabilities (continued)

Certificates of Participation (continued)

2008A Refunding Certificates of Participation

In January 2008, the Facilities Corporation issued \$56,855,000 in Water and Sewer Revenue Refunding Certificates of Participation, Series 2008A. The net proceeds of \$61,977,243 were used to advance refund the 2001B Certificates in the amount of \$51,370,000 maturing July 1, in the years 2024 through 2030, to fund a debt service reserve fund for the 2008A Certificates and to pay the costs of executing and delivering the 2008A Certificates. The proceeds of the 2008A Certificates were deposited in an irrevocable trust with an escrow agent to provide for repayment of the outstanding 2001B Certificates. As a result, these 2001B series certificates are considered to be defeased and the liability for those bonds has been removed from the statement of net assets. As of June 30, 2009, the 2001B certificates remain outstanding.

The 2008A Certificates include principal installments due in varying amounts from \$255,000 to \$8,090,000 annually from July 1, 2009 to July 1, 2030; with interest payable monthly at a variable rate for a weekly period.

| | Beginning Balance June 30, 2011 | Additions | Reductions | Ending Balance June 30, 2012 | Due Within One Year |
|-------------------------------|--|------------------|--------------------|---|--------------------------------|
| Certificates of participation | \$ 55,895,000 | \$ - | \$ (270,000) | \$ 55,625,000 | \$ 275,000 |
| Deferred refunding charges | (4,386,419) | - | 230,865 | (4,155,554) | (230,864) |
| COP discount | (172,377) | - | 9,073 | (163,304) | (9,072) |
| Total | \$ 51,336,204 | \$ - | \$ (30,062) | \$ 51,306,142 | \$ 35,064 |

The following table incorporates the net swap payments associated with the 2008A Certificates and the related financial instrument. Using a variable interest rate of 0.14 percent as of June 30, 2012, the debt service requirements of the 2008A Certificates and the associated swap payments, assuming the current and the reference interest rates remain the same for their term, are as follows. As rates vary, the variable rate interest payments and net swap payments on the financial instruments will vary. Refer to note 6 for additional information regarding the financial instruments associated with the 2008A Certificates.

| Year Ending June 30: | Principal | Interest | Net Payment to Counterparty | Total |
|-------------------------------------|----------------------|---------------------|--|----------------------|
| 2013 | \$ 275,000 | \$ 77,398 | \$ 1,629,444 | \$ 1,981,842 |
| 2014 | 290,000 | 77,117 | 1,620,808 | 1,987,925 |
| 2015 | 295,000 | 76,705 | 1,612,140 | 1,983,845 |
| 2016 | 305,000 | 76,401 | 1,603,053 | 1,984,454 |
| 2017 | 310,000 | 75,724 | 1,594,218 | 1,979,942 |
| 2018-22 | 1,735,000 | 372,103 | 7,820,648 | 9,927,751 |
| 2023-27 | 21,525,000 | 307,032 | 6,453,450 | 28,285,482 |
| 2028-31 | 30,890,000 | 70,132 | 1,474,755 | 32,434,887 |
| Total | \$ 55,625,000 | \$ 1,132,612 | \$ 23,808,516 | \$ 80,566,128 |

Eastern Municipal Water District
Notes to the Basic Financial Statements

(continued)

5. Noncurrent Liabilities (continued)

Certificates of Participation (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 currently refund the District's 1997A certificates for \$21,175,000, and to pay the municipal bond insurance policy premium and issuance costs.

The 2007A Certificates include principal installments 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 percent to 5.00 percent.

| | Beginning Balance June 30, 2011 | Additions | Reductions | Ending Balance June 30, 2012 | Due Within One Year |
|-------------------------------|--|------------------|--------------------|---|--------------------------------|
| Certificates of participation | \$ 20,560,000 | \$ - | \$ (80,000) | \$ 20,480,000 | \$ 80,000 |
| Deferred refunding charges | (1,487,405) | - | 123,951 | (1,363,454) | (123,950) |
| COP premium | 996,969 | - | (83,080) | 913,889 | 83,081 |
| Total | \$ 20,069,564 | \$ - | \$ (39,129) | \$ 20,030,435 | \$ 39,131 |

| Year Ending June 30: | Principal | Interest | Total |
|-----------------------------|----------------------|----------------------|----------------------|
| 2013 | \$ 80,000 | \$ 1,013,700 | \$ 1,093,700 |
| 2014 | 85,000 | 1,010,400 | 1,095,400 |
| 2015 | 90,000 | 1,006,900 | 1,096,900 |
| 2016 | 90,000 | 1,003,300 | 1,093,300 |
| 2017 | 100,000 | 999,500 | 1,099,500 |
| 2018-22 | 6,645,000 | 4,781,900 | 11,426,900 |
| 2023-24 | 13,390,000 | 677,750 | 14,067,750 |
| Total | \$ 20,480,000 | \$ 10,493,450 | \$ 30,973,450 |

Eastern Municipal Water District
Notes to the Basic Financial Statements

(continued)

5. Noncurrent Liabilities (continued)

Certificates of Participation (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 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 2006A Certificates include principal installments due in varying amounts from \$3,725,000 to \$6,350,000 annually from July 1, 2012 to July 1, 2035, with interest payable semiannually beginning July 1, 2006, at rates per annum ranging from 3.75 percent to 5.00 percent.

| | Beginning Balance June 30, 2011 | Additions | Reductions | Ending Balance June 30, 2012 | Due Within One Year |
|-------------------------------|--|------------------|---------------------|---|--------------------------------|
| Certificates of participation | \$ 106,320,000 | \$ - | \$ - | \$ 106,320,000 | \$ 3,725,000 |
| COP premium | 3,104,362 | - | (125,853) | 2,978,509 | 125,852 |
| Total | \$ 109,424,362 | \$ - | \$ (125,853) | \$ 109,298,509 | \$ 3,850,852 |

| Year Ending June 30: | Principal | Interest | Total |
|-----------------------------|-----------------------|----------------------|-----------------------|
| 2013 | \$ 3,725,000 | \$ 5,030,850 | \$ 8,755,850 |
| 2014 | 3,985,000 | 4,842,631 | 8,827,631 |
| 2015 | 4,180,000 | 4,638,506 | 8,818,506 |
| 2016 | 4,250,000 | 4,431,506 | 8,681,506 |
| 2017 | 4,560,000 | 4,217,806 | 8,777,806 |
| 2018-22 | 26,385,000 | 17,581,471 | 43,966,471 |
| 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 | 1,739,814 | 20,429,814 |
| Total | \$ 106,320,000 | \$ 60,497,684 | \$ 166,817,684 |

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

5. Noncurrent Liabilities (continued)

Certificates of Participation (continued)

2001A, 2001C Refunding Certificates of Participation

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

2001A 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 2001A Certificates include principal installments due 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 percent to 5.375 percent. The 2001A Certificates with certificate payment dates on or after July 1, 2012, are subject to optional prepayment.

In July 2011, the District issued \$56,255,000 Refunding Water and Sewer Revenue Bonds Series, 2011A. A portion of the net proceeds of the 2011A Bonds was used to prepay the District's outstanding 2001A Certificates in the amount of \$40,175,000 maturing July 1, 2020. The proceeds of the 2001A Certificates were deposited in an irrevocable trust with an escrow agent for the payment of the 2001A Certificates and subsequently, all 2001A Certificates were redeemed on August 22, 2011. As a result, these 2001A series certificates are considered to be defeased and the liability for those bonds has been removed from the statement of net assets.

2001C Refunding Certificates of Participation

\$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 2001C Certificates include principal installments due 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 percent to 4.250 percent. The 2001C Certificates with certificate payment dates on or after July 1, 2012, are subject to optional prepayment.

In addition to the 2001A Certificates, a portion of the net proceeds of the 2011A Bonds was used to prepay the District's outstanding 2001C Certificates in the amount of \$3,470,000 maturing July 1, 2013. The proceeds of the 2001C Certificates were also deposited in an irrevocable trust with an escrow agent for the payment of the 2001C Certificates and subsequently, all 2001C Certificates were redeemed on August 22, 2011. As a result, these 2001AC series certificates are considered to be defeased and the liability for those bonds has been removed from the statement of net assets.

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

5. Noncurrent Liabilities (continued)

Certificates of Participation (continued)

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

2001A Refunding Certificates of Participation

| | Beginning Balance June 30, 2011 | Additions | Reductions | Ending Balance June 30, 2012 | Due Within One Year |
|-------------------------------|--|------------------|------------------------|---|--------------------------------|
| Certificates of participation | \$ 43,610,000 | \$ - | \$ (43,610,000) | \$ - | \$ - |
| Deferred refunding charges | (3,215,379) | - | 3,215,379 | - | - |
| COP premium | 1,088,739 | - | (1,088,739) | - | - |
| Total | \$ 41,483,360 | \$ - | \$ (41,483,360) | \$ - | \$ - |

2001C Refunding Certificates of Participation

| | Beginning Balance June 30, 2011 | Additions | Reductions | Ending Balance June 30, 2012 | Due Within One Year |
|-------------------------------|--|------------------|-----------------------|---|--------------------------------|
| Certificates of participation | \$ 5,105,000 | \$ - | \$ (5,105,000) | \$ - | \$ - |
| Deferred refunding charges | (200,713) | - | 200,713 | - | - |
| COP discount | (2,419) | - | 2,419 | - | - |
| Total | \$ 4,901,868 | \$ - | \$ (4,901,868) | \$ - | \$ - |

Eastern Municipal Water District
Notes to the Basic Financial Statements

(continued)

5. Noncurrent Liabilities (continued)

Certificates of Participation (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 1991 Certificates 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 percent to 7.5 percent. 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 percent to 6.75 percent. 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 percent in 2002, 1 percent in 2003, and 0 percent 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 on July 1, 2023.

The 1991 Certificates were partially refunded by the series 1993B and 1998A Certificates.

| | Beginning Balance June 30, 2011 | Additions | Reductions | Ending Balance June 30, 2012 | Due Within One Year |
|-------------------------------|--|------------------|-------------------|---|--------------------------------|
| Certificates of participation | \$ 8,890,000 | \$ - | \$ (4,300,000) | \$ 4,590,000 | \$ 4,590,000 |
| Total | \$ 8,890,000 | \$ - | \$ (4,300,000) | \$ 4,590,000 | \$ 4,590,000 |

| Year Ending June 30: | Principal | Interest | Total |
|-----------------------------|------------------|-----------------|--------------|
| 2013 | \$ 4,590,000 | \$ 154,913 | \$ 4,744,913 |
| Total | \$ 4,590,000 | \$ 154,913 | \$ 4,744,913 |

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

5. Noncurrent Liabilities (continued)

General Obligation Bonds

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 based on the assessed valuation within the individual improvement districts.

General obligation bonds consist of the following at June 30:

| | 2012 | 2011 |
|---|----------------------|---------------|
| 2005 General obligation bonds: Interest rates of the various bond issues outstanding range from 3.0 percent to 5.0 percent. Bonds mature annually in varying amounts through 2035. | \$ 14,540,000 | \$ 15,055,000 |
| 2009 General obligation bonds: Interest rates of the various bond issues outstanding range from 3.0 percent to 5.625 percent. Bonds mature annually in varying amounts through 2040. | 28,240,000 | 29,995,000 |
| Total | 42,780,000 | 45,050,000 |
| Less: Current portion | (2,345,000) | (2,270,000) |
| Total noncurrent general obligation bonds | \$ 40,435,000 | \$ 42,780,000 |
| Total current portion | \$ 2,345,000 | \$ 2,270,000 |
| Add: Net unamortized discount/premium | 65,890 | 65,890 |
| Total net current portion | \$ 2,410,890 | \$ 2,335,890 |
| Total noncurrent portion | \$ 40,435,000 | \$ 42,780,000 |
| Add: Net unamortized discount/premium | 299,614 | 365,504 |
| Total net noncurrent portion | \$ 40,734,614 | \$ 43,145,504 |

At June 30, 2012, general obligation bonds authorized but not issued total \$547,650,000.

| | Beginning Balance June 30, 2011 | Additions | Reductions | Ending Balance June 30, 2012 | Due Within One Year |
|---------------------------|--|------------------|-------------------|---|--------------------------------|
| General obligation bonds | \$ 45,050,000 | \$ - | \$ (2,270,000) | \$ 42,780,000 | \$ 2,345,000 |
| Net bond premium/discount | 431,394 | - | (65,890) | 365,504 | 65,890 |
| Total | \$ 45,481,394 | \$ - | \$ (2,335,890) | \$ 43,145,504 | \$ 2,410,890 |

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

5. Noncurrent Liabilities (continued)

General Obligation Bonds (continued)

| <u>Year Ending June 30:</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------------|----------------------|----------------------|----------------------|
| 2013 | \$ 2,345,000 | \$ 2,041,333 | \$ 4,386,333 |
| 2014 | 2,420,000 | 1,954,407 | 4,374,407 |
| 2015 | 2,520,000 | 1,855,658 | 4,375,658 |
| 2016 | 955,000 | 1,784,807 | 2,739,807 |
| 2017 | 995,000 | 1,741,233 | 2,736,233 |
| 2018-22 | 5,685,000 | 7,974,980 | 13,659,980 |
| 2023-27 | 6,700,000 | 6,503,953 | 13,203,953 |
| 2028-32 | 7,655,000 | 4,723,289 | 12,378,289 |
| 2033-37 | 9,045,000 | 2,443,532 | 11,488,532 |
| 2038-40 | 4,460,000 | 387,281 | 4,847,281 |
| Total | <u>\$ 42,780,000</u> | <u>\$ 31,410,473</u> | <u>\$ 74,190,473</u> |

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 and certain loans 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, 2012 for each outstanding bond issue is shown on the following page.

| <u>Description</u> | <u>Required</u> | <u>Actual</u> | <u>Excess</u> |
|---------------------------|----------------------|----------------------|---------------------|
| 1991 COP | \$ 4,899,825 | \$ 4,999,080 | \$ 99,255 |
| 2007A COP | 3,132,654 | 3,338,764 | 206,110 |
| 2006A COP | 8,821,740 | 9,349,184 | 527,444 |
| 2008A COP | 5,651,000 | 5,888,733 | 237,733 |
| 2008B COP | 4,253,624 | 4,510,040 | 256,416 |
| 2008C COP | 5,440,000 | 5,668,825 | 228,825 |
| 2008D COP | 5,476,000 | 5,710,508 | 234,508 |
| 2008E COP | 4,874,134 | 5,314,662 | 440,528 |
| 2008F COP | 5,000,000 | 5,263,300 | 263,300 |
| 2008G COP | 5,000,000 | 5,302,217 | 302,217 |
| 2008H COP | 14,003,500 | 14,594,101 | 590,601 |
| Subtotal - COPs | <u>66,552,477</u> | <u>69,939,414</u> | <u>3,386,937</u> |
| Prop. 82 loan - \$3.15M | 212,545 | 212,545 | - |
| Prop. 204 loan - \$2.00M | 134,955 | 134,955 | - |
| Prop. 204 loan - \$42.10M | 649,192 | 649,192 | - |
| Subtotal - Loans | <u>996,692</u> | <u>996,692</u> | <u>-</u> |
| Total | <u>\$ 67,549,169</u> | <u>\$ 70,936,106</u> | <u>\$ 3,386,937</u> |

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

5. Noncurrent Liabilities (continued)

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, 2012, the District's debt coverage ratio was 1.9 times.

