



Eastern Municipal Water District

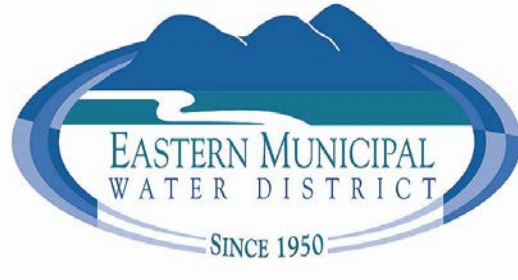
tap into
Quality . Reliability . Value



Comprehensive Annual Financial Report

for the Fiscal Year Ended June 30, 2013

Perris, California
www.emwd.org



EASTERN MUNICIPAL WATER DISTRICT

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED

JUNE 30, 2013

PREPARED BY THE FINANCE DEPARTMENT

Introductory Section



Quality *Water Service*

The District's strategic goal is to provide a safe and reliable water supply portfolio that achieves an optimum balance of imported, local, and recycled water at a reasonable cost.

EASTERN MUNICIPAL WATER DISTRICT
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2013

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Board of Directors

October 31, 2013

President

Philip E. Paule

Board of Directors
Eastern Municipal Water District

Vice President

Randy A. Record

Joseph J. Kuebler, CPA

David J. Slawson

Ronald W. Sullivan

We are pleased to present the Eastern Municipal Water District's (District) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2013. 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.

General Manager

Paul D. Jones II, P.E.

Treasurer

Joseph J. Kuebler, CPA

**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. Howard

Mayer Hoffman McCann P.C., a firm of licensed certified public accountants, has issued an unmodified ("clean") opinion on the District's financial statements for the year ended June 30, 2013. The independent auditors' report is presented as the first component of the financial section of this report.

Legal Counsel

Lemieux & O'Neill

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 (California Water Code Section 71000 et al) 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 formation, the local water supply was primarily from 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 Metropolitan Water District of Southern California (MWD) by the District's voters in 1951, its service area consisted of 86 square miles. Growth has resulted from annexations ranging in area from 1 to 72,000 acres. The assessed valuation has grown from \$72.0 million when formed to approximately \$53.5 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 2.3 million as of January 2013. Of this population, the District serves approximately 777,000 (34 percent), including the cities of Temecula, Murrieta, Menifee, Hemet, San Jacinto, Moreno Valley, Perris, Wildomar and unincorporated areas in Riverside County.

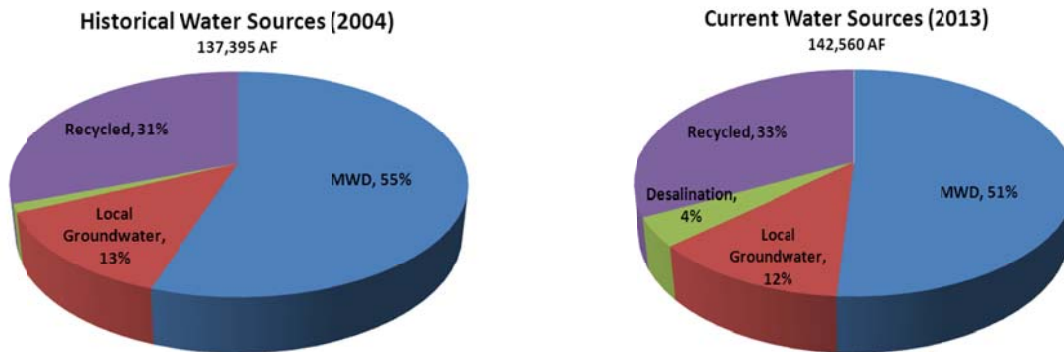
Governance

The District is governed by a Board of five directors, who are elected by the public for four-year terms from comparably sized districts based on population. The District is a member of the MWD, which is a cooperative organization of 26 cities and water agencies that are responsible for providing imported water to arid southern California. The District is currently entitled to have one representative on the MWD Board.

Water Supply and Reliability

The District's water supply for the fiscal year ended June 30, 2013 includes local groundwater (16 percent), imported water (51 percent) and recycled water (33 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 2004, the District received 55 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 2013, the District reduced the level of imported water to 51 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 777,000 people. Customers' monthly bills include a daily service charge based on household size, 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 1,780 miles of pipeline and 48 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 2013.

The District is conveniently accessible by truck and rail service from several significant national and international cargo facilities including the Port of Los Angeles/Long Beach complex, Los Angeles International Airport, Ontario International Airport, and Port of San Diego. Additionally, the March Air Reserve Base (March ARB), a 12 square-mile airfield and logistic center, is located in the District. In 2013, more than one in four new jobs created in the region were in the logistics industry. Also in 2013, online retailer Amazon.com announced plans to occupy a new 1.2 million square-foot fulfillment center near March ARB in Moreno Valley, which will create more than 1,000 full-time jobs.

The region is served by several medical centers and research universities. In 2013, University of California, Riverside (UCR) began enrollment in the first new UC medical school program in four decades. In addition, Kaiser Permanente announced plans to develop a 900,000 square-foot hospital in Murrieta, which follows the opening of Loma Linda University, a 256,000 square-foot hospital with 106 beds, that also opened in Murrieta in 2011.

Sound Financial Policies

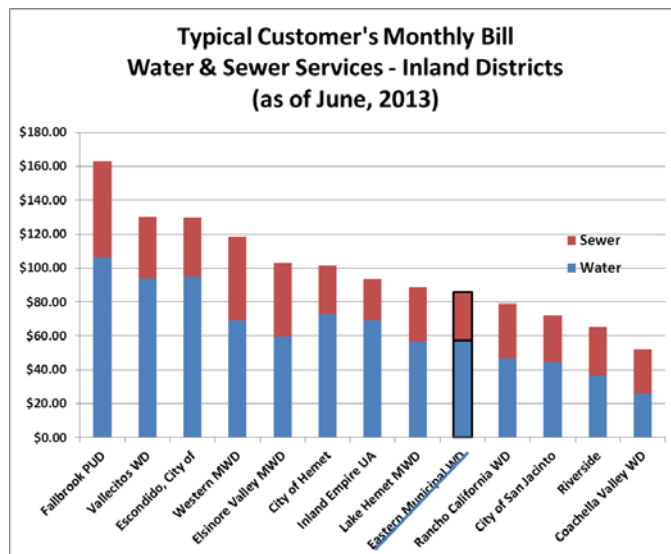
The District continues to manage funds to ensure financial stability and demonstrate responsible stewardship by sustaining reasonable rates for customers, containing costs through careful planning, preserving investments, safeguarding reserves, and active debt management.

Water and Sewer Rates

In 2009, the District implemented a water budget-based tiered rate structure for water sales. This structure rewards customers who use water efficiently and to discourages those who waste water.

In 2013, the District implemented a sewer rate structure based on the number of people occupying a property. For example, households with fewer than 3 people are charged 25 percent less than homes with 3 or 4 people.

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 expenses for water, sewer and recycled water facilities of approximately \$390 million for the period 2014 - 2018. 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

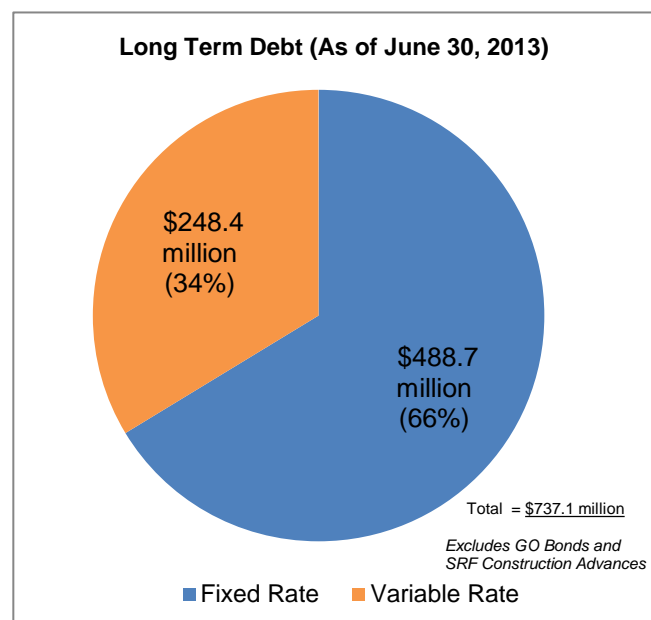
The District adopted a reserve policy, which states the purpose, source, and funding limits for each of its designated reserves within its four main funds: operating, construction, debt service, and trust. The reserves are essential for maintaining liquidity in the marketplace, which enables the District to access the lowest cost-of-capital borrowing opportunities.

Administrative Code and Investment Policy

In 2013, the Board of Directors adopted an Administrative Code, which incorporates various policies, procedures, and administrative duties. The District previously adopted an Investment Policy, which was incorporated into the Administrative Code. 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, and seeks to minimize its total debt costs. This goal is achieved by issuing both fixed and variable rate debt to fund its capital projects. The District has primarily issued certificates of participation (COPs), revenue bonds (Bonds), and state revolving fund (SRF) loans to fund the CIP debt. As of June 30, 2013, the District's total COPs, Bonds, and SRF loans outstanding, excluding the San Jacinto Z LLC loan, debt premiums and SRF construction advances, was \$737.1 million, of which 66 percent were fixed interest rate and 34 percent were variable interest rate, with a weighted average cost of funds of 2.92 percent.



The District issues variable interest rate debt to access historically low interest rates (average of 0.12 percent in fiscal year 2012-13). To protect the investor, the variable rate COPs have historically required a standby liquidity agreement with a third-party financial institution to protect the investor. In 2013, the District refunded existing variable rate COPs with the 2012A Revenue Bonds and the 2013A Revenue Bonds, which are reset on a weekly basis to an industry interest rate index (SIFMA). By issuing these Revenue Bonds, the District is no longer required to pay for a standby liquidity agreement for the 2008B and 2008F COPs and has reduced the third-party counterparty risk.

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, 2013.

Major Initiatives

Water Supply Development and Management

Future growth within the District's service area will increase demands for sustainable local water supplies. 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.

- *Groundwater Management* – As part of the Integrated Recharge and Recovery Program, the District implemented a cooperative groundwater management plan for the Hemet and San Jacinto basins. The plan will help to increase the District's ability to sustain local groundwater production and provide for the protection and enhancement of the water quality of the basins. In support of this plan, the District completed construction and replacement of various facilities, including pipelines, booster stations, wells, pumps, and recharge ponds.
- *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* – The District has identified recycled water as a separate product line with a strategic objective to utilize one hundred (100) percent of treated effluent water from its wastewater reclamation plants. System infrastructure was expanded with the addition of recycled water storage tanks, ponds, pumps booster stations and pipelines. The FY 2012-13 Recycled Water System Management Plan includes both demand management and shortage contingency elements and identifies available supplies, demands, system capacity challenges, user allocations, modifications to user agreements, demand management requirements and shortage contingency plans. This plan is being used to identify and document the preferred strategy for the effective operation and management of the recycled water system.

Operational Efficiencies

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

- A new sewer rate methodology became effective in January 2013, which replaced the fixed cost charge per equivalent dwelling unit. This block rate structure is designed to compliment the domestic retail water structure by incorporating the number of household occupants to more closely align charges with wastewater system costs based upon flow levels.
- As a strategy to decrease Other Post Employment Benefit (OPEB) unfunded liabilities, in July 2012, the District began funding future costs with an initial \$2.5 million deposit to its trust account with the California Employer's Retiree Benefit Trust Program.
- In the past five years, the District has secured approximately \$57 million in grants and \$245 million in low interest rate loans used to fund vital infrastructure projects.
- To reduce debt service costs and counterparty risk, two certificates of participation series (2008B and 2008F) were refunded with variable-rate Securities Industry and Financial Markets Association (SIFMA) floating index bonds. These refundings eliminated the third-party credit facilities, or standby agreements, because the SIFMA bonds do not require a liquidity bank agreement.
- The District upgraded its Oracle Financials accounting system and hardware to the latest fully supported versions with some added functionality, such as easily publishing reports in electronic formats, which supports the District's efforts to reduce paper and streamline processes.

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 is 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, 2012. This was the tenth consecutive year that the District has received this prestigious award. 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 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



Government Finance Officers Association

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Achievement
for Excellence
in Financial
Reporting**

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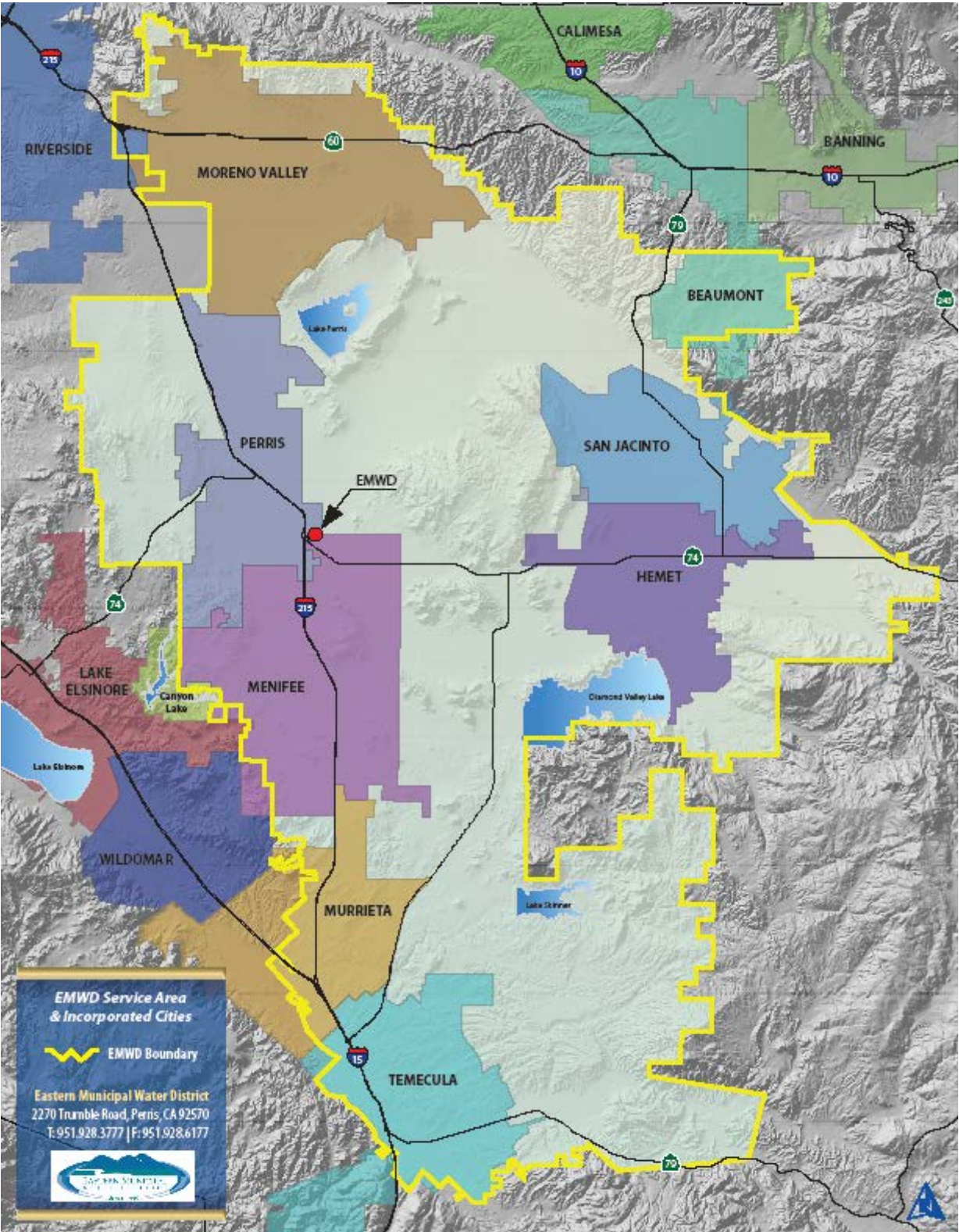
**Eastern Municipal Water District
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2012

Executive Director/CEO

Service Area Map and Incorporated Cities



District Officials

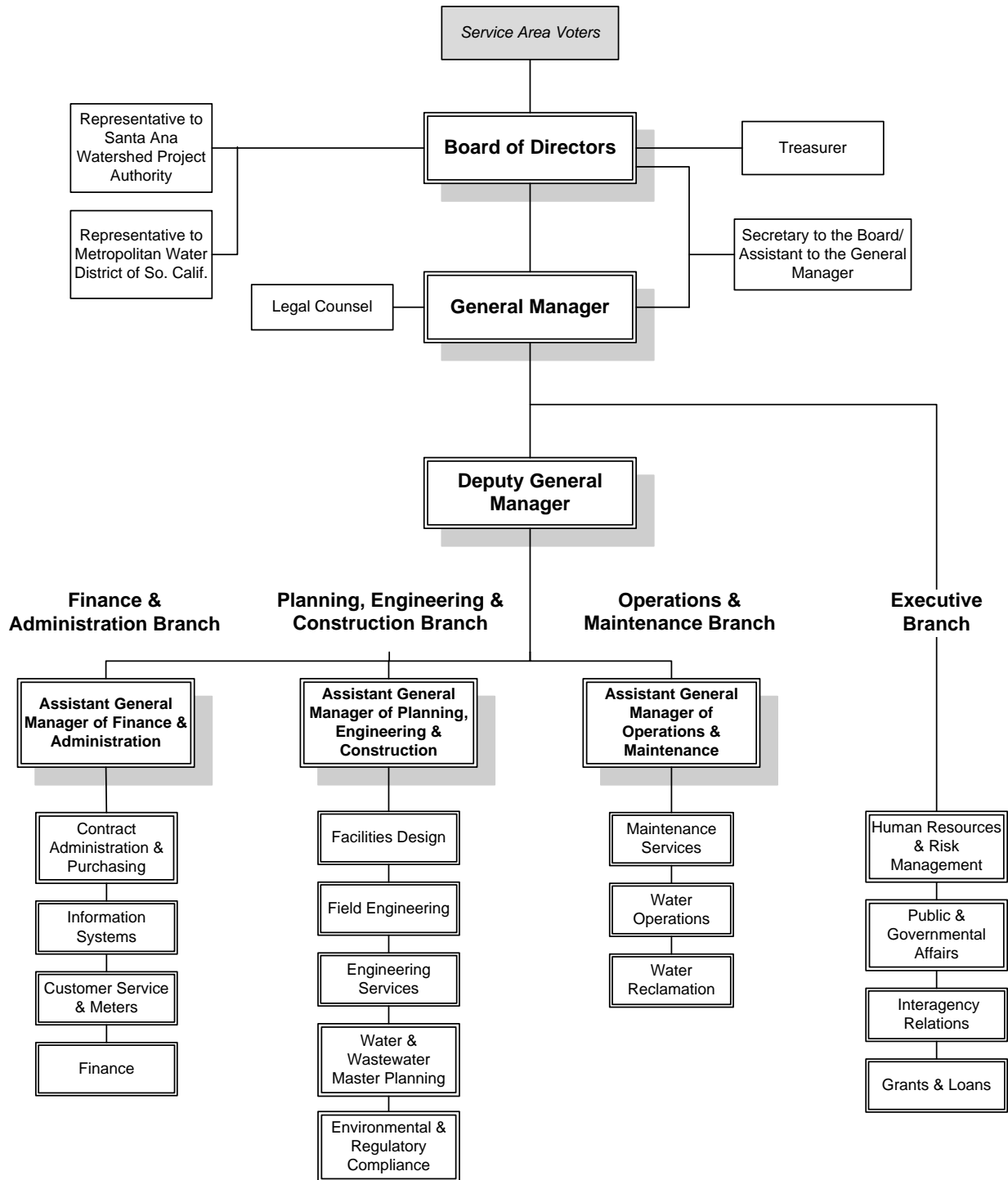
Elected Board of Directors

<u>Position</u>	<u>Name</u>	<u>Elected</u>	<u>Current Term of Office</u>
President	Philip E. Paule	1/2007	1/2011 – 1/2015
Vice President	Randy A. Record	1/2001	1/2013 – 1/2017
Director/Treasurer	Joseph J. Kuebler, CPA	4/2006	1/2011 – 1/2015
Director	David J. Slawson	1/1995	1/2011 – 1/2015
Director	Ronald W. Sullivan	1/2003	1/2013 – 1/2017

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, Engineering, and Construction	Charles J. Bachmann
Assistant General Manager, Finance and Administration	Deborah S. Cherney, CPA

Organizational Chart



Financial Section



Financial Section

Reliability *Wastewater Service*

The District's strategic goal is to provide a safe, reliable, and cost-effective collection and treatment of wastewater and beneficial reuse of biosolids.



Mayer Hoffman McCann P.C.

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Board of Directors
Eastern Municipal Water District
Perris, California

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of the Eastern Municipal Water District (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Emphasis of a Matter

As described further in notes 1 and 15 to the financial statements, during the year ended June 30, 2013, the District implemented GASB Statements No. 63 and 65. Our opinion is not modified with respect to this matter.

The financial statements for the year ended June 30, 2013 reflect certain prior period adjustments as described further in note 15 to the financial statements. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the District's 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 26, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The *introductory section* and the *statistical section* 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 do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2013 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Mayer Hoffman McCann P.C.

Irvine California
October 31, 2013

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, 2013. 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

The District's basic financial statements include a statement of net position, statement of revenues, expenses and changes in net position, and a statement of cash flows.

The statement of net position presents the financial position of the District at the end of the fiscal year. This statement provides information about the nature and amounts of assets, liabilities, and inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of revenues, expenses and changes in net position accounts for the current year's revenues and expenses. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal years.

The final required financial statement is the statement of cash flows. This statement provides relevant information about the District's cash receipts and cash payments and these are segregated among operating, capital and related financing, and investing activities.

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 Position June 30, 2013 and 2012

	2013	2012	Increase/(Decrease)	
			Amount	%
Assets				
Current assets	\$ 277,162,633	\$ 264,533,292	\$ 12,629,341	4.8
Restricted assets	217,399,965	259,334,174	(41,934,209)	-16.2
Net capital assets	2,080,422,620	2,022,163,581	58,259,039	2.9
Other assets	4,029,180	8,218,957	(4,189,777)	-51.0
Total assets	2,579,014,398	2,554,250,004	24,764,394	1.0
Total deferred outflows of resources	28,095,797	37,096,371	(9,000,574)	-24.3
Liabilities				
Current liabilities	92,292,969	99,607,514	(7,314,545)	-7.3
Other liabilities	235,071,157	224,141,997	10,929,160	4.9
Long-term debt outstanding	761,836,872	745,606,924	16,229,948	2.2
Total liabilities	1,089,200,998	1,069,356,435	19,844,563	1.9
Net position				
Net investment in capital assets	1,239,753,130	1,231,275,509	8,477,621	0.7
Restricted	129,643,479	163,846,891	(34,203,412)	-20.9
Unrestricted	148,512,588	126,867,540	21,645,048	17.1
Total net position	\$ 1,517,909,197	\$ 1,521,989,940	\$ (4,080,743)	0.0
Ratio of liabilities to assets and deferred outflows of resources	42%	41%		

Changes in Financial Condition of the District

The ratio of liabilities to assets and deferred outflows of resources, which indicates the degree to which District assets are financed through borrowing and other obligations, had a minimal increase from fiscal year 2012 to 2013 and net position remained unchanged. The financial position of the District remained strong and steady, providing a foundation for future growth.

The following denotes explanations for some of the increases and decreases between fiscal years, as shown in the previous table.

- Current assets increased by \$12.6 million due to increases including \$13.1 million in non-restricted cash; \$2.9 million in utility accounts receivable; \$5.7 million in other receivables, including \$2.8 million in pay-as-you-go cost reimbursements from the District's other postemployment benefit trust and \$2.3 million in receivables from other agencies for recharge water; and \$0.4 million in various other current assets. Increases also included \$2.3 million of water inventory where \$1.2 million relates to the prior year and is shown as an adjustment to the beginning balance of net position. These increases were offset by a decrease of \$11.8 million in grants receivable due to different grants being active each year and the timing of construction costs and reimbursements.

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- Restricted assets decreased by a net \$41.9 million due to decreases of \$34.2 million in construction cash used to finance District construction projects, and \$7.9 million in debt service cash due to the release of required reserves in refunding the 2008B and 2008F COPs by the 2013A and 2012A revenue bonds, respectively; offset by an added \$0.2 million in property taxes receivable.
 - Net capital assets increased by a net \$58.3 million due to \$145.2 million of operating assets added to the system; added land of \$0.5 million; and added equipment and general facilities of \$2.9 million; offset by a decrease of \$13.7 million in construction in progress and additional accumulated depreciation totaling \$76.6 million.
 - Other assets decreased by \$4.2 million due to amortizing \$0.5 million of net pension assets and expensing all unamortized debt issuance costs to comply with Government Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*.
 - Deferred outflows of resources decreased \$9.0 million due to a decrease of \$7.6 million in the fair value of the District's two swap contracts. Both contracts were determined to be hedge effective for fiscal years 2013 and 2012. The remaining \$1.4 million decrease relates to the amortization of deferred charges on debt refundings.
 - Current liabilities decreased by a net \$7.3 million due to decreases of \$7.1 million in accounts and other payables relating mainly to a prior year accrual of \$4.4 million for voluntary termination benefits paid in July 2013; and \$4.6 million in settlement payable relating to the Soboba Settlement Agreement, which was almost completely paid off in fiscal year 2013. These decreases were offset by increases of \$2.5 million in advances from developers; a net \$1.0 million in current debt service relating to added debt for the Secondary Clarifier and Tertiary Treatment Expansion (SCATT) state revolving fund (SRF) loan; and a net \$0.9 million in various other current liabilities.
 - Other liabilities increased by \$10.9 million due to net additions of \$19.8 million in construction deposits relating to SRF loan reimbursements for the Acid Phase Anerobic Digester (APAD) project, and the San Jacinto Valley RWRF and Temecula Valley RWRF Expansion projects; an increase of \$6.0 million in net other postemployment benefits; and a net increase of \$1.8 million in various other liabilities. These increases were offset by decreases of \$7.6 million in the fair value of swap contracts; \$5.4 million in settlement payable relating to the Soboba Settlement Agreement; and \$3.7 million in advances from developers.
 - Long-term debt outstanding increased by \$16.2 million due to the added \$38.3 million SCATT SRF loan; offset by \$3.2 million, \$8.4 million, \$7.9 million and \$2.6 million in scheduled payments and amortized amounts that were recorded in the fiscal year ended June 30, 2013 for advances for construction, notes and assessments payable, revenue bonds, COPs and GO bonds, respectively.
 - Excluding the prior period adjustment, there was little change in net position between the fiscal year 2012 adjusted balance and the fiscal year 2013 balance. Net non-operating income of \$45.5 million was offset by a net operating loss of \$76.0 million plus contributed capital from developers of \$20.0 million and contributed capital from grants of \$10.5 million for the year. Further information regarding restrictions and commitments associated with net position can be found in Notes 10 and 11 to the basic financial statements. Refer to Note 15 to the basic financial statements for information about the adjustments to the beginning balance of net position.

Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended June 30, 2013 and 2012

	<u>2013</u>		<u>2012</u>		<u>Increase/(Decrease)</u>	
	Amount	% of Total	Amount	% of Total	Amount	% Change
Operating revenues:						
Water sales – domestic	\$ 110,468,194	59.0	\$ 103,226,203	58.7	\$ 7,241,991	7.0
Water sales – irrigation	1,988,610	1.1	1,515,039	0.9	473,571	31.3
Sewer service charges	68,957,128	36.9	65,983,462	37.5	2,973,666	4.5
Recycled water sales	5,676,043	3.0	5,135,186	2.9	540,857	10.5
Total operating revenues	187,089,975	100.0	175,859,890	100.0	11,230,085	6.4
Non-operating revenues:						
Property taxes – general levy	27,243,490	38.4	26,574,300	37.7	669,190	2.5
Property taxes – GO bond levy	5,311,738	7.5	5,156,450	7.3	155,288	3.0
Availability (standby) assessments	5,635,153	7.9	5,600,661	7.9	34,492	0.6
Water and sewer connection fees	20,364,185	28.7	12,150,826	17.3	8,213,359	67.6
Interest – operations and restricted funds	4,485,217	6.3	7,431,966	10.5	(2,946,749)	-39.6
Net (decrease) increase in fair value of investments	(3,694,351)	-5.2	1,712,864	2.4	(5,407,215)	-315.7
Interest – GO bond funds	41,069	0.0	63,693	0.1	(22,624)	-35.5
Grant revenues	2,052,613	2.9	373,285	0.5	1,679,328	449.9
Other revenues	9,510,963	13.4	11,230,942	15.9	(1,719,979)	-15.3
Gain on disposal of fixed assets	68,358	0.1	302,569	0.4	(234,211)	-77.4
Total non-operating revenues	71,018,435	100.0	70,597,556	100.0	420,879	0.6
Total revenues	258,108,410		246,457,446		11,650,964	4.7
Operating expenses:						
Purchased water	58,445,847	22.2	52,697,993	20.6	5,747,854	10.9
Water operations	40,994,915	15.6	40,789,231	15.9	205,684	0.5
Sewer operations	40,279,734	15.3	41,308,806	16.1	(1,029,072)	-2.5
Recycled water operations	5,992,260	2.3	5,748,205	2.2	244,055	4.2
General and administrative	28,392,519	10.8	27,112,598	10.6	1,279,921	4.7
Depreciation and amortization	77,162,281	29.3	73,369,622	28.6	3,792,659	5.2
Net other postemployment benefits	11,852,000	4.5	15,286,000	6.0	(3,434,000)	-22.5
Total operating expenses	263,119,556	100.0	256,312,455	100.0	6,807,101	2.7
Non-operating expenses:						
Interest – COPs/revenue bonds	15,750,253	61.8	17,801,597	48.4	(2,051,344)	-11.5
Interest – GO bonds	1,933,453	7.6	2,025,501	5.5	(92,048)	-4.5
Interest – other	1,194,662	4.7	827,234	2.3	367,428	44.4
GO bond service fees	68,556	0.2	79,338	0.2	(10,782)	-13.6
Other expenses	6,543,446	25.7	16,018,125	43.6	(9,474,679)	-59.1
Total non-operating expenses	25,490,370	100.0	36,751,795	100.0	(11,261,425)	-30.6
Total expenses	288,609,926		293,064,250		(4,454,324)	-1.5
Loss before contributions	(30,501,516)		(46,606,804)		16,105,288	-34.6
Capital contributions:						
Developer contributions	19,995,927	65.7	34,177,609	60.2	(14,181,682)	-41.5
Capital grants	10,450,898	34.3	22,553,270	39.8	(12,102,372)	-53.7
Total capital contributions	30,446,825	100.0	56,730,879	100.0	(26,284,054)	-46.3
Change in net position	(54,691)		10,124,075		(10,178,766)	-100.5
Net position at beginning of year	1,521,989,940		1,511,865,865		6,098,023	0.4
Adjustment	(4,026,052)		-		(4,026,052)	
Net position at end of year	\$1,517,909,197		\$1,521,989,940		\$ (54,691)	0.0

Changes in Financial Performance of the District

The charts in the statistical section of this report on pages 66 and 67 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 2013 and 2012 fiscal years as shown in the previous table.