2) Operating Reserve Fund

The District has covenanted that it will maintain a minimum of one quarter of its annual maintenance and operating costs as set forth in its operating budget in a separate reserve fund. The required reserve amounts at June 30, 2012 and 2011 were \$35,882,568 and \$34,347,207, respectively. The District was in compliance with this requirement and had actual reserve balances of \$36,582,161 at June 30, 2012 and \$34,755,618 at June 30, 2011.

Standby Certificate Purchase Agreements

Included in long-term debt at June 30, 2012, is \$357,375,000 Variable Rate Certificates of Participation, Series 2008A, 2008B, 2008C, 2008D, 2008E, 2008F, and 2008G (collectively, the Variable Rate Certificates). The Variable Rate Certificates have a tender provision for certificate holders, on 7 days notice, to tender their certificates at par value plus accrued interest. In connection with the issuance of the Variable Rate Certificates, the District executed Standby Certificate Purchase Agreements (SCPA) between the Corporation and various banks. The SCPA is terminated prior to the expiration date only if there is an occurrence of "events of defaults". As of June 30, 2012, there were no outstanding certificates that have been tendered but failed to be remarketed. The bank and expiration date for each SCPA at June 30, 2012 for each Variable Rate Certificate is:

| Description | SCPA Bank | SCPA Expiration Date |
|--------------------|------------------|-------------------------------------|
| 2008A COP | Wells Fargo | 1/31/2015 |
| 2008B COP | Wells Fargo | 3/26/2013 |
| 2008C COP | Mizuho Bank | 6/08/2015 |
| 2008D COP* | U.S. Bank | 7/20/2011 |
| 2008E COP* | Wells Fargo | 7/20/2011 |
| 2008F COP | JP Morgan | 7/26/2012 |
| 2008G COP | JP Morgan | 7/26/2012 |

* 2008D and 2008E COP SCPA's with Lloyds were substituted in July 2011 by new SCPA's with U.S. Bank and Wells Fargo, respectively.

Eastern Municipal Water District
Notes to the Basic Financial Statements

(continued)

6. Interest Rate Swap Contracts

Plan Description

The fair value balances and notional amounts of financial instruments (instruments) outstanding subject to the requirements of Governmental Accounting Standards Board (GASB) Statement No. 53 at June 30, 2012, classified by type and the changes in fair value of such instruments for the year then ended are shown on the following page.

| | Changes in Fair Value | | Fair Value at June 30, 2012 | | Notional |
|--|-----------------------|----------------|-----------------------------|-----------------|---------------|
| | Classification | Amount | Classification | Amount | |
| Cash flow hedges: | | | | | |
| (2008A COP) Pay-fixed interest rate swap | | | | | |
| | Deferred outflow | \$ (7,537,798) | Debt | \$ (12,287,775) | \$ 55,625,000 |
| (2008C COP) Pay-fixed interest rate swap – cost of funds | | | | | |
| | Deferred outflow | \$ (468,647) | Debt | \$ (10,835,083) | \$ 50,875,000 |

The fair values of the interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates.

These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

Objective and Terms of Financial Instruments

The District entered into the financial instruments to increase interest rate savings realized by refunding various outstanding COP debt. The District realized greater interest savings from debt refinancing by issuing variable interest rate debt along with the financial instruments than would have been realized had the District issued conventional COP debt.

The following table displays the objective and terms of the District's financial instruments outstanding at June 30, 2012, along with the credit rating of the associated counterparty.

| Type | Objective | Notional Amount | Effective Date | Maturity Date | Terms | Counterparty Credit Rating |
|--|--|-----------------|----------------|---------------|---|----------------------------|
| Pay-fixed interest rate swap | Hedge of changes in cash flows on the 2008A COP debt issue | \$ 55,625,000 | 1/31/2008 | 7/1/2030 | Pay 3.1%; receive 66% of 1-month LIBOR from UBS | S&P: A Moody's: A2 |
| Pay-fixed interest rate swap – cost of funds | Hedge of changes in cash flows on the 2008C COP debt issue | \$ 50,875,000 | 6/1/08 | 7/1/2020 | Pay 5.135%; receive the variable rate on the EMWD 2008C COPs from AIG | S&P: A- Moody's: Baa1 |

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

6. Interest Rate Swap Contracts (continued)

Credit Risk

The counterparty credit ratings as of June 30, 2012 are shown in the table above. If the counterparty credit rating is lowered to or below BBB+ and Baa1 by Standard & Poor's (S&P) and Moody's Investors Service (Moody's), respectively, the financial instruments may be terminated. The District does not plan to terminate the financial instruments.

Interest Rate Risk

The District is exposed to interest rate risk on its financial instruments. As the 1-month LIBOR or the variable interest rate on the 2008C COP decreases, the District's net payment on the swap increases.

Basis Risk

The financial instruments expose the District to basis risk, which refers to a mismatch between the interest rate received from the swap contract and the interest paid on the variable rate payment to be made on the debt. The District pays the counterparty a fixed rate of 3.10 percent and receives 66 percent of 1-month LIBOR rate for the 2008A COP financial instrument, which may be different than the variable rate payments made on the 2008A COP debt. The District is at risk that the variable interest rate payments received from the counterparty will be less than the variable rate payments owed on the 2008A COP debt. For the 2008C COP financial instrument, the District and counterparty pay the same rate, so there is no basis risk.

Termination Risk

The financial instruments may be terminated by the District or its counterparty if the other party fails to perform under the terms of the contract. In addition, the District has the option to terminate the financial instruments upon proper notification to the counterparties. If the financial instruments are terminated, the District would prospectively pay the variable rates on the 2008A and 2008C COPs rather than fixed rate payments under the financial instruments. The termination could therefore increase the District's total debt service. If, at the time of termination, the financial instrument is in a liability position, the District would be liable to the counterparty for a payment equal to the negative fair value. As of June 30, 2012 and June 30, 2011 the financial instruments had a combined negative fair value of \$23,122,858 and \$15,116,413, respectively. The District does not plan to terminate the financial instruments.

Collateral Requirements

The District's financial instruments include provisions that require the District to post collateral in the event its credit rating falls below A- as issued by Fitch Ratings and Standard & Poor's, or A3 as issued by Moody's Investors Service. The collateral posted is required to be in the form of cash or U.S. Treasury securities in the amount of the fair value of the financial instrument, net of agreed upon adjustments. If the District does not post collateral, the financial instruments may be terminated by the counterparties. At June 30, 2012, the aggregate fair value of all financial instruments with these collateral posting provisions is a negative \$23,122,858. If the collateral posting requirements were triggered at June 30, 2012, the District would be required to post \$23,122,858 to its counterparties. The District's credit rating is AA+/Aa2/AA by Fitch Ratings, Moody's Investors Service, Inc. and Standard & Poor's Rating Services, respectively; therefore, no collateral has been posted at June 30, 2012.

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

7. 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 Q 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 the maximum amount of their specific plan during their highest consecutive twelve month period, for each year of credited service. For employees hired prior to November 4, 2010, the maximum amount is 2.5 percent and for employees hired on or after November 4, 2010, this amount is 2.0 percent.

Funding Policy

For the 2.5 percent at 55 plan, District employees are required to contribute 8 percent of their annual salary to PERS. Of this 8 percent, the District funds 7 percent 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, 2012, the amount contributed by the District on behalf of the employees is \$3,451,947 (7 percent of the employee's 8 percent required contribution). The required employer contribution rate for fiscal year ended June 30, 2012 is 15.039 percent as determined by the annual PERS valuation. However, in July 2011, the District prepaid the required contribution as a lump-sum discounted amount of \$7,462,257 which reduced the effective employer contribution rate to 0 percent.

For the 2.0 percent at 55 plan, District employees are required to contribute 7 percent of their annual salary to PERS. Of this 7 percent, the District funds 3 percent as agreed to in negotiations with the union. For the year ended June 30, 2012, the amount contributed by the District on behalf of the employees is \$37,858 (3 percent of the employee's 7 percent required contribution).

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, 2011 to June 30, 2012 has been determined by an actuarial valuation of the plan as of June 30, 2009. The contribution rate for the indicated period is 15.039 percent 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, 2012, the contribution rate, as modified by any amendments for the year, is multiplied by the payroll of covered employees that were paid during the period from July 1, 2011 to June 30, 2012.

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

7. Defined Benefit Pension Plan (continued)

Annual Pension Cost (continued)

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

| | |
|----------------------------|---|
| Valuation date | June 30, 2009 |
| Actuarial cost method | Entry age normal cost method |
| Amortization method | Level percent of payroll |
| Average remaining period | 25 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) 3.55% to 14.45% depending on age, service, and type of employment |
| Projected salary increases | |
| Inflation rate | 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 30-year rolling period, which results in an amortization of about 6 percent 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.

For the 2.5 percent at 55 plan, the total employees' required contribution paid to the PERS for 2012 and 2011 was \$3,945,082 and \$3,758,875, respectively (8 percent of current covered payroll). In both 2012 and 2011, the District paid 7 percent and the employees paid 1 percent. In 2012, the District paid \$3,451,947 and employees paid \$493,135. In 2011, the District paid \$3,289,015 and the employees paid \$469,859. The total employer's required contribution paid to PERS for 2012 and 2011 was \$7,462,257 and \$5,365,705, respectively. 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 2.0 percent at 55 plan was initiated in 2011 and applies to all employees hired on or after November 2, 2010. The total employees' required contribution paid to the PERS for this plan in 2012 and 2011 was \$88,335 and \$24,386 (7 percent of current covered payroll), with the District paying \$37,858 and \$10,451, and employees paying \$50,477 and \$13,935, respectively.

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

7. 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 Ended | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|-------------------------|---------------------------------|-------------------------------------|------------------------------|
| 06/30/10 | \$ 8.37 | 100% | \$ - |
| 06/30/11 | 8.67 | 100% | - |
| 06/30/12 | 10.91 | 100% | - |

The schedule of funding progress for PERS (dollar amounts in millions), presented as required supplementary information following the notes to the basic financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability. The following schedule shows this information from the most current valuation available from PERS.

| Actuarial Valuation Date | (A) Entry Age Actuarial Accrued Liability (AAL) | (B) Actuarial Value of Assets | (C) Unfunded AAL (UAAL) (A)-(B) | (D) Funded Ratio (B)/A | (D) Covered Payroll | UAAL as a Percentage of Covered Payroll (C)/(D) |
|--------------------------------|--|--|--|------------------------------|---------------------------|---|
| 06/30/11 | \$ 277.96 | \$ 222.35 | \$ 55.61 | 80.0% | \$ 47.59 | 116.9% |

8. Defined Contribution Plan

The District maintains the EMWD Security Trust (Plan), a defined contribution money purchase pension plan that is qualified under Internal Revenue Code Section 401(a). The District has an agreement with Nationwide Retirement Solutions (Nationwide) whereby Nationwide receives, invests, and reports on the funds sent to them on behalf of eligible employees. Employees are vested in the funds contributed on their behalf after one year of service and have several investment options within the lineup of funds available at Nationwide. The Plan was adopted in January 1978 and may be amended by the District, provided Nationwide joins in such amendment. The District's required contributions to the Plan are 7.15 percent of each eligible employee's compensation, up to a maximum annual compensation of \$16,500. The District's contributions to the Plan were \$847,186 and \$827,530 in 2012 and 2011, respectively.

In July 2011, the District executed a defined contribution executive money purchase pension plan with Nationwide that is qualified under Internal Revenue Code Section 401(a). The District makes contributes to this plan on behalf of the General Manager in accordance with the employment contract. The amount contributed for 2012 was \$20,558.