- Total revenues – Combined revenues including capital contributions for the fiscal year totaled \$288.6 million compared to a prior year of \$303.2 million. This is a decrease of approximately \$14.6 million (4.8 percent). The table on the previous page presents a comparison of revenues by major source for the two fiscal years 2013 and 2012.
- Total expenses – Combined expenses for the fiscal year totaled \$288.6 million compared to a prior year of \$293.1 million. This is a decrease of approximately \$4.5 million (1.5 percent). The table on the previous page presents a comparison of expenses by category for the two fiscal years 2013 and 2012.
- Water sales – Total domestic and irrigation sales increased approximately \$7.7 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 \$3.0 million over the previous years total to end at \$69.0 million. This is primarily attributed to an additional 2,550 sewer connections and a 2.6 percent rate increase effective July 1, 2012.
- Connection fees – These revenues increased by a net \$8.2 million over the prior year. The Board adopted an 18 percent connection fee rate increase effective January 1, 2013. Sewer connections were 2,550 compared to the prior year's 1,600, representing an increase of 59.4 percent and water connections were 1,464 compared to the prior year's 1,054, representing an increase of 38.9 percent.
- Interest earnings – The current fiscal year's interest earnings were lower by \$2.9 million compared to the prior years, due to an average portfolio balance decline from the previous years by \$4.3 million, along with yields on investments averaging 0.98 percent for the year compared to 1.63 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 \$5.4 million less than the prior year amount due to a sudden increase in short term interest rates in June 2013.
- Purchased water – The \$5.7 million increase in expense is primarily due to increased demand for water, which resulted in the purchase of 4,350 acre-feet more untreated water in 2013 than in 2012.
- Depreciation and amortization – The District capitalized a net additional \$148.7 million of depreciable assets over the course of the year, which resulted in the \$3.8 million of additional expense.

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- Net other postemployment benefits – This amount is determined by an actuarial calculation as the annual required contribution plus adjustments. It includes actual pay-as-you-go costs for benefits provided to retired employees during the year, plus an estimate of the present value of projected benefits earned by current employees. The estimated amount relating to projected benefits decreased \$3.4 million because the District began funding future costs with a contribution of \$2.5 million to an irrevocable trust.
 - Interest – certificates of participation/revenue bonds – The \$2.1 million net decrease is primarily due to a greater amount of interest expense 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 \$9.5 million decrease is primarily due to one-time expenses in the prior fiscal year including \$4.3 million for voluntary termination benefits 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 decreased to \$20.0 million compared to \$34.2 million in the previous year, a change of \$14.2 million. This decrease mainly relates to fewer projects being closed out and a \$6.4 million Soboba Settlement Agreement contribution that was recorded in the prior fiscal year.
 - Capital contributions from grants - The District actively pursues grant funding and revenues vary from year to year. Major capital grant revenues for fiscal year 2013 include federal funding of \$5.5 million for the San Jacinto Basin Restoration Fund project and both federal and state of California grants totaling \$3.4 million for the Enchanted Heights Sewer Infrastructures project.
 - Net position - The financial condition of the District has remained steady for fiscal year 2013. Including the adjustments to the beginning balance, the District's net position decreased by \$0.05 million to \$1,517.9 million. The table on page 5 compares the various categories of assets, liabilities, deferred outflows of resources and net position for the two fiscal years 2013 and 2012.

Capital Assets

Net of accumulated depreciation, the District reported capital assets of \$2,080.4 million in fiscal year 2013 compared to \$2,022.2 million in fiscal year 2012. A comparison of this change is provided below by major category. Refer to Note 3 to the basic financial statements for further information regarding capital assets.

Capital Assets For the Fiscal Years Ended June 30, 2013 and 2012

	2013	2012	Increase/(Decrease)	
			Amount	% Change
Land	\$ 43,469,609	\$ 42,939,724	\$ 529,885	1.2
Tunnel water seepage agreement	1,750,900	1,750,900	-	0.0
Water capacity rights	29,657,807	29,657,807	-	0.0
Water plant, lines and equipment	985,110,369	921,785,081	63,325,288	6.9
Sewer plant, lines and equipment	1,492,619,061	1,410,717,410	81,901,651	5.8
Equipment and general facilities	117,522,156	114,620,733	2,901,423	2.5
Construction in progress	262,845,195	276,611,214	(13,766,019)	-5.0
Total capital assets	2,932,975,097	2,798,082,869	134,892,228	4.8
Less accumulated depreciation	(852,552,477)	(775,919,288)	(76,633,189)	9.9
Net capital assets	\$ 2,080,422,620	\$ 2,022,163,581	\$ 58,259,039	2.9

Significant additions to capital assets include \$20.0 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 \$134.4 million construction in progress.

The three largest District projects capitalized during the 2013 fiscal year include the Moreno Valley Regional Water Reclamation Facility (RWRf) Expansion Acid Phase Anaerobic Digestion (APAD) project (\$43.0 million), the Sun City Force Main and Recycled Water Pipeline Replacement project (\$12.8 million), and the Temecula Valley RWRf Effluent Storage Ponds Expansion project (\$10.1 million).

The Moreno Valley RWRf Expansion APAD project included the design, construction and installation of methane phase and acid phase digesters, a grit basin, and boiler building; and modifications to sludge holding, odor scrubber and influent pump station facilities. The APAD project will expand the solids handling capacity of the plant to 18.5 million gallons per day (MGD) based on average annual flows and 22.4 MGD equivalent capacity with all digesters in service. This project was substantially complete at June 30, 2013, with final work to be completed by September 30, 2013.

The Sun City Force Main and Recycled Water Pipeline Replacement project included the design, construction and installation of approximately five miles of 30 and 36-inch diameter sewer force main from the Sun City Lift Station to the Perris Valley RWRf Influent Lift Station, and replacement of one mile of the recycled water pipeline from the Sun City RWRf to the North Sun City Golf Course. The added sewer pipelines provided increased capacity of the Sun City Lift Station and existing gravity sewer systems. Replacement of the existing 12 and 18-inch recycled water pipelines with new PVC pipe will provide improved service to customers with increased regulatory compliance. This project was substantially complete at June 30, 2013, with final work to be completed by August 31, 2013.

The Temecula Valley RWRf Effluent Storage Ponds Expansion project included the design and construction of additional capacity at the secondary and tertiary effluent ponds, and emergency storage ponds for increased ease of operation, regulatory compliance, reliability and operational redundancy. This project will provide an additional 28 million gallons (MG) of pond storage, bringing the total on-site storage capacity to 53 MG. This project was complete at June 30, 2013.

The District had \$35,200,726 in construction contract commitments as of June 30, 2013. Refer to Note 11 to the basic financial statements for further information regarding these commitments.

Capital Expenses

During the year, additions to construction in progress totaled approximately \$120.6 million. Some of the major projects currently underway and where expenses in fiscal year 2013 exceeded \$2.0 million include:

	<u>Millions</u>
• San Jacinto Valley RWRf Expansion to 14 MGD	\$ 36.2
• Sun City Force Main and Recycled Pipeline Replacement	11.2
• Perris Valley RWRf Plant No. 3 Expansion	8.6
• Menifee/Perris Desalters Iron and Manganese Removal	5.7
• Perris Water Filtration Plant Reject Recovery Facility	4.5
• Sun City and Alessandro Recycled Water Pond Booster Stations	4.0
• Temecula Valley RWRf 18 MGD Reliable Capacity Upgrade	3.7
• Enchanted Heights Sewer Infrastructures	3.7
• Longfellow Road Recycled Water Storage Tank	2.5
• Nine water and sewer projects between \$1,000,000 - \$2,000,000	14.5
• Nine water and sewer projects between \$500,000 - \$1,000,000	5.9
• Seventy-six water and sewer projects between \$100,000 - \$500,000	17.8
• Remaining water and sewer projects with expenses less than \$100,000	2.3
	<u>\$ 120.6</u>

Noncurrent Liabilities

Noncurrent liabilities consist of debt and other liabilities. Long-term debt includes advances for construction, notes and assessments, revenue bonds, COPs, GO bonds and unamortized deferred amounts for premiums/discounts relating to debt issuances. Other noncurrent liabilities include SRF construction advances, advances from developers, settlement payable relating to the Soboba Settlement Agreement, other accrued expenses, compensated absences, net other postemployment benefits (OPEB) obligation and the fair value of swap contracts.

The District had a total of \$1,035.2 million of outstanding debt and other noncurrent liabilities at June 30, 2013, a net increase of \$26.1 million or 2.6 percent from the prior year. Total debt increased \$17.2 million to \$785.7 million due the \$38.3 million SRF construction advance for the SCATT project converting to a loan with repayment beginning July 2013, and scheduled debt payments and amortization of discount/premium totaling \$21.1 million. The amount of debt and amortizations due within one year total \$23.8 million. To decrease interest costs and liquidity fees, the District refinanced the variable rate 2008B and 2008F COPs totaling \$104,575,000 with the 2013A and 2012A Revenue Bonds, respectively, which have the same repayment schedules as the refunded debt, but do not require a liquidity bank agreement.

Other noncurrent liabilities increased \$9.0 million, mainly due to a net increase in SRF construction advances of \$19.8 million and an added \$6.0 million in net OPEB obligation. These increases were offset by a \$10.0 million decrease in settlement payable due to payment to the Soboba Tribe per the Soboba Settlement Agreement, a \$7.6 million decrease in the fair value of swap contracts, and a net \$0.8 million decrease 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 and these ratings were affirmed with the 2013A and 2012A Revenue Bond issuances. 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 Position

June 30, 2013

(with prior year data for comparison purposes only)

	June 30	
	2013	2012
Assets:		
Current assets:		
Cash and investments (Note 2)	\$ 214,238,862	\$ 201,134,353
Utility accounts receivable, net of allowances	28,214,128	25,277,912
Property taxes receivable	12,121,373	11,961,212
Accrued interest receivable	409,507	982,816
Other receivables	7,266,027	1,541,722
Prepaid expenses	3,731,597	2,854,847
Materials and supplies inventory	3,121,337	3,194,808
Water inventory (Notes 11,15)	2,279,683	-
Grants receivable	5,780,119	17,585,622
Total current assets	277,162,633	264,533,292
Noncurrent assets:		
Restricted assets:		
Debt service/covenants cash and investments (Note 2)	125,928,754	133,884,143
Property taxes receivable	1,477,073	1,252,658
Soboba reimbursement receivable (Note 11)	12,998,778	12,998,778
Construction cash and investments (Note 2)	76,926,242	111,138,065
Notes receivable	69,118	60,530
Total restricted assets	217,399,965	259,334,174
Capital assets: (Note 3)		
Land	43,469,609	42,939,724
Tunnel water seepage agreement	1,750,900	1,750,900
Structures, improvements and water rights	2,507,387,237	2,362,160,298
Equipment and general facilities	117,522,156	114,620,733
Construction in progress	262,845,195	276,611,214
Total capital assets	2,932,975,097	2,798,082,869
Less accumulated depreciation	(852,552,477)	(775,919,288)
Total net capital assets	2,080,422,620	2,022,163,581
Other assets:		
Net pension assets (Note 4)	4,029,180	4,560,128
Unamortized debt issuance costs (Note 15)	-	3,658,829
Total other assets	4,029,180	8,218,957
Total noncurrent assets	2,301,851,765	2,289,716,712
Total assets	2,579,014,398	2,554,250,004
Deferred outflows of resources:		
Accumulated decrease in fair value of swap contracts (Note 6)	15,517,588	23,122,858
Deferred charges on debt refundings	12,578,209	13,973,513
Total deferred outflows of resources	28,095,797	37,096,371

(Continued on next page)

	June 30	
	2013	2012
Liabilities:		
Current liabilities:		
Accounts payable	\$ 34,174,727	\$ 40,856,544
Accrued salaries and benefits	1,281,262	1,569,166
Customer deposits	7,285,594	6,751,494
Compensated absences (Note 5)	5,105,991	4,819,955
Accrued interest	8,990,295	8,935,598
Other payables	2,224,517	2,169,379
Advances for construction, notes and assessments (Note 5)	3,594,533	2,852,156
Revenue bonds (Note 5)	7,768,590	8,469,100
Certificates of participation (Note 5)	9,983,784	9,136,889
General obligation bonds (Note 5)	2,502,646	2,410,890
Settlement payable (Note 11)	2,499	4,639,572
Advances from developers (Note 14)	8,009,113	5,539,200
Other accrued expenses (Note 5)	1,369,418	1,457,571
Total current liabilities	<u>92,292,969</u>	<u>99,607,514</u>
Noncurrent liabilities:		
Advances for construction, notes and assessments (Note 5)	65,154,855	30,798,945
State Revolving Fund construction advances (Note 5)	142,318,983	122,532,960
Revenue bonds (Note 5)	149,880,127	52,983,220
Certificates of participation (Note 5)	508,355,090	621,090,145
General obligation bonds (Note 5)	38,446,800	40,734,614
Settlement payable (Note 11)	-	5,360,428
Advances from developers (Note 14)	12,987,027	16,683,165
Other accrued expenses (Note 5)	6,175,580	4,242,043
Compensated absences (Note 5)	7,859,808	8,009,372
Net other postemployment benefits obligation (Note 9)	50,212,171	44,191,171
Fair value of swap contracts (Note 6)	15,517,588	23,122,858
Total noncurrent liabilities	<u>996,908,029</u>	<u>969,748,921</u>
Total liabilities	<u>1,089,200,998</u>	<u>1,069,356,435</u>
Net position:		
Net investment in capital assets	1,239,753,130	1,231,275,509
Restricted for debt service/covenants	73,268,230	64,333,290
Restricted for construction	56,375,249	99,513,601
Unrestricted	148,512,588	126,867,540
Total net position	<u>\$ 1,517,909,197</u>	<u>\$ 1,521,989,940</u>

See accompanying notes to the basic financial statements.

Eastern Municipal Water District

Statement of Revenues, Expenses and Changes in Net Position

For the Fiscal Year Ended June 30, 2013
(with prior year data for comparison purposes only)

	Fiscal Year Ended June 30	
	2013	2012
Operating revenues:		
Water sales – domestic	\$ 110,468,194	\$ 103,226,203
Water sales – irrigation	1,988,610	1,515,039
Sewer service charges	68,957,128	65,983,462
Recycled water sales	5,676,043	5,135,186
Total operating revenues	187,089,975	175,859,890
Operating expenses:		
Purchased water	58,445,847	52,697,993
Water operations	40,994,915	40,789,231
Sewer operations	40,279,734	41,308,806
Recycled water operations	5,992,260	5,748,205
General and administrative	28,392,519	27,112,598
Depreciation and amortization	77,162,281	73,369,622
Net other postemployment benefits	11,852,000	15,286,000
Total operating expenses	263,119,556	256,312,455
Loss from operations	(76,029,581)	(80,452,565)
Non-operating revenues (expenses):		
Property taxes – general levy	27,243,490	26,574,300
Property taxes – general obligation bond levy	5,311,738	5,156,450
Availability (standby) assessments	5,635,153	5,600,661
Water and sewer connection fees	20,364,185	12,150,826
Interest – operations and restricted funds	4,485,217	7,431,966
Net (decrease) increase in fair value of investments	(3,694,351)	1,712,864
Interest – general obligation bond funds	41,069	63,693
Grant revenues	2,052,613	373,285
Other revenues	9,510,963	11,230,942
Gain on disposal of capital assets	68,358	302,569
Interest – certificates of participation/revenue bonds	(15,750,253)	(17,801,597)
Interest – general obligation bonds	(1,933,453)	(2,025,501)
Interest – other	(1,194,662)	(827,234)
General obligation bond service fees	(68,556)	(79,338)
Other expenses	(6,543,446)	(16,018,125)
Total non-operating revenues	45,528,065	33,845,761
Loss before contributions	(30,501,516)	(46,606,804)
Capital contributions:		
Developer contributions	19,995,927	34,177,609
Capital grants	10,450,898	22,553,270
Total capital contributions	30,446,825	56,730,879
Change in net position	(54,691)	10,124,075
Total net position at beginning of year	1,521,989,940	1,511,865,865
Adjustment (Note 15)	(4,026,052)	-
Total net position at end of year	\$ 1,517,909,197	\$ 1,521,989,940

See accompanying notes to the basic financial statements.

Eastern Municipal Water District

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2013
(with prior year data for comparison purposes only)

	Fiscal Year Ended June 30	
	2013	2012
Cash flows from operating activities		
Receipts from customers	\$ 185,465,043	\$ 173,769,845
Receipts from availability (standby) assessments	5,552,779	5,563,774
Other receipts	6,292,677	14,159,404
Payments for water	(58,445,847)	(52,697,993)
Payments to employees for services	(66,709,450)	(65,606,664)
Payments to suppliers for goods and services	(69,207,707)	(51,595,955)
Payments for energy and utilities	(13,545,392)	(12,892,071)
Net cash (used for) provided by operating activities	(10,597,897)	10,700,340
Cash flows from noncapital financing activities		
Proceeds from property taxes, general levy	27,165,703	26,222,570
Proceeds from operating grants	2,244,532	373,285
Net cash provided by noncapital financing activities	29,410,235	26,595,855
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(134,892,228)	(136,525,821)
Proceeds from sale of capital assets	95,950	613,194
Proceeds from long-term debt issuance	142,877,850	61,994,842
Proceeds from SRF construction advances	20,117,337	63,946,657
Repayment of notes, bonds and certificates of participation	(126,985,877)	(78,611,981)
Interest paid	(21,023,534)	(21,184,575)
Proceeds from property taxes, GO bond levy	5,087,323	5,021,839
Proceeds from water and sewer connection fees	20,364,185	12,150,826
Proceeds from developer advances	13,390,427	29,802,787
Payments of developer advances	(14,561,514)	(27,545,828)
Proceeds from capital grants	22,064,482	12,880,049
Net cash (used for) capital and related financing activities	(73,465,599)	(77,458,011)
Cash flows from investing activities		
Purchases of investments	(103,528,176)	(493,119,811)
Proceeds from sales and maturities of investments	310,422,702	590,710,235
Proceeds from earnings on investments	5,217,739	8,952,486
Net cash provided by investing activities	212,112,265	106,542,910
Total (decrease) increase in cash and cash equivalents	157,459,004	66,381,094
Cash and cash equivalents at beginning of year	117,922,186	51,541,092
Cash and cash equivalents at end of year (Note 2)	\$ 275,381,190	\$ 117,922,186

(Continued on next page)

Eastern Municipal Water District

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2013
(with prior year data for comparison purposes only)
(continued)

	Fiscal Year Ended June 30	
	2013	2012
Reconciliation of loss from operations to net cash provided by (used for) operating activities:		
Loss from operations	\$ (76,029,581)	\$ (80,452,565)
Adjustments to reconcile loss from operations to net cash provided by (used for) operating activities:		
Operating activities:		
Depreciation and amortization expense	77,162,281	73,369,622
Other revenues	8,451,740	697,253
(Increase) decrease in utility accounts receivable	(2,936,216)	(2,698,330)
(Increase) decrease in other receivables	(5,724,305)	(299,373)
(Increase) decrease in prepaid expenses	(876,750)	(351,108)
(Increase) decrease in materials and supplies inventory	73,471	(263,844)
(Increase) decrease in water inventory	(2,279,683)	-
(Increase) decrease in Soboba reimb. receivable	-	(12,998,778)
(Increase) decrease in notes receivable	(8,588)	57,018
Increase (decrease) in accounts payable	(6,681,817)	10,838,569
Increase (decrease) in accrued expenses	1,557,480	(661,473)
Increase (decrease) in customer deposits	534,100	224,929
Increase (decrease) in settlement payable	(9,997,501)	10,000,000
Increase (decrease) in compensated absences	136,472	644,009
Increase (decrease) in net other postemployment benefits obligation	6,021,000	12,594,411
Net cash (used for) provided by operating activities	\$ (10,597,897)	\$ 10,700,340
Reconciliation of cash and cash equivalents to statement of net position:		
Current cash and investments	\$ 214,238,862	\$ 201,134,353
Restricted cash and investments:		
Debt service/covenants	125,928,754	133,884,143
Construction	76,926,242	111,138,065
Total cash and investments	417,093,858	446,156,561
Less investments	141,712,668	328,234,375
Cash and cash equivalents (Note 2)	\$ 275,381,190	\$ 117,922,186
Noncash capital, financing, and investing activities		
Capital asset contributions from developers	\$ 19,995,927	\$ 34,177,609
Net increase (decrease) in fair value of investments	(3,694,351)	1,712,864
Amortized costs - prepaid PERS, net pension assets and long-term debt	1,372,308	1,078,905

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, 2013

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. 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 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 separate 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 on a fund basis. In governmental accounting, a fund is a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein. Because the activities of the District receive significant support from fees and charges, it uses a proprietary (enterprise) fund. Enterprise fund accounting is designed to highlight the extent to which fees and charges are sufficient to cover the cost of providing goods and services.

The District uses the economic resources measurement focus and the accrual basis of accounting. Measurement focus determines what is measured in a set of financial statements and under 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.

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

An enterprise fund distinguishes operating revenues and expenses from non-operating revenues and expenses. 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 domestic, agricultural and irrigation, and recycled water sales, and sewer service charges. Operating expenses for the District include the cost of sales and services, administrative expenses, and depreciation of capital assets.

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, availability (standby) assessments, 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 to fund capital assets. 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 capitalization thresholds shown below 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	5-15

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 Position and amounts to \$842,850 and \$676,182 at June 30, 2013 and 2012, respectively.

Inventories

Material and supplies inventory consists primarily of materials used in the construction and maintenance of utility plant and is valued at weighted average cost. Water inventory consists of native groundwater and purchased water holdings in the Hemet-San Jacinto Basin. It is valued based upon purchase cost and weighted average cost of consumption. Refer to Note 11 to the basic financial statements for more information regarding water inventory.

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 \$7,217,378 and \$6,202,339 at June 30, 2013 and 2012, 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

The District implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* and in conformance with this new guidance, all debt issuance costs were expensed as of June 30, 2012. A prior period adjustment for this accounting change totaling \$5,199,951 has been included in the financial statements as a decrease to the beginning balance of net position. Refer to Note 15 to the basic financial statements for more information on this adjustment. General obligation bond, revenue bond, and certificate of participation premiums and discounts, and deferred amounts on refunding (amortized over the shorter life of the new or old bonds), are deferred and amortized over the term of the bonds using the effective interest method. Net bond and certificate of participation premiums/discounts are presented as a reduction of the face amount of the debt. In accordance with GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, deferred charges on refunding are combined and presented as deferred outflows of resources on the Statement of Net Position.

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 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 because historical data shows that most employees retire from the District and the few employees who separate prior to retirement qualified to have a high percentage of their sick leave paid out.

Use of Estimates

The financial statements are prepared in conformity with generally accepted accounting principles, and therefore 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.

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

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

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 Position. The changes in fair value of hedging financial instruments do not affect investment revenue, but are recorded as deferred outflows. As of June 30, 2013 and June 30, 2012, all potential hedging instruments of the District are considered effective hedges.

2. Cash and Investments

Cash and investments are classified in the accompanying Statement of Net Position at June 30 as follows:

	2013	2012
Current assets	\$ 214,238,862	\$ 201,134,353
Restricted assets:		
Debt service/covenants	125,928,754	133,884,143
Construction	76,926,242	111,138,065
Totals	\$ 417,093,858	\$ 446,156,561

Cash and investments at June 30 consisted of the following:

	2013	2012
Cash on hand	\$ 4,900	\$ 4,900
Deposits with financial institutions*	80,368,358	(3,439,163)
Investments	336,720,600	449,590,824
Total cash and investments	\$ 417,093,858	\$ 446,156,561

* 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:

	2013	2012
Demand accounts and on hand	\$ 80,373,258	\$ (3,434,263)
Local Agency Investment Fund (LAIF)	58,774,317	57,759,960
Investment Trust of California (CalTRUST)	59,377,295	29,255,814
Money market mutual funds	76,856,320	34,340,675
Total cash and cash equivalents	\$ 275,381,190	\$ 117,922,186

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

The table below 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.

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
CA local agency securities	Yes	5 Years ²	30% ³	25% ³
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.

2. Maturities may exceed 5 years with specific required credit ratings.

3. Investments in the District's own tendered securities may exceed percentages on a temporary basis.

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

2. Cash and Investments (continued)

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

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 table on the following page, which shows the distribution of the District's investment by remaining maturity.

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

2. Cash and Investments (continued)

Interest Rate Risk (continued)

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)	\$ 4,870,850	\$ -	\$ -	\$ 4,870,850	\$ -
Federal Home Loan Bank (FHLB)	29,363,850	-	-	29,363,850	-
Federal Home Loan Mortgage Corp. (FHLMC)	27,119,740	-	-	27,119,740	-
Federal National Mortgage Assn. (FNMA)	77,225,575	-	-	77,225,575	-
LAIF	50,013,660	50,013,660	-	-	-
Investment Trust of California (CalTRUST)	59,377,295	59,377,295	-	-	-
Money market mutual funds	2,647,424	2,647,424	-	-	-
Held by trustee:					
LAIF	8,760,657	8,760,657	-	-	-
Money market mutual funds	74,208,895	74,208,895	-	-	-
Guaranteed investment contracts (GICs)*	3,132,654	-	-	-	3,132,654
Total investments	\$ 336,720,600	\$ 195,007,931	\$ -	\$ 138,580,015	\$ 3,132,654

* The District's GIC is with AIG Matched Funding Corporation (AIG). The contract 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, 2013, 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. The table below shows the minimum rating required by the California Government Code, the District's investment policy, or debt agreements, and the actual Standard & Poor's Rating Services 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	\$ 4,870,850	N/A	\$ -	\$ 4,870,850	\$ -	\$ -
FHLB	29,363,850	N/A	-	29,363,850	-	-
FHLMC	27,119,740	N/A	-	27,119,740	-	-
FNMA	77,225,575	N/A	-	77,225,575	-	-
LAIF	50,013,660	N/A	-	-	-	50,013,660
CalTRUST	59,377,295	N/A	-	-	-	59,377,295
Money market mutual funds	2,647,424	AAA*	2,647,424	-	-	-
Held by trustee:						
LAIF	8,760,657	N/A	-	-	-	8,760,657
Money market mutual funds	74,208,895	N/A	74,208,895	-	-	-
Guaranteed investment contracts	3,132,654	N/A	-	-	-	3,132,654
Total investments	\$ 336,720,600		\$ 76,856,319	\$ 138,580,015	\$ -	\$ 121,284,266

* Money market mutual funds are rated AAAM by S&P and Aaa-mf by Moodys at June 30, 2013. 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, 2013.

Issuer	Investment Type	Reported Amount
FNMA	U.S. agency securities	\$ 77,225,575
FHLB	U.S. agency securities	29,363,850
FHLMC	U.S. agency securities	27,119,740

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 investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. 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, 2013, 100 percent of the District's investments were held in collateralized accounts in the District's name.

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF), which 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, 2012	Additions	Reductions	Ending Balance June 30, 2013
Capital assets, not being depreciated:				
Land	\$ 42,939,724	\$ 532,315	\$ (2,430)	\$ 43,469,609
Tunnel Water Seepage Agreement	1,750,900	-	-	1,750,900
Construction in progress	276,611,214	120,599,534	(134,365,553)	262,845,195
Total capital assets, not being depreciated	321,301,838	121,131,849	(134,367,983)	308,065,704
Capital assets, being depreciated:				
Water plant, lines and equipment	921,785,081	63,325,288	-	985,110,369
Water capacity rights	29,657,807	-	-	29,657,807
Sewer plant, lines and equipment	1,410,717,410	81,941,309	(39,658)	1,492,619,061
Equipment and general facilities	114,620,733	3,416,019	(514,596)	117,522,156
Total capital assets, being depreciated	2,476,781,031	148,682,616	(554,254)	2,624,909,393
Less accumulated depreciation for:				
Water plant, lines and equipment	291,756,265	32,171,653	-	323,927,918
Water capacity rights	5,834,794	712,317	-	6,547,111
Sewer plant, lines and equipment	401,616,619	38,087,002	(19,829)	439,683,792
Equipment and general facilities	76,711,610	6,191,309	(509,263)	82,393,656
Total accumulated depreciation	775,919,288	77,162,281	(529,092)	852,552,477
Total capital assets, being depreciated, net	1,700,861,743	71,520,335	(25,162)	1,772,356,916
Capital assets, net	\$2,022,163,581	\$192,652,184	\$(134,393,145)	\$2,080,422,620

The net interest cost capitalized during fiscal years ended June 30, 2013 and 2012 was \$4,924,837 and \$1,258,944, respectively.

Depreciation expense breakdown for 2013:

Water	\$ 26,951,333
Sewer	37,904,176
Recycled	5,230,320
General/Administrative	7,076,452
Total	\$ 77,162,281

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

3. Capital Assets (continued)

The District entered into a Tunnel Water Seepage Agreement with the Metropolitan Water District (MWD) in 1951 to set 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 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 have resulted 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 the balance of future expense is \$905,696 at June 30, 2013.

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 have resulted 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 the balance of future expense is \$3,123,484 at June 30, 2013.

Both are reflected in the Statement of Net Position as Net Pension Asset of \$4,029,180.