Eastern Municipal Water District

Notes to the Basic Financial Statements

(continued)

9. Postemployment Benefits Other Than Pensions

Plan Description

Health Care Benefits

The District provides postemployment health care benefits to all qualified employees who meet the District's California Public Employees' Retirement System (PERS) plan requirements. This plan is an agent multiple-employer defined benefit OPEB plan. This plan contributes an amount for the retiree and dependents, as applicable, with eligibility based on the Health Benefit Vesting Requirements found in Government Code Section 22893 (Vesting for Contracting Agency Employees). This amount is 100 percent of the greater of the Blue Shield HMO or PERS Kaiser premium amounts. The District also provides healthcare benefits to elected official retirees in accordance with the District's Ordinance No. 70. This plan contributes up to the District's contribution amount for employees and dependent coverage.

Life Insurance Benefits

In addition, the District provides postemployment group life insurance to eligible retired employees and elected officials with a death benefit of \$10,000 up to age 70 and \$5,000 thereafter for employees; and a death benefit of \$5,000 up to age 70 and \$2,500 thereafter for elected officials.

The benefit provisions for retired employee health care and life insurance are established and amended through the memorandum of understanding between the District and the Union. The benefit provisions for retired elected official life insurance are established through the District's contract with the life insurance company. The District does not issue separate stand-alone financial reports for these plans.

Funding Policy and Annual OPEB Cost

Contribution requirements of the District are established and may be amended through the memorandum of understanding between the District and the Union for retired employees. The contribution requirements of the District for retired elected officials may be amended through Board action to update Ordinance 70, for the health benefit plan, or to update the contract with the life insurance company. The District's annual other postemployment benefit (OPEB) cost (expense) for the plan is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The District's annual OPEB cost for the current year and the related information for each plan are shown on the following page.

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

9. Postemployment Benefits Other Than Pensions (continued)

Funding Policy and Annual OPEB Cost (continued)

Contribution rates:

District 100% of pay-as-you-go amounts for employee and elected official monthly health care and life premiums

Plan members Retirees pay the portion of the premium not paid by the District; for example, if they elect a more expensive plan than Blue Shield HMO or PERS Kaiser

| | |
|---|---------------|
| Annual required contribution (ARC) | \$ 15,245,000 |
| Interest on net OPEB obligation (NOO) | 1,422,000 |
| Amortization on NOO | (1,381,000) |
| Annual OPEB cost | 15,286,000 |
| Contributions made | (2,620,589) |
| Implied subsidy benefit payments | (71,000) |
| Increase in net OPEB obligation | 12,594,411 |
| Net OPEB obligation – beginning of year | 31,596,760 |
| Net OPEB obligation – end of year | \$ 44,191,171 |

The District's annual OPEB cost which is equal to its annual required contribution has been recognized as a part of the operating expenses of the District in the accompanying financial statements. Consistent with the District's expense classification policies, the portion of the annual OPEB cost that was physically paid to retirees during the fiscal year has been included in the functional classifications of the various operational components of the District. The unpaid portion of the accrued actual OPEB cost has been presented on a separate line in the operating section of the statement of revenues, expenses, and changes in net assets.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010 through 2012 are shown in the following table.

| Plan | Year Ended | Annual OPEB Cost | Actual Contributions | Percentage of OPEB Cost Contributed | Net OPEB Obligation |
|-------------------------------|------------|---------------------|-------------------------|---|------------------------|
| Retired Employees/Elected | 06/30/10 | \$ 11,137,000 | \$ 2,005,343 | 18.0% | \$ 22,416,078 |
| Officials Healthcare and Life | 06/30/11 | 11,505,000 | 2,256,318 | 19.6% | 31,596,760 |
| Insurance Plans | 06/30/12 | 15,286,000 | 2,620,589 | 17.1% | 44,191,171 |

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

9. Postemployment Benefits Other Than Pensions (continued)

Funded Status and Funding Progress

The funded status of the plans as of June 30, 2011, the plan's most recent actuarial valuation date, is shown in the following table (dollar amounts in thousands). Actuarially determined amounts were not calculated separately for each plan. The Schedule of Funding Progress, presented as required supplementary information following the notes to the basic financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability.

| | |
|--|------------|
| Actuarial accrued liability (a) | \$ 120,335 |
| Actuarial value of plan assets (b) | - |
| Unfunded actuarial accrued liability (funding excess) (a) – (b) | \$ 120,335 |
| Funded ratio (b)/(a) | N/A |
| Covered Payroll – active plan members (c) | \$ 47,611 |
| Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll $[(a)-(b)]/(c)$ | 252.7% |

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the District and the plan members to that point. Actuarial valuations involve the use of future estimates that are subject to continual revision. These calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

| | | | |
|-------------------------------|--|--|-------------------|
| Valuation date | June 30, 2011 | | |
| Actuarial cost method | Entry age normal | | |
| Amortization method | Level percent of payroll | | |
| Remaining amortization period | 28 years as of the valuation date | | |
| Asset valuation method | N/A – no assets | | |
| Actuarial assumptions: | | | |
| Investment rate of return | Ranges from 4.50% in 2011/12 to 7.25% in 2028/29 | | |
| General inflation rate | 3.00% | | |
| Payroll growth | 3.25% | | |
| Healthcare cost trend rate | Fiscal | <u>(% Increase Over Prior Year)</u> | |
| | <u>Year</u> | <u>Non-Medicare</u> | <u>Medicare</u> |
| | 2011 | Actual PEMHCA ¹ / Kaiser A Premiums | |
| | 2012 | Actual PEMHCA / Kaiser A Premiums | |
| | 2013 ² | 9.0% | 9.4% |
| | 2014-2021 | Decreases 0.50% | Decreases 0.55% |
| | 2021+ | each year 5.0% | each year 5.0% |

1. PEHMCA relates to the Public Employees' Medical and Hospital Care Act.

2. For 2012, actual premiums were used for PEMHCA and medical trend assumptions for Kaiser A.

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

9. Postemployment Benefits Other Than Pensions (continued)

Actuarial Methods and Assumptions (continued)

Initial unfunded liabilities are amortized over a fixed (closed) 30-year period. This period was restarted for the June 30, 2008 valuation. When the amortization period reaches 15 years, new gains and losses will be amortized over a rolling (open) 15-year period and plan and assumption changes will be amortized over fixed (closed) 20-year-year periods.

10. 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 Statement 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, 2012 consist of:

| | |
|--|------------------------------|
| Replacement and system betterment reserve | \$ 103,914,424 |
| Operational debt service reserve | 14,238,465 |
| General liability and workers compensation reserve | 814,115 |
| Other reserves | <u>7,900,536</u> |
| Total unrestricted net assets | <u><u>\$ 126,867,540</u></u> |

Eastern Municipal Water District
Notes to the Basic Financial Statements

(continued)

11. Commitments

Construction Contracts

The District is committed to approximately \$87,574,781 of open construction contracts as of June 30, 2012. The ten largest contracts outstanding include:

| | Contract Amount | Balance To Complete |
|--|----------------------------|--------------------------------|
| San Jacinto Valley RWRP Expansion to 14 MGD | \$ 113,648,010 | \$ 49,939,719 |
| Valley Boulevard 18" Recycled Pipeline Replacement | 10,663,379 | 10,063,841 |
| Perris Valley RWRP Plant No. 3 Expansion | 151,521,607 | 6,650,304 |
| Menifee/Perris Desalters Iron and Manganese Removal | 15,285,031 | 4,911,837 |
| Enchanted Heights Sewer Infrastructures | 8,372,165 | 4,829,721 |
| Recycled Water Ponds Pump Station and Pipeline | 3,942,500 | 3,418,180 |
| Temecula Valley RWRP 18 MGD Reliable Capacity Upgrades | 11,987,828 | 2,836,035 |
| Longfellow Road Recycled Water Storage Tank | 4,605,405 | 2,133,347 |
| O'Farrall Street Booster Station | 1,629,030 | 906,415 |
| Winchester Road (SR-79) Pipeline Relocation | 838,777 | 720,527 |
| Total | \$ 322,493,732 | \$ 86,409,926 |

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. The District did not have any nonincremental claims adjustment expenses that needed to be included as part of the unpaid claims liability. No structured settlements were entered into for the years ended June 30, 2012 and 2011. Changes in claims payable for the years ended June 30 are as follows:

| | Beginning Balance June 30, 2011 | Additions | Reductions | Ending Balance June 30, 2012 | Due Within One Year |
|-----------------------------|--|---------------------|-----------------------|---|------------------------------------|
| General liability claims | \$ 325,000 | \$ 246,000 | \$ (321,000) | \$ 250,000 | \$ 250,000 |
| Workers compensation claims | 4,520,839 | 1,932,531 | (1,011,786) | 5,441,584 | 1,199,541 |
| General damage claims | - | 32,276 | (32,276) | - | - |
| Dental claims | - | 886,100 | (886,100) | - | - |
| Total unpaid claims | \$ 4,845,839 | \$ 3,096,907 | \$ (2,251,162) | \$ 5,691,584 | \$ 1,449,541 |

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

11. Commitments (continued)

Claims and Judgments (continued)

| | <u>2012</u> | <u>2011</u> |
|---|---------------------|---------------------|
| Unpaid claims, beginning | \$ 4,845,839 | \$ 4,652,395 |
| Incurring claims and changes in estimates | 3,096,907 | 1,308,618 |
| Claim payments | <u>(2,251,162)</u> | <u>(1,115,174)</u> |
| Unpaid claims, ending | <u>\$ 5,691,584</u> | <u>\$ 4,845,839</u> |

There was no significant reduction in insurance coverage by major categories of risk from fiscal year 2011 to fiscal year 2012. Furthermore, there has been no settlement, which exceeded insurance coverage for the past three fiscal years.

Soboba Settlement Act

The Soboba Settlement Act (Act) was signed into Law by the President of the United States of America on July 31, 2008. This Act approved the Settlement Agreement between the Soboba Band of Luiseño Indians; the United States of America (as trustee for the Soboba Tribe); the Lake Hemet Municipal Water District (LHMWD), the Metropolitan Water District of Southern California (MWD), and the District. The Soboba Tribe negotiated a water rights claim with these local water districts for the Tribe's lost water resources from springs and creeks on its reservation caused by construction of the San Jacinto Tunnel by MWD, and by construction of Lake Hemet by the LHMWD. Notice regarding the statement of findings for the act was published in the Federal Register on November 28, 2011 and the Settlement Agreement became enforceable.

The Settlement Agreement provides that:

- a. The Tribe shall have a senior rights to 9,000 acre feet of water each year;
- b. The local agencies shall develop a groundwater management plan (and a committee to operate that plan);
- c. The District shall contract with MWD for a long term water supply agreement to bring 7,500 acre feet of additional imported water into the area to meet the current and future needs;
- d. The local agencies shall construct facilities to bring in the additional water and recharge it into the groundwater basin;
- e. The groundwater management plan is to include arrangements between the municipal pumpers in the area (LHMWD, the cities of Hemet and San Jacinto, and the District) regarding limitations on pumping from the groundwater basin;
- f. The federal government shall provide some funding for compliance with the agreement; and,
- g. MWD and the District will transfer land that each agency owns to the Tribe in full satisfaction of the tribe's damages as a result of construction of the San Jacinto Tunnel.

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

11. Commitments (continued)

Soboba Settlement Act (continued)

The District's share for the construction of the facilities and use of Tribe's water is estimated to be \$8,966,222. The following shows the calculation of this amount and where the costs are presented in the financial statements.

| <u>Estimated Amount</u> | <u>Description of Costs</u> | <u>Financial Statement Presentation</u> |
|-------------------------|---|--|
| \$ 7,000,000 | Soboba settlement cost for unused water (cash payment required when agreement became enforceable) | District share - \$2,359,000 is included in capital assets - structures, improvements and water rights. |
| 10,000,000 | Soboba settlement cost for unused water (cash payment required when federal contribution amounts are received) | \$10,000,000 is shown as current and noncurrent settlement payable; \$6,630,000 is included in Soboba reimbursement receivable and District share - \$3,370,000 is included in capital assets - structures, improvements and water rights. |
| 24,806,000 | Estimated construction costs for facilities (District will own all assets and charge the water master for operating costs) | Some facilities were completed and capitalized at fiscal year end and other facility costs are included in construction in progress. |
| (10,000,000) | Federal contribution to the construction of facilities (funding is provided as a grant from the Department of the Interior Bureau of Reclamation) | \$4,478,114 is included in grants receivable for claimable costs through June 30, 2012 with the majority of capital contribution revenue recognized in fiscal year 2011. The remaining \$6,368,778 is included in Soboba reimbursement receivable. |
| <u>(5,200,000)</u> | State and federal grants approved for the construction of facilities | State grant for \$5,000,000: \$500,000 is included in grants receivable (10% retention amount) with \$984,023 of capital contribution revenue recognized in fiscal year 2012 and \$3,515,977 recognized in prior years. Federal grant for \$200,000: Revenue was recognized in prior years. |
| <u>\$ 26,606,000</u> | Total | |
| 33.7% | District share | |
| <u>\$ 8,966,222</u> | District's expected costs | |

Additional transactions recorded by the District relating to the Settlement Agreement include:

- The required land was transferred to the Tribe and this was recorded as a reclassification from land to water capacity rights for the \$96,683 book value of the land.
- The water master was not established as of June 30, 2012; however the local agencies provided an interim plan for imported water deliveries from MWD for in-lieu and replenishment water. The District recorded a \$48,149 receivable from water master for water purchased and delivered to other agencies through fiscal year end.
- The District and local agencies established a financing plan for the construction costs of the facilities. This plan is based upon the repayment schedule for the 2008H COP and requires the local agencies to contribute towards principal payments totaling \$12,998,778 and interest payments at their proportionate share. Amounts paid or accrued relating to the financing plan were recorded on the District's books.