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

5. Noncurrent Liabilities

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

	Beginning Balance June 30, 2012	Additions	Reductions	Ending Balance June 30, 2013	Due Within One Year
Long-term Debt					
Advances for construction, notes and assessments:					
CA Ag Drainage Wtr Mgmt	\$ 811,874	\$ -	\$ (811,874)	\$ -	-
CA DWR Prop 82	1,944,395	-	(153,328)	1,791,067	157,540
CA DWR Prop 204	1,232,090	-	(97,157)	1,134,933	99,827
CA DWR Prop 204 (HWFP)	28,827,502	-	(1,457,998)	27,369,504	1,491,322
San Jacinto Z LLC	835,240	-	(684,208)	151,032	100,457
SWRCB SRF loan (SCATT)	-	38,302,852	-	38,302,852	1,745,387
Total notes payable	33,651,101	38,302,852	(3,204,565)	68,749,388	3,594,533
Revenue bonds:					
2011A refunding	56,255,000	-	(7,485,000)	48,770,000	6,940,000
2012A refunding	-	50,000,000	-	50,000,000	-
2013A refunding	-	54,575,000	-	54,575,000	-
Unamortized premium	5,197,320	21,289	(914,892)	4,303,717	828,590
Total revenue bonds ¹	61,452,320	104,596,289	(8,399,892)	157,648,717	7,768,590
Certificates of participation:					
1991	4,590,000	-	(4,590,000)	-	-
2006A	106,320,000	-	(3,725,000)	102,595,000	3,985,000
2007A refunding	20,480,000	-	(80,000)	20,400,000	85,000
2008A refunding	55,625,000	-	(275,000)	55,350,000	290,000
2008B refunding	54,575,000	-	(54,575,000)	-	-
2008C refunding	53,355,000	-	(375,000)	52,980,000	5,435,000
2008D refunding	45,175,000	-	-	45,175,000	-
2008E refunding	48,645,000	-	-	48,645,000	-
2008F	50,000,000	-	(50,000,000)	-	-
2008G	50,000,000	-	-	50,000,000	-
2008H	140,035,000	-	-	140,035,000	-
Net unamort prem/disc	1,427,034	591,028	1,140,812	3,158,874	188,784
Total COPs ¹	630,227,034	591,028	(112,479,188)	518,338,874	9,983,784
General obligation bonds:					
2005	14,540,000	-	(466,000)	14,074,000	555,000
2009	28,240,000	-	(1,879,000)	26,361,000	1,865,000
Net unamort prem/disc	365,504	214,831	(65,889)	514,446	82,646
Total GO bonds	43,145,504	214,831	(2,410,889)	40,949,446	2,502,646
Sub-total	768,475,959	143,705,000	(126,494,534)	785,686,425	23,849,553
Other Noncurrent Liabilities					
State Revolving Fund					
construction advances	122,532,960	58,420,189	(38,634,166)	142,318,983	-
Advances from developers	22,222,365	11,169,110	(12,395,335)	20,996,140	8,009,113
Settlement payable	10,000,000	-	(9,997,501)	2,499	2,499
Other accrued expenses	5,699,614	121,628,241	(119,782,857)	7,544,998	1,369,418
Compensated absences	12,829,327	10,453,553	(10,317,081)	12,965,799	5,105,991
Net OPEB obligation	44,191,171	9,261,063	(3,240,063)	50,212,171	-
Fair value of swap contracts	23,122,858	-	(7,605,270)	15,517,588	-
Sub-total	240,598,295	210,932,156	(201,972,273)	249,558,178	14,487,021
Total Noncurrent Liabilities	\$ 1,009,074,254	\$ 354,637,156	\$ (328,466,607)	\$1,035,244,603	\$ 38,336,574

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

5. Noncurrent Liabilities (continued)

Note to table on previous page:

1. In accordance with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, deferred charges on refunding were removed from the beginning debt balances for both June 30 2012 and 2013 balances and presented in total as deferred outflows of resources on the Statement of Net Position.

Future principal and interest requirements on all long-term debt as of June 30, 2013 is as follows:

Year Ending June 30:	Principal	Interest	Total
2014	\$ 22,749,533	\$ 22,021,317	\$ 44,770,850
2015	24,082,257	21,079,834	45,162,091
2016	23,276,443	20,079,293	43,355,736
2017	24,437,767	19,066,893	43,504,660
2018	25,954,933	18,132,528	44,087,461
2019-23	146,833,116	77,238,245	224,071,361
2024-28	145,719,631	57,106,606	202,826,237
2029-33	155,805,708	35,584,697	191,390,405
2034-38	171,195,000	8,215,563	179,410,563
2039-40	37,655,000	189,191	37,844,191
Sub-total	777,709,388	278,714,167	1,056,423,555
Add: Unamortized premium/discount	7,977,037	-	7,977,037
Total	\$ 785,686,425	\$ 278,714,167	\$ 1,064,400,592

Advances for Construction, Notes and Assessments

Future principal and interest payments on all advances for construction, notes and assessments as of June 30, 2013 are as follows:

Year Ending June 30:	Principal	Interest	Total
2014	\$ 3,594,533	\$ 1,071,740	\$ 4,666,273
2015	3,597,257	1,018,209	4,615,466
2016	3,606,443	958,214	4,564,657
2017	3,667,767	896,890	4,564,657
2018	3,729,933	834,723	4,564,656
2019-23	19,628,116	3,195,167	22,823,283
2024-28	19,584,631	1,551,091	21,135,722
2029-33	11,340,708	322,877	11,663,585
Total	\$ 68,749,388	\$ 9,848,911	\$ 78,598,299

1992 State of California Agricultural Drainage Water Management Loan

On January 15, 1992, the District executed a loan contract with the State of 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. The final scheduled payment on this loan was made in November 2012.

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 of 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.

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

On May 25, 2000, the District executed a loan contract with the State of 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.

On March 3, 2005, the District executed a loan contract with the State of 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 for the Hemet Water Filtration Plant is \$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 \$311,011. Semiannual payments began January 1, 2009 with the final payment scheduled for July 1, 2028.

San Jacinto Z LLC 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. In December 2012, the District executed an additional settlement agreement, which included a loan prepayment of \$442,500.

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

5. Noncurrent Liabilities (continued)

Advances for Construction, Notes and Assessments (continued)

Clean Water State Revolving Fund (SRF)

On June 23, 2009, the District executed a project financing agreement with the State of California Water Resources Control Board to provide financing under the Clean Water State Revolving Fund for the construction costs of the Moreno Valley RWRP Secondary Clarifier and Tertiary Treatment Expansion (SCATT) project. Construction for this project was completed in December 2011.

The total loan amount to the District is \$38,302,852 repayable in semiannual payments of approximately \$2,122,225 including principal and interest beginning July 5, 2013 with the final payment scheduled for July 5, 2032. This agreement was partly funded with U.S. American Recovery and Reinvestment Act of 2009 (ARRA) funds which were used to decrease the interest rate to 1.0 percent.

Clean Water State Revolving Fund (SRF) Construction Advances

On September 15, 2009, the District executed a project financing agreement with the State of California 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 Moreno Valley RWRP Acid Phase Anaerobic Digestion (APAD) project. This project consists of upgrading various current and adding new facilities that will result in increased secondary and tertiary treatment capacity for solid waste. The APAD project is scheduled to be completed in September 2013. The future 20-year loan is anticipated to be \$43,546,128 with an interest rate of 0.422 percent, of which \$43,146,669 in construction advances and capitalized interest were recorded through June 30, 2013. Loan repayment is anticipated to begin March 2014.

On March 23, 2011, the District executed a project financing agreement with the State of California 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 RWRP 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 future 20-year loan at an interest rate of 2.7 percent. Loan repayment is expected to begin in November 2016. Construction advances and capitalized interest totaling \$83,779,973 for this project were recorded through June 30, 2013.

On August 19, 2011, the District executed a project financing agreement with the State of California 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 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 future 20-year loan at an interest rate of 2.6 percent. Loan repayment is expected to begin in December 2015. Construction advances and capitalized interest totaling \$15,392,341 for this project were recorded through June 30, 2013.

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

5. Noncurrent Liabilities (continued)

Clean Water SRF Construction Advances (continued)

On May 9 2012, the District executed a project financing agreement with the State of California Water Resources Control Board to provide financing under the Clean Water State Revolving Fund. This financing agreement is for construction costs relating to the Enchanted Heights Sewer System project. This project consists of connecting individual residences to a new collection system, including house laterals, and abandoning existing septic tanks. The agreement provides \$5,000,000 in "contingent principal forgiveness" loan funding. The District will be required to repay the principal only if it does not satisfy the conditions for the agreement. The District expects to comply with the terms of the agreement and does not anticipate having to repay the \$5,000,000. Therefore, in accordance with generally accepted accounting principles, funding amounts received during the fiscal year and reimbursable amounts expensed but not claimed as of June 30, 2013 were accounted for as grant revenues and receivables in the financial statements.

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

Future principal and interest payments on all revenue bonds as of June 30, 2013 are as follows:

Year Ending June 30:	Principal	Interest	Total
2014	\$ 6,940,000	\$ 2,091,203	\$ 9,031,203
2015	7,665,000	1,799,102	9,464,102
2016	8,015,000	1,445,428	9,460,428
2017	8,420,000	1,076,652	9,496,652
2018	4,145,000	825,353	4,970,353
2019-23	13,585,000	1,356,857	14,941,857
2024-28	15,965,000	300,657	16,265,657
2029-33	22,970,000	228,940	23,198,940
2034-38	48,350,000	139,116	48,489,116
2039	17,290,000	8,645	17,298,645
Sub-total	153,345,000	9,271,953	162,616,953
Add: Unamortized premium	4,303,717	-	4,303,717
Total	\$ 157,648,717	\$ 9,271,953	\$ 166,920,670

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

5. Noncurrent Liabilities (continued)

Revenue Bonds

2011A Refunding Revenue Bonds

In July 2011, the Facilities Corporation issued \$56,225,000 in Refunding 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
2011A Refunding Certificates	\$ 40,175,000	Deposited in 1991A Escrow Fund
2011C 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 2011A Bonds include principal installments due in varying amounts from \$4,145,000 to \$8,420,000 annually from July 1, 2012 to July 1, 2020, with interest payable semiannually at varying rates from 2.00 to 5.00 percent per annum.

2012A Refunding Revenue Bonds

In July 2012, the Facilities Corporation issued \$50,000,000 in Refunding Revenue Bonds, Series 2012A. The net proceeds were used to pay the costs of executing and delivering the 2012A Bonds, provide \$4.9 million capital project funding, and to advance refund the 2008F Certificates of Participation. The 2012A Bonds were issued to decrease interest costs relating to the 2008F Certificates and to eliminate counterparty risk, because the 2012A Bonds do not require a liquidity bank agreement.

The proceeds of the 2012A Bonds were deposited in an irrevocable trust with an escrow agent for the payment of the 2008F Certificates and subsequently, all Certificates were redeemed on July 19, 2012. As a result, these Certificates are considered defeased and the liability for the Certificates has been removed from the Statement of Net Position. The reacquisition price equaled the net carrying amount of the old debt, so the calculated deferred cost on refunding was zero. In addition, the present value of the debt service payments on the old and new debt were equal, so there was no economic gain with this refunding.

The 2012A Bonds 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 an interest rate level set initially equivalent to a Securities Industry and Financial Market Association (SIFMA)-indexed rate plus 0.02 percent. In May 2013, the interest rate on the 2012A Bonds was reset at the SIFMA rate plus zero percent. The interest rate on the 2012A Bonds resets each time the Bonds are remarketed, which is no less frequently than every 13 months. The future interest amounts are calculated at the rate in effect at June 30, 2013, which was 0.05 percent. The average annual interest rate experienced in the fiscal year was 0.15 percent and the actual interest paid was \$74,869 for the fiscal year.

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

5. Noncurrent Liabilities (continued)

Revenue Bonds (continued)

2013A Refunding Revenue Bonds

In March 2013, the Facilities Corporation issued \$54,575,000 in Refunding Revenue Bonds, Series 2013A. The net proceeds were used to pay the costs of executing and delivering the 2013A Bonds, provide \$4.0 million capital project funding, and advance refund the 2008B Refunding Certificates of Participation. The 2013A Bonds were issued to decrease interest costs relating to the 2008B Certificates and to eliminate counterparty risk, because the 2013A Bonds do not require a liquidity bank agreement.

The proceeds of the 2013A Bonds were deposited in an irrevocable trust with an escrow agent for the payment of the 2008B Certificates and subsequently, all Certificates were redeemed on March 25, 2013. As a result, these Certificates are considered defeased and the liability for the Certificates has been removed from the Statement of Net Position. The reacquisition price equaled the net carrying amount of the old debt, so the calculated deferred cost on refunding was zero. In addition, the present values of the debt service payments on the old and new debt were equal, so there was no economic gain with this refunding.

The 2013A Bonds 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 an interest rate level equivalent to a SIFMA-indexed rate plus 0.02 percent. The interest rate on the 2013A Bonds resets each time the 2013A Bonds are remarketed, which is generally every 90–270 days. The future interest amounts are calculated at the rate in effect at June 30, 2013, which was 0.07 percent. The average annual interest rate experienced in the fiscal year was 0.12 percent and the actual interest paid was \$65,657 for the fiscal year.

Certificates of Participation

Future principal and interest payments on total certificates of participation as of June 30, 2013 are as follows:

Year Ending June 30:	Principal	Interest	Total
2014	\$ 9,795,000	\$ 16,903,967	\$ 26,698,967
2015	10,300,000	16,406,865	26,706,865
2016	10,700,000	15,890,844	26,590,844
2017	11,355,000	15,352,118	26,707,118
2018	17,040,000	14,777,045	31,817,045
2019-23	107,690,000	64,975,279	172,665,279
2024-28	103,375,000	49,084,708	152,459,708
2029-33	113,445,000	30,717,669	144,162,669
2034-38	114,190,000	6,110,481	120,300,481
2039	17,290,000	5,187	17,295,187
Sub-total	515,180,000	230,224,163	745,404,163
Add: Unamortized premium/discount	3,158,874	-	3,158,874
Total	\$ 518,338,874	\$ 230,224,163	\$ 748,563,037

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 Projects) to the District's water and sewer system.

The 1991 Certificates included \$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 were \$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 were not subject to prior redemption; Certificates maturing July 1, 2002 and after (except those maturing on July 1, 2012), could 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 were 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. These Certificates were partially refunded by the series 1993B and 1998A Certificates and the final scheduled debt service payment was made in July 2012.

2006A Certificates of Participation

In February 2006, the Facilities Corporation issued \$106,320,000 in Certificates of Participation, Series 2006A. Proceeds of the sale of certificates were used for the principal purpose of financing a portion of the cost of the design, acquisition and construction of the 2006A Projects. The 2006A Projects include, among others, the following capital improvements to the District's Water and Sewer System: (1) convert the Hemet/San Jacinto RWRf 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 \$2,965,000 to \$6,350,000 annually from July 1, 2013 to July 1, 2035, with interest payable semiannually at rates per annum ranging from 3.75 percent to 5.00 percent.

2007A Refunding Certificates of Participation

In May 2007, the Facilities Corporation issued \$20,710,000 in 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 \$85,000 to \$6,860,000 annually from July 1, 2013 to July 1, 2023, with interest payable semiannually at rates ranging from 4.00 percent to 5.00 percent.

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 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, the 2001B Certificates are considered defeased and the liability for these Certificates has been removed from the Statement of Net Position.

The 2008A Certificates include principal installments due in varying amounts from \$290,000 to \$8,090,000 annually from July 1, 2013 to July 1, 2030, with interest payable monthly at a variable rate for a weekly period. The average annual interest rate experienced in the fiscal year was 0.11 percent and the actual interest paid was \$65,657 plus an additional \$1,637,604 to the counterparty. The actual interest paid for fiscal year ended June 30, 2012 was \$56,829 plus an additional \$1,636,275 to the counterparty.

The following table incorporates the net swap payments associated with the 2008A Certificates and the related financial instrument. Using a variable interest rate of 0.03 percent as of June 30, 2013, 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 to the basic financial statements for additional information regarding the financial instrument associated with the 2008A Certificates.

Year Ending June 30:	Principal	Interest	Net Payment to Counterparty	Total
2014	\$ 290,000	\$ 16,525	\$ 1,637,163	\$ 1,943,688
2015	295,000	16,437	1,628,407	1,939,844
2016	305,000	16,372	1,619,255	1,940,627
2017	310,000	16,226	1,610,277	1,936,503
2018	330,000	16,154	1,600,407	1,946,561
2019-23	1,785,000	79,202	7,846,633	9,710,835
2024-28	28,510,000	57,423	5,688,476	34,255,899
2029-32	23,525,000	7,778	772,236	24,305,014
Total	\$ 55,350,000	\$ 226,117	\$ 22,402,854	\$ 77,978,971

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 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.

The 2008B Certificates included 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.

In March 2013, the Facilities Corporation issued \$54,575,000 of Refunding Revenue Bonds, Series 2013A to decrease interest costs relating to the 2008B Certificates and eliminate counterparty risk, because the Bonds do not require a liquidity bank agreement. The net proceeds of the 2013A Bonds were used to prepay the District's outstanding 2008B Certificates in the amount of \$54,575,000 and were deposited in an irrevocable trust with an escrow agent. The 2008B Certificates were subsequently redeemed on March 25, 2013, and therefore, the 2008B Certificates are considered defeased and the liability for these Certificates has been removed from the Statement of Net Position.

2008C Refunding Certificates of Participation

In June 2008, the Facilities Corporation issued \$54,400,000 in 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 \$5,435,000 to \$7,955,000 annually from July 1, 2013 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. The average annual interest rate experienced in the fiscal year was 0.12 percent and the actual interest paid was \$64,097 plus an additional \$2,536,244 to the counterparty. The actual interest paid for fiscal year ended June 30, 2012 was \$65,718 plus an additional \$2,553,159 to the counterparty.

The table on the following page incorporates the net swap payments associated with the 2008C Certificates and the related financial instrument. Using a variable interest rate of 0.03 percent as of June 30, 2013, 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 instruments will vary. Refer to Note 6 to the basic financial statements for additional information regarding the financial instrument associated with the 2008C Certificates.

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

5. Noncurrent Liabilities (continued)

Certificates of Participation (continued)

2008C Refunding Certificates of Participation (continued)

Year Ending June 30:	Principal	Interest	Net Payment to Counterparty	Total
2014	\$ 5,435,000	\$ 24,329	\$ 2,328,022	\$ 7,787,351
2015	5,735,000	21,435	2,050,285	7,806,720
2016	6,055,000	18,428	1,757,086	7,830,514
2017	6,385,000	15,155	1,448,259	7,848,414
2018	6,750,000	11,748	1,122,233	7,883,981
2019-21	22,620,000	12,841	1,225,311	23,858,152
Total	\$ 52,980,000	\$ 103,936	\$ 9,931,196	\$ 63,015,132

2008D Refunding Certificates of Participation

In July 2008, the Facilities Corporation issued \$54,760,000 in Refunding Certificates of Participation, Series 2008D. The net proceeds of \$57,942,400 were used to advance 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 defeased and the liability for these Certificates has been removed from the Statement of Net Position.

In July 2011, the District issued \$56,255,000 Refunding 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 are calculated using the interest rate in effect at June 30, 2013, which was 0.03 percent. The average annual interest rate experienced in the fiscal year was 0.12 percent and the actual interest paid was \$55,865 and \$49,527 for the fiscal years ended June 30, 2013 and June 30, 2012, respectively.

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 Refunding Certificates of Participation, Series 2008E. The net proceeds of \$68,541,548 were used to advance 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, the 2003B Certificates are considered defeased and the liability for these Certificates has been removed from the Statement of Net Position.

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 are calculated using the interest rate in effect at June 30, 2013, which was 0.03 percent. The average annual interest rate experienced in the fiscal year was 0.12 percent and the actual interest paid was \$58,880 and \$51,624 for the fiscal years ended June 30, 2013 and June 30, 2012, respectively.

2008F Certificates of Participation

In July 2008, the Facilities Corporation issued \$50,000,000 in Certificates of Participation, Series 2008F. Proceeds of the sale of certificates were for the principal purpose of financing a portion of the cost of the design, acquisition and construction of the 2008F Projects, including an undivided 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 included 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 could prepay all or part of the certificates at any time at par. Therefore, in July 2012, the Facilities Corporation issued \$50,000,000 of Refunding Revenue Bonds, Series 2012A to decrease interest costs relating to the 2008F Certificates and to eliminate counterparty risk because the Bonds do not require a liquidity bank agreement. The net proceeds of the 2012A Bonds were used to prepay the District's outstanding 2008F Certificates in the amount of \$54,575,000 and were deposited in an irrevocable trust with an escrow agent. The 2008F Certificates were subsequently redeemed on July 19, 2012, and therefore, the 2008F Certificates are considered defeased and the liability for these Certificates has been removed from the Statement of Net Position.

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 in Certificates of Participation, Series 2008G. Proceeds of the sale of certificates were for the principal purpose of financing a portion of the cost of the design, acquisition and construction of the 2008G Projects, including an undivided 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 are calculated using the interest rate in effect at June 30, 2013, which was 0.03 percent. The average annual interest rate experienced in the fiscal year was 0.12 percent and the actual interest paid was \$60,629 and \$54,196 for the fiscal years ended June 30, 2013 and June 30, 2012, respectively.

2008H Certificates of Participation

In August 2008, the Facilities Corporation issued \$140,035,000 in Certificates of Participation, Series 2008H. Proceeds of the sale of the certificates were for 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 RWRP (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.

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

5. Noncurrent Liabilities (continued)

General Obligation (GO) Bonds

Future principal and interest payments on total general obligation bonds as of June 30, 2013 are as follows:

Year Ending June 30:	Principal	Interest	Total
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	1,040,000	1,695,407	2,735,407
2019-23	5,930,000	7,710,942	13,640,942
2024-28	6,795,000	6,170,150	12,965,150
2029-33	8,050,000	4,315,211	12,365,211
2034-38	8,655,000	1,965,966	10,620,966
2039-40	3,075,000	175,359	3,250,359
Sub-total	40,435,000	29,369,140	69,804,140
Add: Unamortized premium/discount	514,446	-	514,446
Total	<u>\$ 40,949,446</u>	<u>\$ 29,369,140</u>	<u>\$ 70,318,586</u>

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. At June 30, 2013, general obligation bonds authorized but not issued total \$547,650,000.

2005A General Obligation Bonds

In May 2005, the Western Riverside Water and Wastewater Financing Authority issued \$18,255,000 of Improvement Districts General Obligation Bonds, Series 2005A. Proceeds of the sale of the 2005A GO Bonds were used to purchase twenty separate issues of general obligation bonds on behalf of the improvement districts. These Bonds were issued to finance certain water and/or sewer facilities for the improvement districts and to pay the costs of executing and delivering the 2005A GO Bonds.

The 2005A GO Bonds include principal installments due in varying amounts from \$555,000 to \$810,000 annually from September 1, 2013 to September 1, 2035 with interest paid semiannually on March 1 and September 1 of each year at rates ranging from 3.00 percent to 5.00 percent per annum.

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

5. Noncurrent Liabilities (continued)

General Obligation (GO) Bonds (continued)

2009 General Obligation Bonds

In August 2009, the Western Riverside Water and Wastewater Financing Authority issued \$31,625,000 of Improvement Districts General Obligation Bonds, Series 2009. Proceeds of the sale of the 2009 GO Bonds were used to purchase eleven separate issues of general obligation bonds on behalf of the improvement districts. These Bonds were issued to finance certain water and/or sewer facilities for the improvement districts and to pay the costs of executing and delivering the 2009 GO Bonds.

The 2009 GO Bonds include principal installments due in varying amounts \$1,865,000 to \$1,580,000 annually from September 1, 2013 to September 1, 2039 with interest paid semiannually on March 1 and September 1 of each year at rates ranging from 3.000 percent to 5.625 percent per annum.

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 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, 2013 for each outstanding debt issue is as follows:

Description	Required	Actual	Excess
2006A COP	\$ 8,613,961	\$ 8,613,961	\$ -
2007A COP	3,661,088	3,661,088	-
2008A COP	5,651,000	5,651,000	-
2008C COP	5,440,000	5,440,000	-
2008D COP	5,476,000	5,476,000	-
2008E COP	4,874,134	4,874,134	-
2008G COP	5,000,000	5,000,000	-
2008H COP	14,003,500	14,003,500	-
Subtotal - COPs	52,719,683	52,719,683	-
Prop. 82 loan - \$3.15M	212,545	212,589	44
Prop. 204 loan - \$2.00M	134,955	134,984	29
Prop. 204 loan - \$42.10M	1,070,001	1,070,342	341
Subtotal - Loans	1,417,501	1,417,915	414
Total	\$ 54,137,184	\$ 54,137,598	\$ 414

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, 2013, the District's debt coverage ratio was 2.0 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, 2013 and 2012 were \$38,365,185 and \$35,882,568, respectively. The District complied with this requirement and had actual reserve balances of \$38,139,186 at June 30, 2013 and \$36,582,161 at June 30, 2012.

Standby Certificate Purchase Agreements

Included in long-term debt at June 30, 2013, is \$252,150,000 Variable Rate Certificates of Participation, Series 2008A, 2008C, 2008D, 2008E, 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, 2013, 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, 2013 for each Variable Rate Certificate is:

Description	SCPA Bank	SCPA Expiration Date
2008A COP	Wells Fargo Bank, N.A.	1/31/2015
2008C COP	Mizuho Corporate Bank, Ltd.	6/08/2015
2008D COP	U.S. Bank National Association	1/31/2015
2008E COP	Wells Fargo Bank, N.A.	7/29/2014
2008G COP	Mizuho Corporate Bank, Ltd.	6/26/2015

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 Statement No. 53 at June 30, 2013, classified by type and the changes in fair value of such instruments for the year then ended are shown in the following table.

	Changes in Fair Value		Fair Value at June 30, 2013		Notional
	Classification	Amount	Classification	Amount	
Cash flow hedges:					
(2008A COP) Pay-fixed interest rate swap					
Deferred outflow		\$ 4,863,813	Debt	\$ (7,423,962)	\$ 55,350,000
(2008C COP) Pay-fixed interest rate swap – cost of funds					
Deferred outflow		\$ 2,741,457	Debt	\$ (8,093,626)	\$ 50,590,000

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 each 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 swap.

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, 2013, 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	\$ 55,350,000	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	\$ 50,590,000	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, 2013 are shown in the table on the previous page. If the counterparty credit rating is lowered to or below Baa1 by Moody's Investors Service (Moody's) or BBB+ by Standard & Poor's (S&P), the financial instruments may be terminated. The counterparty credit ratings either met or exceeded these rating requirements at June 30, 2013 and 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 from 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, 2013 and June 30, 2012, the financial instruments had a combined negative fair value of \$15,517,588 and \$23,122,858, respectively. The District does not plan to terminate the financial instruments.

Collateral Requirements

The 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 Rating Services, 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, 2013, the aggregate fair value of all financial instruments with these collateral posting provisions is a negative \$15,517,588. If the collateral posting requirements were triggered at June 30, 2013, the District would be required to post \$15,517,588 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 was posted at June 30, 2013.

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, annual cost-of-living adjustments 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 through their website at: www.calpers.ca.gov/index.jsp?bc=/about/forms-pubs/calpers-reports/comprehensive-annual-financial.xml.

All full-time and certain part-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 this date and before January 1, 2013, this amount is 2.0 percent.

Employees hired on or after January 1, 2013 who generally have not already been a member of a pension system are subject to the California Public Employees' Pension Reform Act of 2013 (PEPRA), which was signed by the governor on September 12, 2012. This legislation established a third pension tier of 2.0 percent at age 62 with a maximum benefit formula of 2.5 percent at age 67. Benefits for this tier are calculated on the highest average annual compensation over a consecutive thirty-six-month period.

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 fiscal year ended June 30, 2013, the amount contributed by the District on behalf of the employees in this portion of the plan is \$3,151,453 (7 percent of the employees' 8 percent required contribution) and the required employer contribution rate is 14.361 percent, as determined by the annual PERS valuation. However, in July 2012, the District prepaid the required contribution as a lump-sum discounted amount of \$7,005,690, 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 its union. For the fiscal year ended June 30, 2013, the amount contributed by the District on behalf of the employees is \$78,256 (3 percent of the employees' 7 percent required contribution).

For the 2.0 percent at 62 plan, District employees are required to contribute 6.25 percent of their annual salary to PERS. Of this 6.25 percent, the District funds 2.25 percent. For the fiscal year ended June 30, 2013, the amount contributed by the District on behalf of the employees is \$768 (2.25 percent of the employees' 6.25 percent required contribution).

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

7. Defined Benefit Pension Plan (continued)

Annual Pension Cost

Under GASB 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period July 1, 2012 to June 30, 2013 has been determined by an actuarial valuation of the plan as of June 30, 2010. The contribution rate for the indicated period is 14.361 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, 2013, 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, 2012 to June 30, 2013.

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

Valuation date	June 30, 2010
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll
Average remaining period	23 years as of the valuation date
Asset valuation method	15 year smoothed market
Actuarial assumptions:	
Investment rate of return	7.75% (net of administrative expenses) 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 PERS for the fiscal years ended June 20, 2013 and 2012 was \$3,601,660 and \$3,945,082, respectively (8 percent of current covered payroll). In both fiscal years, the District paid 7 percent and the employees paid 1 percent. In the fiscal year ended June 30, 2013, the District paid \$3,151,453 and employees paid \$450,207. In the fiscal year ended June 30, 2012, the District paid \$3,451,947 and the employees paid \$493,135. The total employer's required contribution paid to PERS for fiscal years ended June 30, 2013 and 2012 was \$7,005,690 and \$7,462,257, 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.

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

7. Defined Benefit Pension Plan (continued)

Annual Pension Cost (continued)

The 2.0 percent at 55 plan was initiated in fiscal year 2011 and applies to all employees hired on or after November 2, 2010. The total employees' required contribution paid to PERS for this plan in fiscal years ended June 30, 2013 and 2012 was \$182,598 and \$88,335 respectively (7 percent of current covered payroll), with the District paying \$78,256 and \$37,858 and employees paying \$104,342 and \$50,477, respectively.

The 2.0 percent at 62 plan was initiated in fiscal year 2013 and applies to all employees hired on or after January 1, 2013 that were not previously a member of a pension system. The total employees' required contribution paid to PERS for this plan in fiscal year ended June 30, 2013 was \$2,133 (6.25 percent of current covered payroll), with the District paying \$768 and employees paying \$1,365.

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
06/30/11	\$ 8.67	100%	\$ -
06/30/12	10.95	100%	-
06/30/13	10.24	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)	Actuarial 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%

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

8. Defined Contribution Plan

The District maintains the EMWD Security Trust (401a 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. Contribution requirements of the District are established and may be amended through the memorandum of understanding between the District and its union. 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 401a 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 401a 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 401a Plan were \$716,696 and \$847,186 in fiscal years ended June 30, 2013 and 2012, respectively.

In July 2011, the District executed a plan amendment to its 401a Plan to provide for a contribution to this 401a Plan on behalf of the General Manager in accordance with his employment contract. Contributions to this 401a Plan were \$22,769 and \$20,558 in fiscal years ended June 30, 2013 and 2012, respectively.

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, which 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 Administrative Code and 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 its 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.