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

11. Commitments (continued)

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, 2012 and 2011, were \$208,083,125 and \$208,758,803 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 District became a member of the Santa Ana Watershed Project Authority (SAWPA) in September 1984. SAWPA was formed in 1975, pursuant to the provisions of Article 1, Chapter 5, Division 7, Title 1 of the Government Code of the State of California relating to the joint exercise powers common to public agencies. The purpose of SAWPA is to undertake projects for water quality control and protection and pollution abatement in the Santa Ana Watershed. The authority is governed by a 5-member Commission, consisting of one member from each of the five-member agencies; an alternate from each member agency is also designated. The Commission members select a Commissioner and an alternate. 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, 2012 and 2011, the amount of refundable deposits were \$22,222,365 and \$19,543,561, respectively. However, when a project is closed, the developer is refunded only the amount remaining after offsetting all accumulated construction in progress costs. If costs exceed the deposit amount during the project, the developer is billed for additional deposits.

Eastern Municipal Water District

Notes to the Basic Financial Statements

(continued)

15. Voluntary Termination Benefits

On April 18, 2012, the Board of Directors adopted the Public Agency Retirement Services Supplemental Retirement Program (SRP) for the purpose of providing a retirement incentive to certain eligible employees electing to voluntarily retire from District service. This retirement incentive was initiated to enable the District to meet staffing level objectives and to facilitate organizational restructuring. The number of eligible employees totaled eighty-six, with forty-three electing to participate in the SRP. Employees electing the SRP were required to separate or enter into a pre-retirement status from the District on June 30, 2012 and to retire from PERS. It is expected that twenty-five of these positions will be eliminated and eighteen will be refilled. The actuarially determined plan liability was paid as one lump sum amount on July 10, 2012. One participant exceeds the Internal Revenue Code Section 415 limits and their benefits will be paid from a separate Excess Benefit Plan, which may not be prefunded. Therefore, in addition to the lump-sum payment, annual contributions of \$15,101 will be made for an estimated twenty years.

In accordance with GASB 47 - Accounting for Termination Benefits, a liability and expense of \$4,338,179 is included in other expenses on the June 30, 2012 financial statements and includes the present value of future payments from the excess benefit plan. Significant assumptions used to determine termination benefit liabilities include life expectancy computed using the Single Life Table in Section 1.401(a)(9)-9Q&A-1 of the Treasury Regulations, mortality computed using the 1983 Group Annuity Mortality, and a 6% annual interest rate. Beginning with fiscal year 2012/13, the five-year net cumulative savings expected to be achieved from implementation of the SRP totals approximately \$8.3 million.

16. Subsequent Events

- A. On July 11, 2012, the District issued \$50 million variable-rate Securities Industry and Financial Market Association (SIFMA) indexed refunding revenue bonds series 2012A with an interest rate level equivalent to the SIFMA-index plus 0.02 percent and maturities from July 1, 2013 to July 1, 2038. The refunding bond proceeds funded an escrow account to defease the \$50 million 2008F COPs, deposit \$4.9 million to a capital project construction fund from the prior reserve funds, and pay for costs of issuance. These bonds were issued to decrease interest costs relating to the 2008F COPs and to eliminate counterparty risk, because they do not require a liquidity bank agreement.

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

**Eastern Municipal Water District
Required Supplementary Information
Schedule of Funding Progress**

Pension Plan

The following table (dollar amounts in millions) shows a three-year history of the funded status of the District's agent multiple-employer public employee defined benefit pension plan. The information reflects the most recent actuarial valuation and the two preceding valuations from PERS.

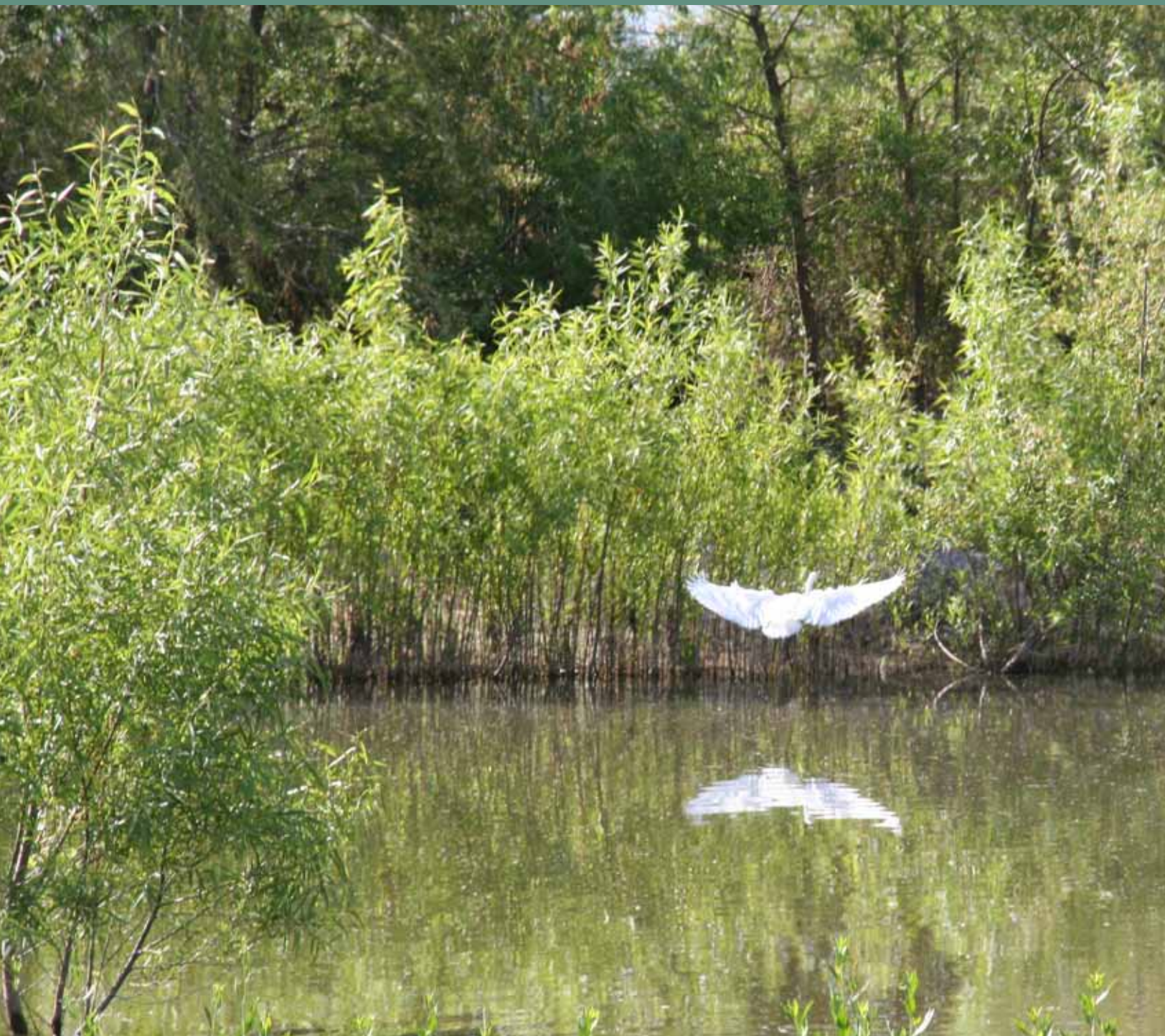
| Actuarial Valuation Date | (A) Entry Age Actuarial Accrued Liability (AAL) | (B) Actuarial Value of Assets | (C) Unfunded AAL (UAAL) (A)-(B) | Funded Ratio (B)/A) | (D) Covered Payroll | UAAL as a Percentage of Covered Payroll (C)/(D) |
|--------------------------|--|----------------------------------|---------------------------------------|---------------------|------------------------|--|
| 06/30/09 | \$ 244.92 | \$ 193.85 | \$ 51.07 | 79.1% | \$ 46.80 | 109.1% |
| 06/30/10 | 253.25 | 207.39 | 45.85 | 81.9% | 46.01 | 99.7% |
| 06/30/11 | 277.96 | 222.35 | 55.61 | 80.0% | 47.59 | 116.9% |

Other Postemployment Benefits Plan

The following table (dollar amounts in millions) shows a three-year history of the funded status of the District's agent multiple-employer defined benefit OPEB plan. The District implemented GASB Statement No. 45 in 2008. The information reflects the most recent valuation and the previous two biennial valuations. In June 2012, the District executed an agreement with PERS to contribute to the California Employers' Retirement Benefit Trust and a valuation dated 06/30/11 was prepared to adjust the biennial timeline to conform to PERS' valuation schedule

| Fiscal Year Impacted | 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) |
|----------------------|--------------------------|--|----------------------------------|---------------------------------------|---------------------|------------------------|--|
| 06/30/09 | | | | | | | |
| & 06/30/10 | 06/30/08 | \$ 94.5 | \$ - | \$ 94.5 | N/A | \$ 46.7 | 202.5% |
| 06/30/11 | 06/30/10 | 130.4 | - | 130.4 | N/A | \$ 46.1 | 282.7% |
| 06/30/12 | 06/30/11 | 120.3 | - | 120.3 | N/A | \$ 47.6 | 252.7% |

Statistical Section



Hemet-San Jacinto Constructed Wetlands



Eastern Municipal Water District

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 No. 34 in 2002.*

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

| <u>Fiscal Year</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> |
|--|-----------------------|-----------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Invested in capital assets, net of related debt | \$ 615,364,770 | \$ 670,647,558 | \$ 747,790,921 | \$ 864,024,679 | \$ 963,472,752 | \$ 1,097,667,937 | \$ 1,084,747,657 | \$ 1,153,155,186 | \$ 1,182,870,831 | \$ 1,231,275,509 |
| Restricted for debt service/covenants | 45,912,373 | 49,428,231 | 50,932,809 | 58,964,117 | 57,377,104 | 56,443,385 | 58,248,958 | 65,090,658 | 65,433,313 | 64,333,290 |
| Restricted for construction | 140,113,828 | 186,769,808 | 179,216,380 | 193,659,075 | 238,268,776 | 133,617,326 | 169,061,541 | 150,977,362 | 127,083,266 | 99,513,601 |
| Unrestricted | 90,953,153 | 84,967,519 | 96,710,649 | 86,541,422 | 62,672,401 | 101,896,457 | 120,482,286 | 129,229,640 | 136,478,455 | 126,867,540 |
| Total net assets | \$ 892,344,124 | \$ 991,813,116 | \$ 1,074,650,759 | \$ 1,203,189,293 | \$ 1,321,791,033 | \$ 1,389,625,105 | \$ 1,432,540,442 | \$ 1,498,452,846 | \$ 1,511,865,865 | \$ 1,521,989,940 |
| % Increase | 5.4% | 11.1% | 8.4% | 12.0% | 9.9% | 5.1% | 3.1% | 4.6% | 0.9% | 0.7% |

Source: Eastern Municipal Water District

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

| Fiscal Year | Operating Revenues | | Operating Expenses ² | | Operating Loss | Total Nonoperating Revenues/ (Expenses) ⁴ | Income Before Capital Contributions | Capital Contributions ¹ | Change in Net Assets |
|----------------|-----------------------|---------------|------------------------------------|---------------|-------------------|---|---|---------------------------------------|----------------------------|
| | Water ³ | Wastewater | Water | Wastewater | | | | | |
| 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) | 106,629,828 | 60,845,383 | 57,756,357 | 118,601,740 |
| 2008 | 94,135,642 | 56,972,828 | 122,519,535 | 90,017,563 | (61,428,628) | 90,911,996 | 29,483,368 | 38,350,704 | 67,834,072 |
| 2009 | 103,013,429 | 62,611,918 | 122,515,771 | 94,629,395 | (51,519,819) | 59,613,648 | 8,093,829 | 34,821,508 | 42,915,337 |
| 2010 | 102,747,031 | 65,937,963 | 134,462,273 | 96,301,243 | (62,078,522) | 57,357,018 | (4,721,504) | 43,704,311 | 38,982,807 |
| 2011 | 102,009,545 | 67,114,654 | 137,981,887 | 98,467,509 | (67,325,197) | 56,828,061 | (10,497,136) | 23,910,155 | 13,413,019 |
| 2012 | 104,741,242 | 71,118,648 | 148,531,957 | 107,780,498 | (80,452,565) | 56,399,031 | (24,053,534) | 34,177,609 | 10,124,075 |