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

9. Postemployment Benefits Other Than Pensions (continued)

Funding Policy and Annual OPEB Cost

Contribution requirements for retired employees of the District are established and may be amended through the memorandum of understanding between the District and its union. 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 with the life insurance company, for the life insurance benefits. The District's annual OPEB cost (expense) 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 policy is to continue to fund costs on a pay-as-you-go basis and to prefund a portion of the unfunded actuarial liability as part of a long-term financial planning strategy. On April 18, 2012, the District's Board of Directors adopted a resolution to establish an OPEB Trust and to authorize an agreement with PERS to join the California Employers' Retiree Benefit Trust (CERBT) Program. On June 12, 2012, the District joined the CERBT Program, an agent multiple-employer plan consisting of an aggregation of single-employer plans. PERS issues a publicly available financial report that includes financial statements and required supplementary information relating to the CERBT Program. The report can be obtained through their website at: www.calpers.ca.gov/index.jsp?bc=/about/forms-pubs/calpers-reports/comprehensive-annual-financial.xml.

The Board of Directors approved an initial CERBT Program funding amount of ten percent of the property tax revenues received in the prior fiscal year. This amount was calculated as \$2,500,000 based on fiscal year ended June 30, 2012 revenues. In addition to this payment, the District contributed annual estimated pay-as-you-go costs totaling \$3,240,000 to the CERBT Program to maximize investment earnings on these funds. Both of these contributions were made in July 2012. The District continued to fund annual pay-as-you-go costs directly and in July 2013, requested reimbursement from CERBT for actual fiscal year pay-as-you-go premium costs.

The District's annual OPEB cost for the current year, the amount actually contributed, the changes in net OPEB obligation, and the related information for each plan are shown in the table on the following page. Net OPEB expense, calculated as annual OPEB cost less the implied subsidy and pay-as-you-go amount contributed to the CERBT Program, is included in operating expenses in the accompanying financial statements. The Net OPEB obligation is shown as a separate item in noncurrent liabilities section in the accompanying financial statements.

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

9. Postemployment Benefits Other Than Pensions (continued)

Funding Policy and Annual OPEB Cost

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)	\$ 11,956,000
Interest on net OPEB obligation (NOO)	2,430,000
Amortization on NOO	(2,534,000)
Annual OPEB cost	11,852,000
Contributions made	(5,740,000)
Implied subsidy benefit payments	(91,000)
Increase in net OPEB obligation	6,021,000
Net OPEB obligation – beginning of year	44,191,171
Net OPEB obligation – end of year	\$ 50,212,171

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation (liability) for 2011 through 2013 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	06/30/11	\$ 11,505,000	\$ 2,256,318	19.6%	\$ 31,596,760
Officials Healthcare and Life	06/30/12	15,286,000	2,620,589	17.1%	44,191,171
Insurance Plans	06/30/13	11,852,000	5,740,000	48.4%	50,212,171

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)	\$ 130,121
Actuarial value of plan assets (b)	2,654
Unfunded actuarial accrued liability (funding excess) (a) – (b)	\$ 127,467
Funded ratio (b)/(a)	2.0%
Covered Payroll – active plan members (c)	\$ 49,158
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll [(a)-(b)]/(c)	259.3%

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

9. Postemployment Benefits Other Than Pensions (continued)

Funded Status and Funding Progress (continued)

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	27 years as of the valuation date		
Asset valuation method	N/A – no assets		
Actuarial assumptions:			
Pre-funding	10% of property tax revenue increasing 7%/year through 2031/32 and 3.25 thereafter		
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	<u>Fiscal</u>	<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	9.0%	9.4%
		Decreases 0.50%	Decreases 0.55%
	2014-2021	each year	each year
	2021+	5.0%	5.0%
	<u>Active</u>	<u>Retired</u>	<u>Total</u>
Plan participants ²	654	297	951

1. PEHMCA relates to the Public Employees' Medical and Hospital Care Act.
2. Employees must retire from the District to receive OPEB benefits.

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 a fixed (closed) 20-year-year period.

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

10. Restricted and Unrestricted Net Position

Restricted Net Position

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

Unrestricted Net Position

As required by GASB Statement No. 34, net position has been classified according to guidelines established for restricted assets. However, the unrestricted net position, although not legally restricted, has been established pursuant to Board Resolution No. 3359 and is primarily composed of reserves for various purposes. The unrestricted net position at June 30, 2013 consists of:

Replacement and system betterment reserve	\$ 120,184,556
Operational debt service reserve	20,425,500
General liability and workers compensation reserve	624,785
Other reserves	<u>7,277,747</u>
Total unrestricted net position	<u><u>\$ 148,512,588</u></u>

11. Commitments

Construction Contracts

The District is committed to approximately \$35,200,726 of open construction contracts as of June 30, 2013. The contracts with the largest remaining balances include:

	Contract Amount	Balance To Complete
San Jacinto Valley RWRf Expansion to 14 MGD	\$ 114,828,456	\$ 22,406,320
Perris Valley Filtration Plant Reject Recovery Facility	6,589,610	4,110,089
Enchanted Heights Sewer Infrastructures	8,412,165	1,724,238
San Jacinto Reservoir Recycled Water Pond	2,195,777	1,704,600
Menifee/Perris Desalters Iron and Manganese Removal	15,382,335	1,451,745
Menifee/Perris Desalters Pipeline Replacement	1,437,000	1,095,447
Moreno Valley RWRf Digester Gas Piping Modifications	790,626	770,862
Temecula Valley RWRf 18 MGD Upgrades	<u>12,297,157</u>	<u>613,144</u>
Total	<u><u>\$ 161,933,126</u></u>	<u><u>\$ 33,876,445</u></u>

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

11. Commitments (continued)

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 oversee and administer these programs.

The District maintains excess insurance coverage of \$10,000,000 per occurrence with a \$750,000 self-insured retention per incident for losses sustained because of liability imposed on the District by the Workers' Compensation Act. For general liability, the District maintains excess insurance coverage of \$10,000,000 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. In November 2012, a structured workers compensation settlement was reached, which included a present value of \$5.3 million in future payments calculated using a discount rate of 3 percent over 30 years. Changes in claims payable for the years ended June 30 are as follows:

	Beginning Balance June 30, 2012	Additions	Reductions	Ending Balance June 30, 2013	Due Within One Year
General liability claims	\$ 250,000	\$ 155,000	\$ -	\$ 405,000	\$ 405,000
Workers compensation claims	5,441,584	2,833,087	(1,264,891)	7,009,780	834,200
General damage claims	-	37,441	(37,441)	-	-
Dental claims	-	796,788	(785,673)	11,115	11,115
Total unpaid claims	\$ 5,691,584	\$ 3,822,316	\$ (2,088,005)	\$ 7,425,895	\$ 1,250,315

	2013	2012
Unpaid claims, beginning	\$ 5,691,584	\$ 4,845,839
Incurred claims and changes in estimates	3,822,316	3,096,907
Claim payments	(2,088,005)	(2,251,162)
Unpaid claims, ending	\$ 7,425,895	\$ 5,691,584

There was no significant reduction in insurance coverage by major categories of risk from fiscal year 2012 to 2013. There were no settlements that exceeded insurance coverage for the two prior fiscal years ended June 30, 2011 and 2012. However, the settlement discussed above did exceed the District's coverage at the time of the legal decision and the District subsequently purchased excess insurance coverage.

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

11. Commitments (continued)

Soboba Settlement Act

The District is a party to the Soboba Settlement Act (Act). This Act was signed into Law by the President of the United States of America on July 31, 2008 and 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 because of construction of the San Jacinto Tunnel.

The District's share for the construction of the facilities and use of Tribe's water is estimated to be \$8,966,222. 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. All amounts paid or accrued relating to the financing plan are recorded on the District's books.

In association with this settlement agreement, the stipulated judgment required that a watermaster be established to develop and implement a water management plan and administer the provisions of the judgment. The Hemet-San Jacinto Watermaster (Watermaster) was established on April 18, 2013 and began operations in June 2013. Prior to formation of the Watermaster, the local agencies established an interim plan for imported water deliveries from MWD for in-lieu and replenishment water. The local agencies have agreed that the District will continue to purchase and deliver in-lieu and replenishment water and bill the agencies directly on behalf of the Watermaster. The District recorded a \$2,250,019 receivable from Watermaster for outstanding billings of water purchased and delivered to other agencies at June 30, 2013.

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

11. Commitments (continued)

Soboba Settlement Act (continued)

In addition, the District established a methodology for valuing its share of the native groundwater in the Hemet-San Jacinto Groundwater Basin, including additions and withdrawals and recorded \$1,173,899 and \$2,279,683 in water inventory for the fiscal years ended June 30, 2013 and June 30, 2012, respectively. The fiscal year June 30, 2012 amount was recorded as a prior period adjustment (refer to Note 15 to the basic financial statements). The District's methodology identifies various water layers in the basin and assigns a zero dollar value to native water, with additions of imported Settlement Agreement water valued at purchase cost and withdrawals valued at a weighted average cost of all inventory layers. The following table illustrates the changes in water inventory for the fiscal years ended June 30, 2012 and June 30, 2013.

	Beginning Balance June 30, 2011	Additions	Reductions	Ending Balance June 30, 2012
Acre feet	-	96,389	(10,782)	85,607
Dollar value	\$ -	\$ 1,321,742	\$ (147,843)	\$ 1,173,899

	Beginning Balance June 30, 2012	Additions	Reductions	Ending Balance June 30, 2013
Acre feet	85,607	13,276	(12,049)	86,834
Dollar value	\$ 1,173,899	\$ 1,271,012	\$ (165,228)	\$ 2,279,683

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 bondholders. The Special Funding District Bonds outstanding at June 30, 2013 and 2012, were \$203,520,562 and \$208,083,125 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.

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

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, 2013 and 2012, the amount of refundable deposits were \$20,996,140 and \$22,222,365, 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.

15. Prior Period Adjustments

In coordination with the Hemet-San Jacinto Watermaster (Watermaster), the District calculated its portion of water in the Hemet-San Jacinto Groundwater Basin that was allocated to the District by the Soboba Settlement Act. This water was recorded as water inventory beginning in fiscal year 2012, when the agencies involved in the settlement agreement began their purchases and deliveries of in-lieu and recharge water. The methodology for this calculation was not formalized until August 2013, because the Watermaster was not established until June 2013. Therefore, the \$1,173,899 balance of water inventory at June 30, 2012 was recorded as a direct adjustment to the beginning balance of net position as shown in the following table. Refer to Note 11 to the basic financial statements for additional information about the Soboba Settlement Act.

The District implemented GASB Statement No. 65 *Items Previously Reported as Assets and Liabilities* and in conformance with this new guidance, all unamortized debt issuance costs previously recorded as other assets were written off to expense as of June 30, 2012. This prior period adjustment resulted in a direct adjustment to the beginning balance of net position as shown in the following table.

Net position at beginning of year	\$ 1,521,989,940
Adjustments:	
Add: Water inventory	1,173,899
Less: Write off unamortized debt-issuance costs	<u>(5,199,951)</u>
Total adjustments	<u>(4,026,052)</u>
Net position at beginning of year, adjusted	<u>\$ 1,517,963,888</u>

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

16. Subsequent Event

The District's memorandum of understanding with its single bargaining unit, the International Brotherhood of Electrical Workers Local 1436, expired on July 27, 2013. On October 2, 2013 the District's Board of Directors approved a new memorandum of understanding for the three-year period July 28, 2013 through July 23, 2016. This agreement provides numerous updates to employee policies and benefits. It includes provisions for a cost of living wage adjustment for employees, but also requires employees to begin funding or to increase the funding of their medical and retirement plan benefit contributions. In addition, this agreement adds a new benefit tier for new-hire employees, which limits the District's contribution amount for other postemployment medical benefits. It is expected that these new provisions will increase labor costs for the amount of cost of living increases, but over time, will result in decreases to District medical and retirement benefit expenses and will result in significant present value savings on other postemployment benefits.

**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 for 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)	Actuarial 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 for 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 biennial valuation. In June 2012, the District executed an agreement with PERS to contribute to the California Employers' Retirement Benefit Trust Program 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)	Actuarial Funded Ratio (B)/A)	(D) Covered Payroll	UAAL as a Percentage of Covered Payroll (C)/(D)
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%
06/30/13	06/30/11	130.1	2.7	127.5	2.0%	49.2	259.3%

Statistical Section



Value

Recycled Water Service

The District's strategic objective is to develop and implement an integrated program of ongoing treatment, storage, and distribution system projects to utilize 100 percent of treated effluent for the highest beneficial and sustainable use possible.

Eastern Municipal Water District

Statistical Section

This section 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 POSITION BY COMPONENT
LAST TEN FISCAL YEARS**

<u>Fiscal Year</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>2013¹</u>
Net investment in capital assets	\$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	\$1,239,753,130
Restricted for debt service/covenants	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	73,268,230
Restricted for construction	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	56,375,249
Unrestricted	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	148,512,588
Total net position	<u>\$991,813,116</u>	<u>\$1,074,650,759</u>	<u>\$1,203,189,293</u>	<u>\$1,321,791,033</u>	<u>\$1,389,625,105</u>	<u>\$1,432,540,442</u>	<u>\$1,498,452,846</u>	<u>\$1,511,865,865</u>	<u>\$1,521,989,940</u>	<u>\$1,517,909,197</u>
% Increase	11.1%	8.4%	12.0%	9.9%	5.1%	3.1%	4.6%	0.9%	0.7%	-0.3%

Note:

1. Change from prior year includes a net prior period adjustment of (\$4,026,052). Change in net position for fiscal year 2013 is (\$54,691). Refer to Note 15 to the basic financial statements for more information on the adjustment.