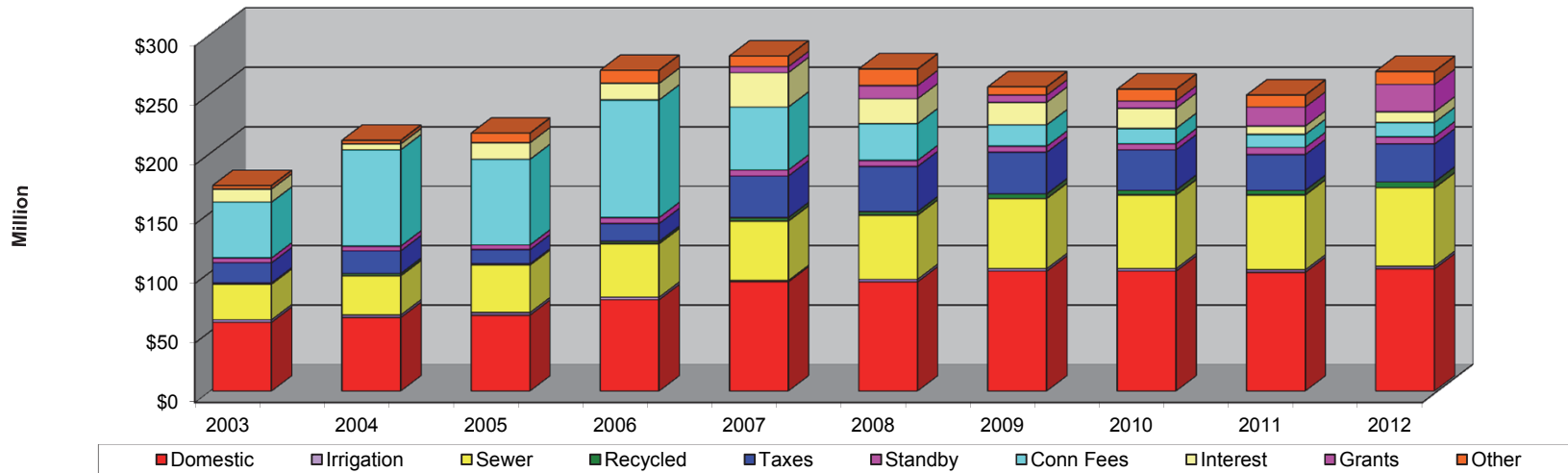
Notes:

1. Increased construction activity relating to growth and market conditions accounts for the increases in contributed infrastructure from 2004-2007. This amount decreased for 2008 and 2009 due to lower construction activity, and increased in 2010 due to District-wide efforts to close out construction projects.
2. GASB Statement No. 45 was implemented for 2008; net other postemployment benefit expense of \$6.2, \$7.1, \$9.1, \$9.2 and \$12.6 million for 2008 - 2012, respectively, is included.
3. The District implemented a budget-based tiered rate structure for April 2009 bills to single and multifamily residential and landscape customers. This structure is designed to be revenue neutral, but significant billings were in the higher use wasteful tiers. Billings in these tiers decreased beginning in 2010 due to conservation efforts.
4. Total grant revenues (operating and capital) are included in nonoperating revenues and expenses.

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 Sales | % of Total | Taxes & Assmnts ¹ | % of Total | Standby Assmnts | % of Total | Connect Fees ² | % of Total | Interest Income ³ | % of Total | Grants ⁴ | % of Total | Other | % of Total | Total Revenues |
|-------------|----------------------|------------|------------------------|------------|-----------------------|------------|----------------------|------------|------------------------------|------------|-----------------|------------|---------------------------|------------|------------------------------|------------|---------------------|------------|-------------|------------|----------------|
| 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 | 27.0% | \$11,219,083 | 6.5% | - | 0.0% | \$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% | - | 0.0% | 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 | 6.3% | - | 0.0% | 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% | - | 0.0% | 10,808,046 | 4.0% | 268,382,318 |
| 2007 | 91,596,156 | 32.5% | 1,083,633 | 0.4% | 50,318,414 | 17.9% | 2,748,328 | 1.0% | 34,849,428 | 12.4% | 4,667,297 | 1.7% | 52,894,363 | 18.8% | 29,287,538 | 10.4% | 4,598,769 | 1.6% | 9,321,989 | 3.3% | 281,365,915 |
| 2008 | 91,864,344 | 34.0% | 2,271,298 | 0.8% | 54,408,172 | 20.1% | 2,564,656 | 0.9% | 37,648,103 | 13.9% | 4,868,154 | 1.8% | 30,706,687 | 11.4% | 20,579,581 | 7.7% | 11,261,996 | 4.2% | 13,867,981 | 5.2% | 270,040,972 |
| 2009 | 100,967,796 | 38.9% | 2,045,633 | 0.8% | 58,889,788 | 22.7% | 3,722,130 | 1.4% | 35,102,975 | 13.5% | 5,015,076 | 1.9% | 17,789,045 | 6.9% | 19,093,011 | 7.4% | 6,466,818 | 2.5% | 10,224,676 | 4.0% | 259,316,948 |
| 2010 | 100,699,778 | 39.8% | 2,047,253 | 0.8% | 61,885,298 | 24.5% | 4,052,665 | 1.6% | 33,559,211 | 13.3% | 5,246,008 | 2.1% | 13,010,929 | 5.1% | 16,028,408 | 6.3% | 6,063,577 | 2.4% | 10,510,099 | 4.2% | 253,103,226 |
| 2011 | 100,198,290 | 40.1% | 1,811,255 | 0.7% | 62,609,731 | 25.1% | 4,504,923 | 1.8% | 30,354,685 | 12.2% | 5,569,818 | 2.2% | 10,815,294 | 4.3% | 7,553,352 | 3.0% | 16,137,906 | 6.5% | 10,117,631 | 4.1% | 249,672,885 |
| 2012 | 103,226,203 | 38.4% | 1,515,039 | 0.6% | 65,983,462 | 24.5% | 5,135,186 | 1.9% | 31,730,750 | 11.8% | 5,600,661 | 2.1% | 12,150,826 | 4.5% | 9,208,523 | 3.4% | 22,926,555 | 8.5% | 11,533,511 | 4.3% | 269,010,716 |

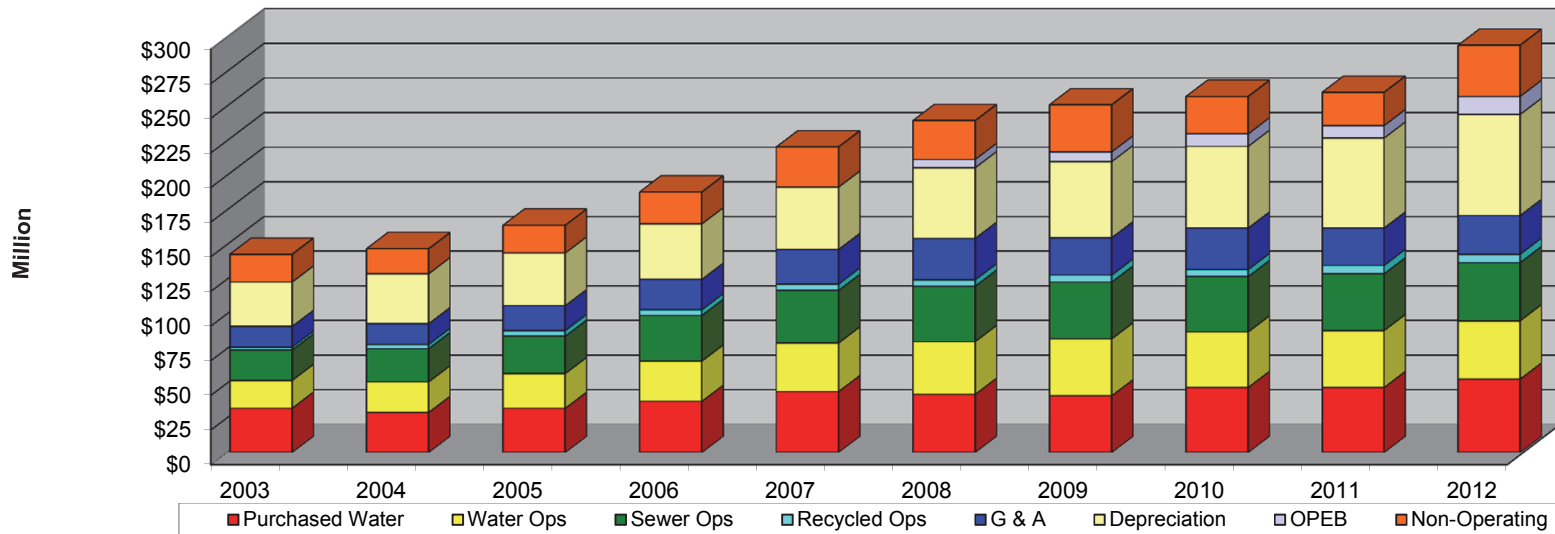


Notes:

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 2007-2012 relating to the nationwide financial recession.
3. Increased interest income for 2007 and 2008 is due to a higher average portfolio balance and higher average yields. For 2008-2010, the higher amount relates to invested COP and GO bond issuance funds. For 2011, the decrease primarily relates to a lower level of invested construction funds and recording a \$3.2 million decrease in fair value of investments. The decreased amount for 2012 relates mainly to lower average yields.
4. Grant revenues were separately stated beginning 2007; previously, these amounts were shown as capital contributions or other revenue. Amounts include operating and capital grant revenues.

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 & Admin ¹ | % of Total | Depr. & Amort | % of Total | Net OPEB ² | % of Total | Total Non-Operating Expenses ³ | % of Total | Total Expenses |
|-------------|-----------------|------------|------------------|------------|------------------|------------|---------------------------|------------|------------------------------|------------|---------------|------------|-----------------------|------------|---|------------|----------------|
| 2003 | \$32,307,403 | 22.4% | \$19,534,843 | 13.6% | \$22,151,919 | 15.4% | \$2,410,213 | 1.7% | \$15,317,533 | 10.6% | \$31,911,657 | 22.2% | \$ - | 0.0% | \$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% | - | 0.0% | 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% | - | 0.0% | 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% | - | 0.0% | 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% | - | 0.0% | 28,989,556 | 13.1% | 220,520,532 |
| 2008 | 41,653,430 | 17.3% | 38,447,533 | 16.0% | 39,976,740 | 16.6% | 5,071,116 | 2.1% | 30,138,792 | 12.5% | 51,030,538 | 21.3% | 6,218,949 | 2.6% | 28,020,506 | 11.6% | 240,557,604 |
| 2009 | 41,318,803 | 16.4% | 40,834,689 | 16.3% | 41,160,507 | 16.4% | 4,749,447 | 1.9% | 27,471,196 | 10.9% | 54,545,053 | 21.7% | 7,065,471 | 2.8% | 34,077,953 | 13.6% | 251,223,119 |
| 2010 | 46,936,179 | 18.2% | 39,967,447 | 15.5% | 39,657,747 | 15.4% | 5,466,039 | 2.1% | 30,256,670 | 11.7% | 59,347,777 | 23.0% | 9,131,657 | 3.5% | 27,061,214 | 10.5% | 257,824,730 |
| 2011 | 46,489,850 | 17.9% | 41,364,910 | 15.9% | 41,247,883 | 15.9% | 6,103,502 | 2.3% | 26,707,578 | 10.3% | 65,354,991 | 25.1% | 9,180,682 | 3.5% | 23,720,625 | 9.1% | 260,170,021 |
| 2012 | 52,697,993 | 18.0% | 41,593,438 | 14.2% | 42,055,885 | 14.4% | 5,895,069 | 2.0% | 28,106,037 | 9.6% | 73,369,622 | 25.0% | 12,594,411 | 4.3% | 36,751,795 | 12.5% | 293,064,250 |



Notes:

1. The increase in general and administrative charges in 2008 primarily relates to increased legal expense for a lawsuit the District is involved in - United States of America v. EMWD. The decrease in 2009 primarily relates to settlement of the lawsuit and department-wide cost-containment efforts. This amount was offset by a reclassification of net internal service funds which were reclassified to other nonoperating revenues beginning in 2009. The increase in 2010 primarily relates to recording a \$3.0 million increase in worker's compensation liability reserve.
2. The District implemented GASB Statement No. 45 for 2008.
3. The decrease in 2010 and 2011 primarily relates to recording \$6.7 and \$8.6 million, respectively, of capitalized construction period interest. The increase in 2012 relates mainly to added one-time costs of \$4.3 million for voluntary termination benefits and \$5.3 million in settlement payments for a lawsuit with San Jacinto Z LLC.

**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 | Unbilled Total | Avg % | | Base Rate ^{3,6} | Usage Rate ^{4,6} | Sewer ⁵ |
| 2003 | 26,056 | 5,925 | 95 | 32,076 | 28,315 | 2,135 | 30,450 | 1,626 | 5.1% | 12,417 | 7.27 | 29.50 | 15.18 |
| 2004 | 24,722 | 5,763 | 536 | 31,021 | 27,092 | 1,689 | 28,781 | 2,240 | 7.2% | 13,963 | 7.45 | 30.10 | 16.17 |
| 2005 | 24,532 | 5,352 | 217 | 30,101 | 26,247 | 1,698 | 27,945 | 2,156 | 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 | 37,550 | 33,883 | 1,263 | 35,146 | 2,404 | 6.4% | 16,786 | 8.43 | 34.40 | 19.64 |
| 2008 | 28,254 | 6,591 | 982 | 35,827 | 32,284 | 1,537 | 33,821 | 2,006 | 5.6% | 16,906 | 10.04 | 36.38 | 20.58 |
| 2009 | 25,390 | 6,332 | 1,455 | 33,177 | 30,721 | 1,225 | 31,946 | 1,231 | 3.7% | 16,482 | 10.52 | 41.52 | 21.88 |
| 2010 | 23,042 | 5,555 | 1,816 | 30,413 | 27,001 | 1,116 | 28,117 | 2,296 | 7.5% | 16,436 | 10.52 | 46.32 | 22.73 |
| 2011 | 21,611 | 5,220 | 1,943 | 28,774 | 25,958 | 857 | 26,815 | 1,959 | 6.8% | 16,805 | 10.52 | 48.26 | 22.90 |
| 2012 | 22,365 | 5,244 | 1,744 | 29,353 | 27,154 | 690 | 27,844 | 1,509 | 5.1% | 16,425 | 10.52 | 47.50 | 23.96 |

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 based on the daily fixed charge 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.

6. In January 2009, the District revised the daily fixed charge meter factors for all domestic retail customers. In April 2009, the District implemented a budget-based tiered-rate structure for single-family and multi-family residential and landscape domestic usage.

Source: Eastern Municipal Water District

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

| Fiscal Year | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u>³ | <u>2010</u> | <u>2011</u> | <u>2012</u> |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------------------|--------------------|--------------------|--------------------|
| Water Rates | | | | | | | | | | |
| Monthly base rate (meter size) | | | | | | | | | | |
| <=1" | \$ 7.27 | \$ 7.45 | \$ 7.70 | \$ 8.15 | \$ 8.43 | \$ 10.04 | \$ 10.52 | \$ 10.52 | \$ 10.52 | \$ 10.55 |
| 1 1/2" | 10.90 | 11.19 | 11.56 | 12.23 | 12.65 | 15.06 | 27.68 | 27.68 | 27.68 | 27.76 |
| 2" | 14.54 | 14.90 | 15.39 | 16.30 | 16.85 | 20.08 | 51.40 | 51.40 | 51.40 | 51.55 |
| 3" | 29.08 | 29.81 | 30.78 | 32.61 | 33.70 | 40.15 | 171.25 | 171.25 | 171.25 | 171.72 |
| 4" | 36.35 | 37.26 | 38.48 | 40.76 | 42.16 | 50.19 | 270.40 | 270.40 | 270.40 | 271.15 |
| 6" | 50.89 | 52.16 | 53.87 | 57.06 | 59.01 | 70.26 | 505.53 | 505.53 | 505.53 | 506.91 |
| 8" | 58.16 | 59.62 | 61.56 | 65.21 | 67.40 | 80.30 | 633.28 | 633.28 | 633.28 | 635.01 |
| Usage rate (per billing unit)¹ | \$ 29.50 | \$ 30.10 | \$ 31.04 | \$ 32.36 | \$ 34.40 | \$ 36.38 | \$ 41.52 | \$ 46.32 | \$ 48.26 | \$ 47.50 |
| Sewer Rates (avg per month)² | \$ 15.18 | \$ 16.17 | \$ 17.40 | \$ 18.86 | \$ 19.64 | \$ 20.58 | \$ 21.88 | \$ 22.73 | \$ 22.90 | \$ 23.96 |

Notes:

The information shown does not include recycled water.

Rates are adopted by the Board of Directors annually and become effective on the date of adoption or per Board direction.

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.

3. In January 2009, the District revised the daily fixed charge meter factors for all domestic retail customers. In April 2009, the District implemented a conservation-based tiered-rate structure for domestic single-family and multi-family residential usage and landscape usage.

Source: Eastern Municipal Water District

**LARGEST DOMESTIC WATER CUSTOMERS
AS OF JUNE 30, 2012**

| | Customer Name | Annual Water Sales in Acre Feet | Annual Revenues | Percentage |
|----|---|--|----------------------------|-------------------|
| 1 | City of Perris ¹ | 1,733 | \$ 1,682,576 | 18.2% |
| 2 | Western Municipal Water District ^{1,2} | 1,412 | 1,370,106 | 14.9% |
| 3 | Moreno Valley School District | 1,127 | 1,200,577 | 13.0% |
| 4 | City of Moreno Valley | 899 | 1,082,503 | 11.7% |
| 5 | Valley-Wide Recreation and Park | 870 | 1,062,001 | 11.5% |
| 6 | Val Verde Unified School District | 660 | 760,878 | 8.2% |
| 7 | City of Murrieta | 498 | 612,385 | 6.6% |
| 8 | Shadow Mountain Comm. Assoc. | 477 | 597,171 | 6.5% |
| 9 | Riverside County EDA | 398 | 449,968 | 4.9% |
| 10 | Menifee Union School District | 323 | 406,861 | 4.4% |
| | Total | 8,397 | \$ 9,225,026 | |
| | Total domestic water sales | 83,332 | \$ 103,226,203 | |
| | Percentage of total | 10.1% | 8.9% | |

Notes:

For compliance with GASB Statement No. 34, data for fiscal year ended June 30, 2003 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, 2012**

| | Customer Name | Annual Water Sales in Acre Feet | Annual Revenues | Percentage |
|----|------------------------------------|--|----------------------------|-------------------|
| 1 | C and R Farms | 493 | \$ 223,986 | 23.6% |
| 2 | Kevin and Pauline Doan | 124 | 127,400 | 13.4% |
| 3 | Mc Anally Egg Enterprises | 115 | 118,272 | 12.5% |
| 4 | Abacherli Dairy | 99 | 101,858 | 10.7% |
| 5 | Metropolitan Water District | 86 | 89,394 | 9.4% |
| 6 | AGRI Empire | 173 | 67,467 | 7.1% |
| 7 | HP Mobile Estates | 63 | 63,397 | 6.7% |
| 8 | Valley-Wide Recreation and Park | 74 | 62,519 | 6.6% |
| 9 | Demler Egg Ranch | 90 | 48,290 | 5.1% |
| 10 | MCM Poultry | 46 | 47,005 | 5.0% |
| | Total | 1,363 | \$ 949,588 | |
| | Total ag. & irrigation water sales | 2,116 | \$ 1,515,039 | |
| | Percentage of total | 64.4% | 62.7% | |

Notes:

For compliance with GASB Statement No. 34, data for fiscal year ended June 30, 2003 is not available.

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

Source: Eastern Municipal Water District

**LARGEST RECYCLED WATER CUSTOMERS
AS OF JUNE 30, 2012**

| <u>Customer Name</u> | <u>Annual Water Sales in Acre Feet</u> | <u>Annual Revenues</u> | <u>Percentage</u> |
|--------------------------------------|--|----------------------------|-------------------|
| 1 Inland Empire Energy Center LLC | 3,006 | \$ 936,267 | 39.0% |
| 2 Agri Empire | 3,758 | 255,523 | 10.6% |
| 5 Rancho Casa Loma | 4,294 | 200,105 | 8.3% |
| 4 A G Sod Farms | 2,300 | 190,232 | 7.9% |
| 3 The Golf Club at Rancho California | 512 | 159,437 | 6.6% |
| 6 Hemet Golf Club Landmark | 355 | 156,760 | 6.5% |
| 7 Valley-Wide Recreation and Park | 457 | 142,227 | 5.9% |
| 8 Don Bean Farms | 1,749 | 131,012 | 5.5% |
| 9 City of Moreno Valley | 409 | 127,286 | 5.3% |
| 10 Pechanga Resort and Casino | 325 | 103,877 | 4.3% |
| Total | 17,165 | \$ 2,402,725 | |
| Total recycled water sales | 34,679 | \$ 5,135,186 | |
| Percentage of total | 49.5% | 46.8% | |

Notes:

For compliance with GASB Statement No. 34, data for fiscal year ended June 30, 2003 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, 2012**

| <u>Customer Name</u> | <u>Annual Revenues</u> | <u>Percentage</u> |
|---|----------------------------|-------------------|
| 1 Pechanga Resort and Casino | \$ 482,843 | 25.7% |
| 2 Broadstone Vista Apartments | 257,246 | 13.7% |
| 3 Waterstone at Murrieta Apartments | 176,431 | 9.4% |
| 4 Murrieta Valley Unified School District | 149,630 | 8.0% |
| 5 Western States Mobile Home Park | 145,813 | 7.8% |
| 6 Westwind Enterprises | 141,095 | 7.5% |
| 7 Val Verde School District | 135,374 | 7.2% |
| 8 Silverado Apartment Homes | 131,087 | 7.0% |
| 9 Hemet Unified School District | 130,230 | 6.9% |
| 10 Palm Court Apartments | 127,497 | 6.8% |
| Total | \$ 1,877,246 | |
| Total sewer revenue | \$ 65,983,462 | |
| Percentage of total revenue | 2.8% | |

Note:

For compliance with GASB Statement No. 34, data for fiscal year ended June 30, 2003 is not available.

Source: Eastern Municipal Water District

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

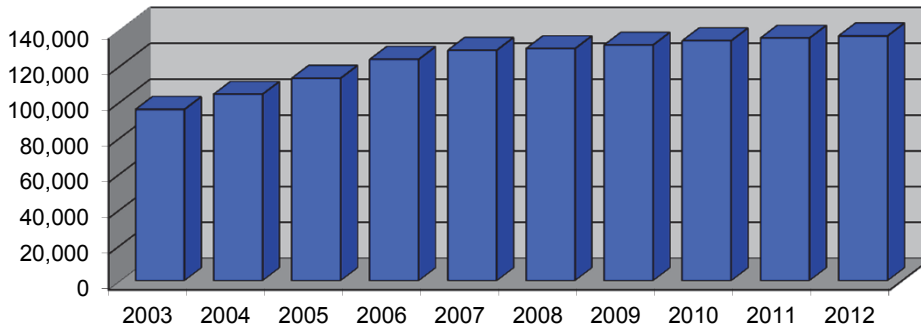
| Rates Effective Beginning January | Full Service Domestic | | Interim Agricultural Program | | Long Term Seasonal Storage | |
|---|--------------------------|-----------|------------------------------------|-----------|----------------------------------|-----------|
| | Treated | Untreated | Treated | Untreated | Treated | Untreated |
| 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 |
| 2008 Tier 1 | 508 | 351 | 394 | 261 | 390 | 258 |
| Tier 2 | 606 | 449 | n/a | n/a | n/a | n/a |
| 2009 Tier 1 | 579 | 412 | 465 | 322 | 436 | 294 |
| Tier 2 | 695 | 528 | n/a | n/a | n/a | n/a |
| 2010 Tier 1 | 701 | 484 | 615 | 416 | 558 | 366 |
| Tier 2 | 811 | 594 | n/a | n/a | n/a | n/a |
| 2011 Tier 1 | 744 | 527 | 687 | 482 | 601 | 409 |
| Tier 2 | 869 | 652 | n/a | n/a | n/a | n/a |
| 2012 Tier 1 | 794 | 560 | 765 | 537 | 651 | 442 |
| Tier 2 | 920 | 686 | n/a | n/a | n/a | n/a |

Source: Metropolitan Water District of Southern California (MWD)

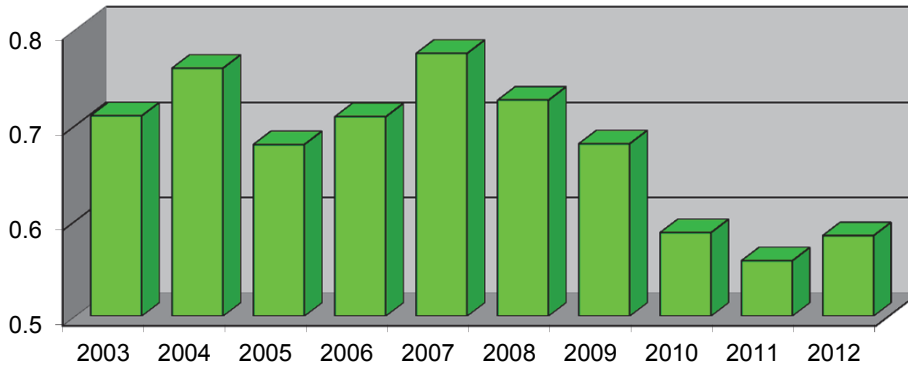
**ANNUAL DOMESTIC CONSUMPTION (AF)
LAST TEN FISCAL YEARS**

| Fiscal Year | Usage (AF) | Active Accounts | Average AF per Account |
|--------------------|-------------------|------------------------|-------------------------------|
| 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 |
| 2008 | 93,956 | 129,344 | 0.73 |
| 2009 | 89,448 | 131,392 | 0.68 |
| 2010 | 78,621 | 133,810 | 0.59 |
| 2011 | 75,461 | 135,233 | 0.56 |
| 2012 | 79,752 | 136,478 | 0.58 |

Number of Active Accounts



Average AF/Account



Notes:

Amounts exclude wholesale accounts.

Several factors may impact fluctuations in the average AF per account each year including conservation efforts, the level of bank-owned homes relating to the economic downturn, and changes in weather patterns.

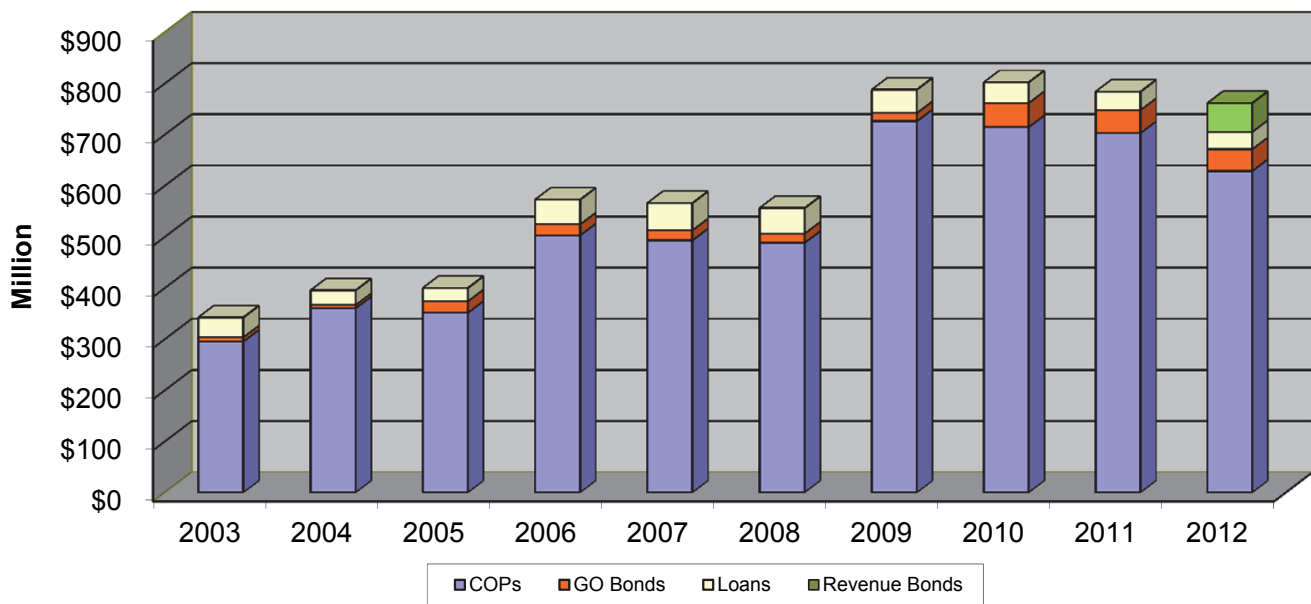
The decrease in average AF per account for 2008-2011 is mainly due to lower usage relating to conservation efforts and cooler weather patterns.

The increase for 2012 is mainly due to increased usage relating to warmer weather patterns.

Source: Eastern Municipal Water District

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

| Fiscal Year | Certificates of Participation¹ | General Obligation Bonds² | Loans | Revenue Bonds³ | Total | Percentage of Personal Income⁴ | Debt per Capita⁵ |
|--------------------|--|---|---------------|----------------------------------|----------------|--|------------------------------------|
| 2003 | \$ 295,475,000 | \$ 8,450,000 | \$ 38,556,914 | \$ - | \$ 342,481,914 | 0.83% | \$ 611 |
| 2004 | 360,370,000 | 6,455,000 | 28,603,485 | - | 395,428,485 | 0.91% | 665 |
| 2005 | 351,615,000 | 22,695,000 | 25,705,169 | - | 400,015,169 | 0.85% | 638 |
| 2006 | 502,990,000 | 21,675,000 | 48,103,473 | - | 572,768,473 | 1.13% | 862 |
| 2007 | 493,190,000 | 19,945,000 | 52,874,716 | - | 566,009,716 | 1.03% | 814 |
| 2008 | 488,460,000 | 18,140,000 | 49,630,496 | - | 556,230,496 | 0.92% | 777 |
| 2009 | 726,270,000 | 16,260,000 | 45,407,198 | - | 787,937,198 | 1.24% | 1,086 |
| 2010 | 714,725,000 | 47,175,000 | 40,279,228 | - | 802,179,228 | 1.24% | 1,087 |
| 2011 | 702,975,000 | 45,050,000 | 35,818,082 | - | 783,843,082 | 1.24% | 1,031 |
| 2012 | 628,800,000 | 42,780,000 | 33,651,101 | 56,255,000 | 761,486,101 | 1.18% | 991 |



Notes:

Details regarding the District's outstanding debt can be found in the Note 5 to the basic financial statements.

See the schedule of Demographic and Economic Statistics for personal income and population data.

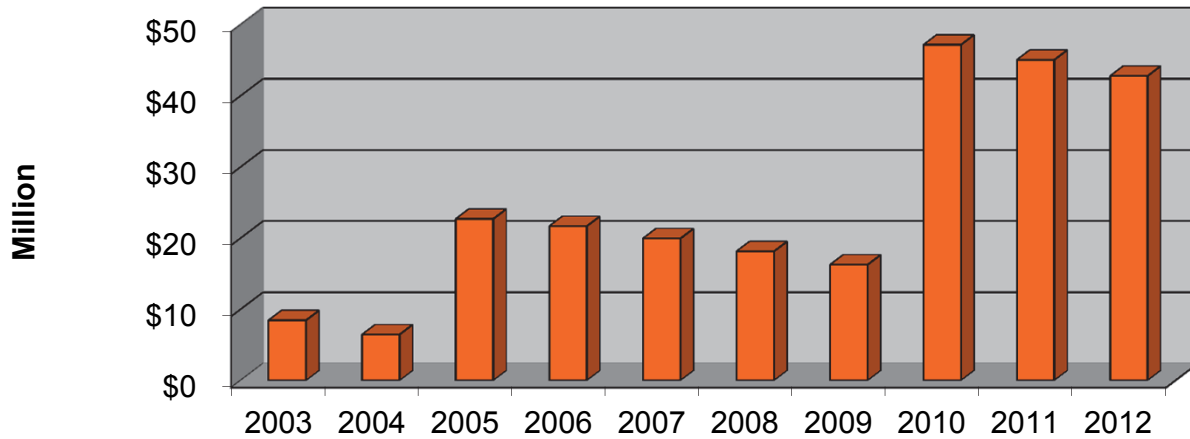
1. The District issued over \$160 million of new COPS in FYE 2006 and another \$240 million in FYE 2009.
2. The District issued \$32 million of new GO bonds in FYE 2010.
3. The District issued \$56 million of Revenue bonds in FYE 2012. With added premium and reserve funds, the issuance of these bonds refunded \$62 million of COPS.
4. Based upon Riverside County personal income amounts. The District is located in the County of Riverside. See the personal income amounts on the Demographic and Economic Statistics schedule.
5. Based upon approximate population of District service area. See the Demographic and Economic Statistics schedule for amounts.

Source: Eastern Municipal Water District

**RATIO OF GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS**

| Fiscal Year | General Obligation Bonds¹ | Assessed Value² | Percentage of Assessed Value | Debt per Capita³ |
|--------------------|---|-----------------------------------|-------------------------------------|------------------------------------|
| 2003 | \$ 8,450,000 | \$ 26,541,419,602 | 0.03% | \$ 15 |
| 2004 | 6,455,000 | 30,196,349,883 | 0.02% | 11 |
| 2005 | 22,695,000 | 36,317,993,384 | 0.06% | 36 |
| 2006 | 21,675,000 | 45,799,534,361 | 0.05% | 33 |
| 2007 | 19,945,000 | 57,857,155,353 | 0.03% | 29 |
| 2008 | 18,140,000 | 68,127,605,656 | 0.03% | 25 |
| 2009 | 16,260,000 | 67,617,348,347 | 0.02% | 22 |
| 2010 | 47,175,000 | 56,743,387,948 | 0.08% | 64 |
| 2011 | 45,050,000 | 54,294,174,863 | 0.08% | 59 |
| 2012 | 42,780,000 | 53,890,135,705 | 0.08% | 56 |

Total GO Bonds Outstanding



Notes:

Details regarding the District's outstanding debt can be found in Note 5 to the basic financial statements.

See the schedule of Demographic and Economic Statistics for population data.

1. The District issued \$32 million of new GO bonds in FYE 2010.

2. Bonds are issued by improvement district, but the amounts shown are for the District's entire service area.

3. Based upon approximate population of the District's entire service area. See the Demographic and Economic Statistics schedule for amounts.

Source: Eastern Municipal Water District

**PARITY DEBT SERVICE COVERAGE
LAST TEN FISCAL YEARS**

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 ¹ | 2010 | 2011 | 2012 |
|--|---------------|---------------|---------------|---------------|---------------|---------------|-------------------|---------------|---------------|----------------|
| OPERATING REVENUES: | | | | | | | | | | |
| Water sales | \$ 60,565,819 | \$ 64,796,401 | \$ 66,258,221 | \$ 77,611,474 | \$ 92,679,789 | \$ 94,135,642 | \$103,013,429 | \$102,747,031 | \$102,009,545 | \$ 104,741,242 |
| Sewer service sales | 29,973,084 | 33,496,234 | 39,739,370 | 45,462,646 | 50,318,414 | 54,408,172 | 58,889,788 | 61,885,298 | 62,609,731 | 65,983,462 |
| Recycled water | 1,409,824 | 2,069,194 | 1,498,687 | 1,944,434 | 2,748,328 | 2,564,656 | 3,722,130 | 4,052,665 | 4,504,923 | 5,135,186 |
| Total operating revenues | 91,948,727 | 100,361,829 | 107,496,278 | 125,018,554 | 145,746,531 | 151,108,470 | 165,625,347 | 168,684,994 | 169,124,199 | 175,859,890 |
| OPERATING EXPENSES: | | | | | | | | | | |
| Water purchases | 32,307,403 | 29,104,840 | 32,380,524 | 36,817,458 | 43,866,732 | 41,653,430 | 41,318,803 | 46,936,179 | 46,489,850 | 52,697,993 |
| Water operations | 19,634,843 | 21,777,484 | 25,111,134 | 29,030,238 | 35,332,561 | 38,447,533 | 40,834,689 | 39,967,447 | 41,364,910 | 41,593,438 |
| Sewer operations | 24,562,132 | 26,782,007 | 30,984,587 | 37,351,240 | 41,783,797 | 45,047,856 | 45,909,954 | 45,123,786 | 47,351,385 | 47,950,954 |
| General & administrative | 15,317,533 | 15,186,601 | 18,418,043 | 21,520,070 | 25,292,047 | 30,138,792 | 27,471,196 | 30,256,670 | 26,707,578 | 28,106,037 |
| Total operating expenses | 91,821,911 | 92,850,932 | 106,894,288 | 124,719,006 | 146,275,137 | 155,287,611 | 155,534,642 | 162,284,082 | 161,913,723 | 170,348,422 |
| OPERATING INCOME (LOSS) | 126,816 | 7,510,897 | 601,990 | 299,548 | (528,606) | (4,179,141) | 10,090,705 | 6,400,912 | 7,210,476 | 5,511,468 |
| NON-OPERATING REVENUES: | | | | | | | | | | |
| Property taxes - general purpose | 14,477,271 | 16,531,907 | 8,707,881 | 11,213,568 | 31,293,863 | 34,528,767 | 33,149,232 | 29,474,227 | 25,884,964 | 26,574,300 |
| Availability (standby) charges | 4,006,786 | 4,172,104 | 4,354,591 | 4,518,411 | 4,667,297 | 4,868,154 | 5,015,076 | 5,246,008 | 5,569,818 | 5,600,661 |
| Water and sewer connection fees | 46,960,911 | 80,804,323 | 72,445,434 | 99,485,272 | 52,894,363 | 30,706,687 | 17,789,045 | 13,010,929 | 10,815,294 | 12,150,826 |
| Interest income ² | 10,986,525 | 4,987,397 | 13,354,263 | 13,545,983 | 28,899,522 | 20,128,848 | 18,706,820 | 16,681,744 | 7,664,191 | 9,272,662 |
| Grant revenues | - | - | - | - | - | 11,261,996 | 6,466,818 | 6,063,577 | 16,137,906 | 22,926,555 |
| Other income/(expense) | (1,564,986) | 780,603 | 3,077,188 | 7,088,624 | 4,093,851 | 8,812,367 | 1,767,759 | 487,672 | 1,727,067 | (4,563,952) |
| Total non-operating revenues | 74,866,507 | 107,276,334 | 101,939,357 | 135,851,858 | 121,848,896 | 110,306,819 | 82,894,750 | 70,964,157 | 67,799,240 | 71,961,052 |
| NON-OPERATING EXPENSES: | | | | | | | | | | |
| Parity debt service interest payments (DWR/BOR) | - | - | - | - | - | - | 1,163,677 | 1,003,731 | 881,803 | 777,734 |
| Debt service interest payments (COP/Bonds) ³ | 15,427,928 | 15,042,051 | 15,358,957 | 18,404,817 | 22,670,400 | 21,953,962 | 23,564,234 | 21,413,765 | 20,981,966 | 19,124,680 |
| Total non-operating expenses | 15,427,928 | 15,042,051 | 15,358,957 | 18,404,817 | 22,670,400 | 21,953,962 | 24,727,911 | 22,417,496 | 21,863,769 | 19,902,414 |
| EXCESS OF REVENUE OVER EXPENSES BEFORE EXTRAORDINARY ITEM | | | | | | | | | | |
| | 59,565,395 | 99,745,180 | 87,182,390 | 117,746,589 | 98,649,890 | 84,173,716 | 68,257,544 | 54,947,573 | 53,145,947 | 57,570,106 |
| Add back for parity debt | 15,427,928 | 15,042,051 | 15,358,957 | 18,404,817 | 22,670,400 | 21,953,962 | 24,727,911 | 22,417,496 | 21,863,769 | 19,902,414 |
| Net revenues for debt coverage | 74,993,323 | 114,787,231 | 102,541,347 | 136,151,406 | 121,320,290 | 106,127,678 | 92,985,455 | 77,365,069 | 75,009,716 | 77,472,520 |
| Parity debt: COP & Loan principal and interest | 21,832,928 | 21,737,051 | 24,113,957 | 27,374,817 | 32,005,400 | 28,708,962 | 39,853,513 | 38,759,515 | 38,435,569 | 41,159,796 |
| PARITY DEBT SERVICE COVERAGE RATIO | 3.4 | 5.3 | 4.3 | 5.0 | 3.8 | 3.7 | 2.3 | 2.0 | 2.0 | 1.9 |

Notes:

1. 2009 amounts were restated for net internal service funds included in other non-operating income rather than general and administrative expense.
2. 2010 through 2012 interest income amounts include \$735,805, \$110,839 and \$64,139 of capitalized construction period interest, respectively.
3. 2010 through 2012 debt service interest amounts include \$8,713,038, \$1,323,083 and \$1,323,083 of capitalized construction period interest, respectively.

Source: Eastern Municipal Water District

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

| <u>Calendar Year</u> | <u>Population¹</u> | <u>Personal Income² (thousands of \$)</u> | <u>Per Capita Personal Income²</u> | <u>Unemployment Rate²</u> |
|--------------------------|-------------------------------|--|---|--|
| 2002 | 560,923 | \$ 41,362,723 | \$ 25,586 | 6.5% |
| 2003 | 594,216 | 43,619,440 | 25,854 | 6.5% |
| 2004 | 627,386 | 46,998,865 | 26,528 | 6.0% |
| 2005 | 664,807 | 50,899,043 | 27,416 | 5.4% |
| 2006 | 695,209 | 55,177,252 | 28,563 | 5.0% |
| 2007 | 715,664 | 60,450,090 | 30,039 | 6.0% |
| 2008 | 725,610 | 63,749,464 | 30,720 | 8.5% |
| 2009 | 737,868 | 65,067,438 | 30,842 | 13.4% |
| 2010 | 760,128 | 62,255,019 | 29,000 | 14.5% |
| 2011 | 768,264 | 64,376,498 | 29,222 | 13.6% |

- Notes: 1. Data is for the District's service area. Amounts for prior years are restated with the most recent available information.
2. Data is for the County of Riverside. The District is located within the County. Amounts for prior years are restated for most recent available information.

Sources: State of California Employment Development Department
State of California Department of Finance
U.S. Department of Commerce, Bureau of Economic Analysis

**PRINCIPAL EMPLOYERS
FISCAL YEAR ENDED JUNE 30, 2012**

| <u>Employer</u> | <u>No. of Employees</u> | <u>Percentage of Total Employment</u> |
|---|-----------------------------|---|
| County of Riverside | 17,702 | 2.2% |
| March Air Reserve Base | 9,000 | 1.1% |
| Stater Brothers Markets | 6,900 | 0.9% |
| University of California, Riverside | 5,790 | 0.7% |
| Wal-Mart | 5,360 | 0.7% |
| Corona-Norco Unified School District | 4,686 | 0.6% |
| Kaiser Permanente Riverside Medical Ctr | 4,000 | 0.5% |
| Pechanga Resort & Casino | 4,000 | 0.5% |
| Riverside Unified School District | 3,796 | 0.5% |
| Moreno Valley Unified School District | 3,500 | 0.4% |
| Total | <u>64,734</u> | <u>8.1%</u> |
| Total Employment | | <u>810,600</u> |

- Notes: For compliance with GASB Statement No. 34, data for fiscal year ended June 30, 2003 is not available.
Data is for the County of Riverside. The District is located within the County.

Sources: Riverside County Economic Development Agency
State of California Employment Development Department

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

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---------------|---------------|---------------|------------|------------|------------|------------|
| <u>Operations and Maintenance Division</u> | | | | | | | |
| Water Operations and Distribution | 60 | 57 | 66 | 63 | 63 | 64 | 64 |
| Water Reclamation | 75 | 76 | 82 | 82 | 87 | 90 | 90 |
| Maintenance Services | 19 | 20 | 20 | 22 | 17 | 17 | 17 |
| Auto Shop and Fabrication Shop | 14 | 14 | 14 | 13 | 14 | 16 | 15 |
| Wastewater Collection | 13 | 15 | 15 | 14 | 15 | 15 | 13 |
| Mechanical Services | 26 | 27 | 27 | 27 | 30 | 30 | 30 |
| Electrical and Controls | 20 | 20 | 21 | 22 | 21 | 22 | 23 |
| Buildings, Grounds, and Pipeline Maintenance | 36 | 37 | 37 | 37 | 35 | 37 | 34 |
| Total Operations and Maintenance Division | 263 | 266 | 282 | 280 | 282 | 291 | 286 |
| <u>Engineering Division</u> | | | | | | | |
| General Engineering ¹ | 61 | 52 | 56 | 57 | 55 | 53 | 52 |
| Construction Management and Inspections | 36 | 44 | 39 | 40 | 38 | 39 | 39 |
| New Business Development ¹ | 20 | 34 | 28 | 25 | 25 | 26 | 20 |
| Total Engineering Division | 117 | 130 | 123 | 122 | 118 | 118 | 111 |
| <u>Planning and Resources Division</u> | | | | | | | |
| Water Resources Development and Management ² | 12 | 13 | 17 | 19 | 19 | 19 | 20 |
| Environmental and Regulatory Compliance | 8 | 9 | 7 | 8 | 8 | 9 | 9 |
| Water Quality and Laboratory | 17 | 18 | 15 | 15 | 14 | 15 | 15 |
| Source Control | 12 | 10 | 10 | 10 | 8 | 9 | 9 |
| Total Planning and Resources Division | 49 | 50 | 49 | 52 | 49 | 52 | 53 |
| <u>Executive and Administration</u> | | | | | | | |
| Executive and Administration | 8 | 8 | 10 | 10 | 10 | 10 | 11 |
| Public and Governmental Affairs ³ | 3 | 3 | 3 | 2 | 3 | 3 | 11 |
| Human Resources | 12 | 12 | 13 | 13 | 13 | 13 | 13 |
| Billing/Customer Service | 41 | 47 | 49 | 49 | 60 | 62 | 58 |
| Meter Reading | 24 | 25 | 25 | 25 | 24 | 24 | 24 |
| Finance and Accounting | 18 | 18 | 20 | 21 | 21 | 22 | 26 |
| Information Systems | 37 | 35 | 33 | 33 | 34 | 33 | 34 |
| Purchasing, Warehouse and Records Management | 28 | 28 | 28 | 29 | 26 | 27 | 30 |
| Community Involvement ² | 10 | 13 | 9 | 9 | 9 | 8 | - |
| Total Executive and Administration | 181 | 189 | 190 | 191 | 200 | 202 | 207 |
| Total Filled Positions End of Year | 610 | 635 | 644 | 645 | 649 | 663 | 657 |
| Total Authorized Positions Start of Year | Not Available | Not Available | 670 | 667 | 676 | 690 | 667 |
| Change in Authorized Positions from Prior Year | Not Available | Not Available | Not Available | (3) | 9 | 14 | (23) |
| Number of Vacant Positions as of June 30 | Not Available | Not Available | 26 | 22 | 27 | 27 | 10 |
| Vacancy Rate as of June 30 | | | 3.9% | 3.3% | 4.0% | 3.9% | 1.5% |

Notes:

Data is not readily available for fiscal years prior to 2006.

All directors and managers are included with their divisions.

Temporary, contract and summer help employees are not included.

1. The General Engineering and New Business Development departments were reorganized in 2007.

2. The Conservation work group was moved from Community Involvement to Water Resources Development and Management in 2008.

3. Community Involvement was restructured into Public and Governmental Affairs in 2012.

Source: Eastern Municipal Water District

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

| | Fiscal Year Ended | | | | | | | | | |
|--|-------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> |
| <u>POTABLE WATER SYSTEM</u> | | | | | | | | | | |
| Miles of pipeline: | | | | | | | | | | |
| transmission and distribution: ³ | 1,528 | 1,867 | 2,051 | 2,345 | 2,442 | 2,437 | 2,444 | 2,421 | 2,428 | 2,430 |
| as built | Not Avail | 1,681 | 1,747 | 1,817 | 1,944 | 2,038 | 2,157 | 2,260 | 2,280 | 2,296 |
| construction in progress | Not Avail | 186 | 304 | 528 | 498 | 399 | 287 | 161 | 148 | 134 |
| Number of storage tanks ¹ | 76 | 78 | 77 | 78 | 79 | 78 | 77 | 77 | 77 | 77 |
| Maximum storage capacity (million gallons) | 178 | 188 | 188 | 193 | 193 | 193 | 193 | 193 | 191 | 191 |
| Number of active pumping plants | 79 | 80 | 80 | 82 | 83 | 81 | 84 | 84 | 83 | 83 |
| Number of active wells: | | | | | | | | | | |
| domestic | 17 | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 21 | 21 |
| desalter | 2 | 2 | 2 | 9 | 7 | 5 | 5 | 7 | 7 | 8 |
| Domestic well production capacity: | | | | | | | | | | |
| gallons per minute | 18,179 | 17,953 | 19,000 | 19,747 | 22,076 | 21,597 | 21,806 | 20,361 | 22,326 | 22,285 |
| million gallons per day | 26.2 | 25.9 | 27.4 | 28.4 | 31.8 | 31.1 | 31.4 | 29.3 | 32.1 | 32.1 |
| acre feet per year | 29,310 | 28,959 | 30,407 | 31,852 | 35,609 | 34,836 | 35,173 | 32,843 | 36,013 | 35,945 |
| Number of water treatment plants: | | | | | | | | | | |
| desalter | 1 | 1 | 1 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| filtration | 1 | 1 | 1 | 1 | 2 | 2 | 2 | 2 | 2 | 2 |
| Treatment plant capacity (million gallons per day): | | | | | | | | | | |
| desalter plants | 3.0 | 3.0 | 3.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 |
| filtration plants | 11.4 | 11.4 | 11.4 | 11.4 | 21.4 | 32.0 | 32.0 | 32.0 | 32.0 | 32.0 |
| Number of service connections: | | | | | | | | | | |
| active domestic accounts | 95,449 | 103,919 | 112,845 | 123,384 | 128,506 | 129,344 | 131,392 | 133,810 | 135,233 | 136,478 |
| active agriculture and irrigation accts | 167 | 153 | 139 | 130 | 129 | 140 | 143 | 146 | 124 | 122 |
| <u>SEWER SYSTEM</u> | | | | | | | | | | |
| Miles of sewer lines: ^{2,3} | | | | | | | | | | |
| as built | 1,200 | 1,400 | 1,500 | 1,750 | 1,857 | 1,721 | 1,729 | 1,727 | 1,736 | 1,756 |
| construction in progress | 1,045 | 1,097 | 1,156 | 1,218 | 1,335 | 1,407 | 1,539 | 1,607 | 1,626 | 1,639 |
| Number of treatment plants | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| Treatment plant capacity (million gallons per day) | 53 | 53 | 53 | 59 | 59 | 59 | 63 | 63 | 63 | 63 |
| Average million gallons per day treated | 34.0 | 38.2 | 43.3 | 44.8 | 46.0 | 46.2 | 45.2 | 45.0 | 46.0 | 45.0 |
| Percentage of capacity utilized | 64% | 72% | 82% | 76% | 78% | 78% | 72% | 71% | 73% | 71% |
| Number of active lift stations | 35 | 40 | 43 | 46 | 46 | 46 | 46 | 46 | 46 | 47 |
| <u>RECYCLED WATER SYSTEM</u> | | | | | | | | | | |
| Miles of pipeline: | | | | | | | | | | |
| transmission and distribution: ³ | 123 | 139 | 159 | 174 | 192 | 201 | 202 | 199 | 202 | 206 |
| as built | Not Avail | 131 | 135 | 149 | 156 | 165 | 172 | 178 | 179 | 186 |
| construction in progress | Not Avail | 8 | 24 | 25 | 36 | 36 | 30 | 21 | 23 | 20 |
| Number of active pumping facilities | 14 | 14 | 15 | 17 | 17 | 17 | 18 | 18 | 18 | 18 |
| Maximum storage capacity (acre feet) ⁴ | 6,669 | 6,653 | 6,670 | 6,571 | 6,694 | 6,764 | 5,776 | 5,714 | 5,714 | 5,721 |
| <u>GENERAL INFORMATION</u> | | | | | | | | | | |
| Service area (annexed property): | | | | | | | | | | |
| acres | 345,903 | 346,125 | 346,148 | 346,337 | 346,425 | 346,449 | 346,691 | 346,732 | 346,732 | 346,732 |
| square miles | 540.5 | 540.8 | 540.9 | 541.2 | 541.3 | 541.3 | 541.7 | 541.8 | 541.8 | 541.8 |
| Gross service area (square miles) | 555 | 555 | 555 | 555 | 555 | 555 | 555 | 555 | 555 | 555 |
| Average years of service of employees | 10.86 | 10.90 | 10.63 | 9.80 | 9.98 | 10.05 | 10.20 | 10.47 | 10.84 | 11.39 |

Notes:

1. Potable water storage tanks and capacity decreased in 2008 and 2009 due to conversion to recycled water.
2. Miles of sewer lines decreased in 2008 because the District transferred sewer lines to the City of San Jacinto. Decrease is reflected in each as built amount.
3. Miles of pipelines as built excludes open construction in progress (CIP). CIP reflects what was recorded as open projects as of the year end date.
4. Recycled storage decreased in 2009 due to a change in the reporting method to show only tertiary-treated water dedicated to distribution. Prior years included capacity for secondary-treated storage. Decrease in 2010 relates to lower capacity for Winchester ponds due to operational assessments.

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 |
|--------------------|-------------------------|---------------------|-------------------|
| 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% |
| 2008 | 126,144,814 | 1,155,769 | 0.9% |
| 2009 | 139,863,262 | 1,386,075 | 1.0% |
| 2010 | 142,354,003 | 1,035,076 | 0.7% |
| 2011 | 143,427,078 | 734,381 | 0.5% |
| 2012 | 149,580,286 | 703,666 | 0.5% |
| Total | \$ 1,168,401,773 | \$ 6,939,175 | 0.6% |

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 |
|--------------------|-----------------------------|-----------------|-----------------|
| 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% |
| 2008 | 9,375,405 | 690,461 | 7.4% |
| 2009 | 10,377,183 | 838,543 | 8.1% |
| 2010 | 9,603,615 | 678,848 | 7.1% |
| 2011 | 11,170,339 | 610,537 | 5.5% |
| 2012 | 13,072,905 | 676,182 | 5.2% |

Note: Reserves equal accounts over 60 days.

Source: Eastern Municipal Water District