Source: Eastern Municipal Water District

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

Fiscal Year	Operating Revenues		Operating Expenses ³		Operating Loss	Total Nonoperating Revenues/ (Expenses) ⁴	Income Before Capital Contributions	Capital Contributions ⁵	Change in Net Position
	Water ¹	Wastewater ²	Water	Wastewater					
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)	51,691,692	(10,386,830)	49,369,637	38,982,807
2011	102,009,545	67,114,654	137,981,887	98,467,509	(67,325,197)	41,208,043	(26,117,154)	39,530,173	13,413,019
2012	104,741,242	71,118,648	148,531,957	107,780,498	(80,452,565)	33,845,761	(46,606,804)	56,730,879	10,124,075
2013	112,456,804	74,633,171	154,950,442	108,169,114	(76,029,581)	45,528,065	(30,501,516)	30,446,825	(54,691)

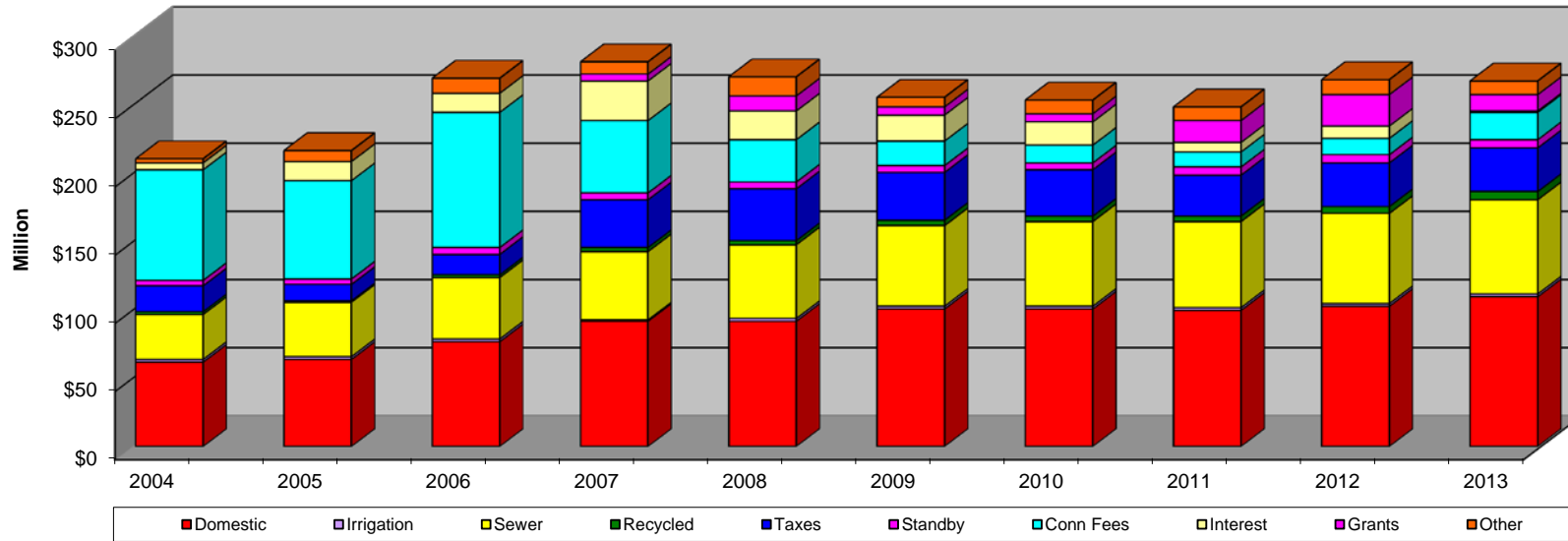
Notes:

1. The District implemented a budget-based tiered water rate structure for single and multifamily residential and landscape customers beginning April 2009. This structure was 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.
2. In February 2013, a new block rate sewer methodology was implemented that is based on number of household occupants. This structure is designed to compliment the domestic retail water rate structure.
3. GASB Statement No. 45 was implemented in 2008; net other postemployment benefits expense of \$6.2, \$8.9, \$11.1, \$11.5, \$15.3 and \$11.9 million for 2008-2013, respectively, is included.
4. Total grant revenues (operating and capital) are included in nonoperating revenues and expenses prior to 2010 and capital grants totaling \$5.7, \$15.6, \$22.6, and \$10.5 million, respectively, are included in capital contributions for 2010-2013.
5. Higher construction activity relating to growth and market conditions accounts for the increases in contributed infrastructure from 2004-2007. This amount decreased for 2008, 2009 and 2011 due to lower construction activity, and increased in 2010 due to District-wide efforts to close out construction projects.

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
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
2013	110,468,194	41.1%	1,988,610	0.7%	68,957,128	25.7%	5,676,043	2.1%	32,555,228	12.1%	5,635,153	2.1%	20,364,185	7.6%	831,935	0.3%	12,503,511	4.7%	9,579,321	3.6%	268,559,308



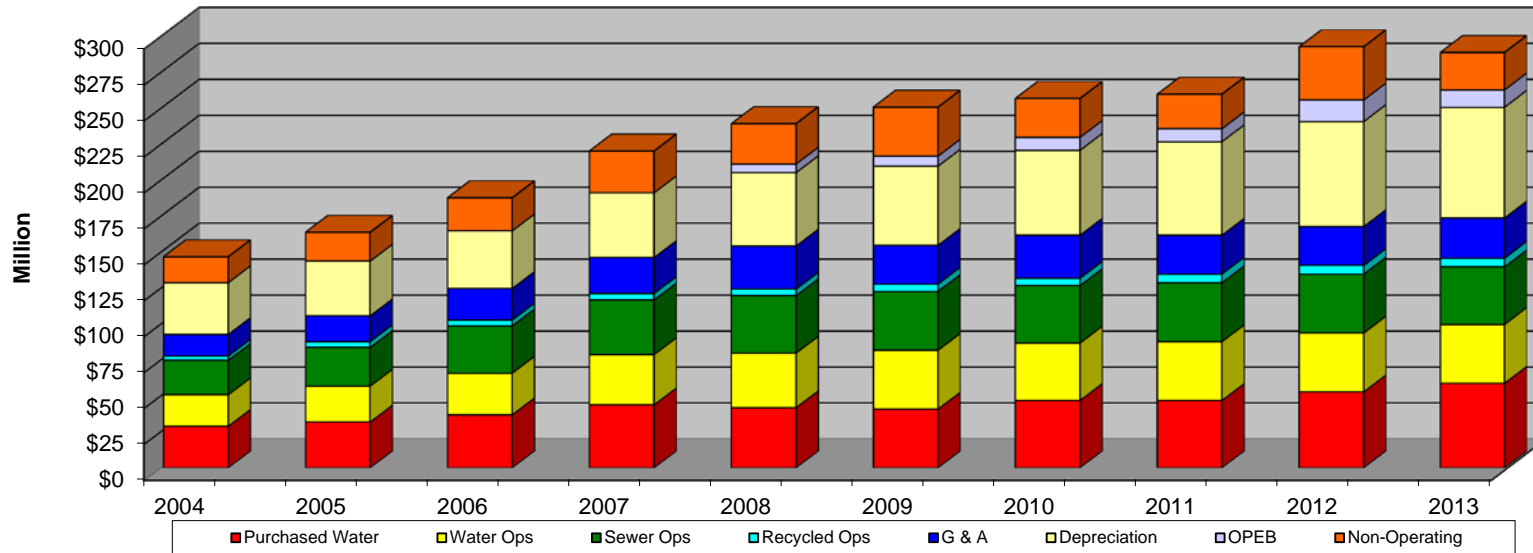
Notes:

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. The increased amount in 2013 relates to added connections and a rate increase in January 2013.
3. Increased interest income for 2007-2008 is due to a higher average portfolio balance and higher average yields. For 2008-2010, the increased amounts relate 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. The decreased amount for 2013 primarily relates to recording a \$3.7 million decrease in fair value of investments and lower average yields for the year.
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.

Source: Eastern Municipal Water District

**EXPENSES BY FUNCTION
LAST TEN FISCAL YEARS**

Fiscal Year	Purchased Water	% of Total	Water Operations	% of Total	Sewer Operations	% of Total	Recycled Water Operations	% of Total	General & Admin ¹	% of Total	Depr. & Amort	% of Total	Net OPEB ²	% of Total	Total Non-Operating Expenses ³	% of Total	Total Expenses
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%	40,789,231	13.9%	41,308,806	14.1%	5,748,205	2.0%	27,112,598	9.3%	73,369,622	25.0%	15,286,000	5.2%	36,751,795	12.5%	293,064,250
2013	58,445,847	20.3%	40,994,915	14.2%	40,279,734	14.0%	5,992,260	2.1%	28,392,519	9.8%	77,162,281	26.7%	11,852,000	4.1%	25,490,370	8.8%	288,609,926



Notes:

1. The increase in general and administrative charges in 2008 primarily relates to increased legal expense for a lawsuit the District was involved in. 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 in 2008. Beginning in 2012, OPEB pay-as-you-go costs were removed from other operating expense categories and shown as total OPEB cost.
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.

Source: Eastern Municipal Water District

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

Fiscal Year	← Gallons Produced ¹ →				Water →					Gallons of Wastewater Treated	← Total Direct Rate Water →		
	Purchased	Wells	Desalters	Total	Domestic	Ag & Irrig	Total	Unbilled Total	Avg %		Base Rate ^{2,5}	Usage Rate ^{3,5}	Sewer ⁴
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	1,783	29,392	27,154	690	27,844	1,548	5.3%	16,425	10.52	47.50	23.96
2013	23,709	5,683	1,909	31,301	28,078	860	28,940	2,361	7.5%	16,363	10.52	49.92	24.72

Notes:

The information shown does not include recycled water.

1. Gallons are presented in millions.

2. Rate shown is based on the daily fixed charge for meters up to and including 1".

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

4. Rate shown is an average rate for one month of service. In February 2013, a new block rate sewer methodology was implemented to compliment the domestic retail water rate structure. This methodology uses the number of household occupants to better align charges with wastewater system costs based upon flow levels.

5. 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>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>	<u>2013</u>
Water Rates										
Monthly base rate (meter size)										
<=1"	\$ 7.45	\$ 7.70	\$ 8.15	\$ 8.43	\$ 10.04	\$ 10.52	\$ 10.52	\$ 10.52	\$ 10.55	\$ 10.52
1 1/2"	11.19	11.56	12.23	12.65	15.06	27.68	27.68	27.68	27.76	27.68
2"	14.90	15.39	16.30	16.85	20.08	51.40	51.40	51.40	51.55	51.40
3"	29.81	30.78	32.61	33.70	40.15	171.25	171.25	171.25	171.72	171.25
4"	37.26	38.48	40.76	42.16	50.19	270.40	270.40	270.40	271.15	270.40
6"	52.16	53.87	57.06	59.01	70.26	505.53	505.53	505.53	506.91	505.53
8"	59.62	61.56	65.21	67.40	80.30	633.28	633.28	633.28	635.01	633.28
Usage rate (per billing unit)¹	\$ 30.10	\$ 31.04	\$ 32.36	\$ 34.40	\$ 36.38	\$ 41.52	\$ 46.32	\$ 48.26	\$ 47.50	\$ 49.92
Sewer Rates (avg per month)²	\$ 16.17	\$ 17.40	\$ 18.86	\$ 19.64	\$ 20.58	\$ 21.88	\$ 22.73	\$ 22.90	\$ 23.96	\$ 24.72

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. In February 2013, a new block rate sewer methodology was implemented, which uses number of household occupants. Previously, the District charged all customers 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 budget-based tiered rate structure for single-family and multi-family residential and landscape domestic usage.

Source: Eastern Municipal Water District

**CUSTOMERS BY WATER SERVICE TYPE
LAST TEN FISCAL YEARS**

← Treated and Untreated Water →

Fiscal Year	Public Construction							Total	Recycled	Total
	Residential	Commercial	Industrial	Agency	& Temporary	Irrigation	Agricultural			
2004	100,289	2,280	129	515	723	1,362	530	105,828	120	105,948
2005	108,865	2,427	131	545	852	1,518	544	114,882	122	115,004
2006	119,340	2,677	132	582	910	1,793	554	125,988	164	126,152
2007	125,433	2,827	134	607	849	1,972	574	132,396	204	132,600
2008	128,184	3,103	135	614	737	2,146	603	135,522	230	135,752
2009	129,242	3,282	137	608	557	2,236	627	136,689	260	136,949
2010	133,320	3,276	140	597	373	2,260	649	140,615	266	140,881
2011 ¹	131,308	3,240	142	596	327	2,285	670	138,568	265	138,833
2012	132,080	3,272	144	625	353	2,310	694	139,478	283	139,761
2013	133,279	3,308	142	646	373	2,344	692	140,784	297	141,081

**WATER SERVICE TYPE BY CUSTOMER CATEGORY
FISCAL YEAR 2013**

	Public Construction							Total
	Residential	Commercial	Industrial	Agency	& Temporary	Irrigation	Agricultural	
Domestic	133,279	3,307	142	614	373	2,341	569	140,625
Agricultural	-	1	-	4	-	3	123	131
Wholesale	-	-	-	28	-	-	-	28
Total	133,279	3,308	142	646	373	2,344	692	140,784

Note:

1. Decreased amounts are due to level of bank-owned homes relating to the economic downturn and less construction.

Source: Eastern Municipal Water District

**LARGEST DOMESTIC WATER CUSTOMERS
AS OF JUNE 30, 2013**

	Customer Name	Annual Water Sales in Acre Feet	Annual Revenues	Percentage
1	City of Perris ¹	1,859	\$ 1,910,503	19.4%
2	Western Municipal Water District ^{1,2}	1,251	1,283,222	13.1%
3	Moreno Valley School District	1,146	1,268,380	12.9%
4	City of Moreno Valley	903	1,155,421	11.8%
5	Valley-Wide Recreation Park	892	1,144,595	11.7%
6	Val Verde Unified School District	697	842,717	8.6%
7	Country Meadows II Assoc.	477	635,055	6.5%
8	City of Murrieta	473	632,663	6.4%
9	Riverside County EDA	463	556,563	5.7%
10	Menifee Union School District	298	395,128	4.0%
	Total	8,459	\$ 9,824,247	
	Total domestic water sales	86,169	\$ 110,468,194	
	Percentage of total	9.8%	8.9%	

Notes:

For compliance with GASB Statement No. 34, data for fiscal year ended June 30, 2004 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, 2013**

	Customer Name	Annual Water Sales in Acre Feet	Annual Revenues	Percentage
1	AGRI Empire	496	\$ 249,366	23.2%
2	Kevin and Pauline Doan	147	158,186	14.7%
3	Norco Ranch Romoland	121	129,732	12.0%
4	Metropolitan Water District	110	118,175	11.0%
5	Abacherli Dairy	92	99,473	9.2%
6	HP Mobile Estates	71	75,838	7.0%
7	Sunnymead Ranch PCA	70	74,387	6.9%
8	Valley-Wide Recreation and Park	78	69,130	6.4%
9	Demler Egg Ranch	102	55,489	5.2%
10	MCM Poultry	44	47,334	4.4%
	Total	1,331	\$ 1,077,110	
	Total ag. & irrigation water sales	2,641	\$ 1,988,610	
	Percentage of total	50.4%	54.2%	

Notes:

For compliance with GASB Statement No. 34, data for fiscal year ended June 30, 2004 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, 2013**

<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	2,538	\$ 822,313	35.8%
2 Rancho Casa Loma	4,037	229,291	10.0%
5 Agri Empire	2,623	218,434	9.5%
4 A G Sod Farms	2,195	184,361	8.0%
3 Don Bean Farms	2,044	172,727	7.5%
6 The Golf Club at Rancho California	512	165,894	7.2%
7 City of Moreno Valley	427	138,320	6.0%
8 Scott Bros Dairy	2,380	130,852	5.7%
9 Pechange Water Systems	391	126,798	5.5%
10 Valley-Wide Recreation and Park	440	109,766	4.8%
Total	17,587	\$ 2,298,756	
Total recycled water sales	34,889	\$ 5,676,043	
Percentage of total	50.4%	40.5%	

Notes:

For compliance with GASB Statement No. 34, data for fiscal year ended June 30, 2004 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, 2013**

<u>Customer Name</u>	<u>Annual Revenues</u>	<u>Percentage</u>
1 Pechanga Resort and Casino	\$ 484,605	24.2%
2 Broadstone Vista Apartments	250,381	12.5%
3 The Vineyards at Menifee	212,229	10.6%
4 Waterstone at Murrieta Apartments	203,009	10.1%
5 Murrieta Valley Unified School District	162,818	8.1%
6 Rancho Bella Vista HOA	146,802	7.3%
7 Val Verde School District	145,907	7.3%
8 Westwind Enterprises	137,566	6.9%
9 Hemet Unified School District	131,650	6.6%
10 Palm Court Apartments	127,080	6.3%
Total	\$ 2,002,047	
Total sewer revenue	\$ 68,957,128	
Percentage of total revenue	2.9%	

Note:

For compliance with GASB Statement No. 34, data for fiscal year ended June 30, 2004 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 ¹		Long Term Seasonal Storage	
	Treated	Untreated	Treated	Untreated	Treated	Untreated
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
2013 Tier 1	847	593	n/a	n/a	n/a*	n/a*
Tier 2	997	743	n/a	n/a	n/a	n/a

Notes:

1. The Interim Agricultural Water program was discontinued after 2012.

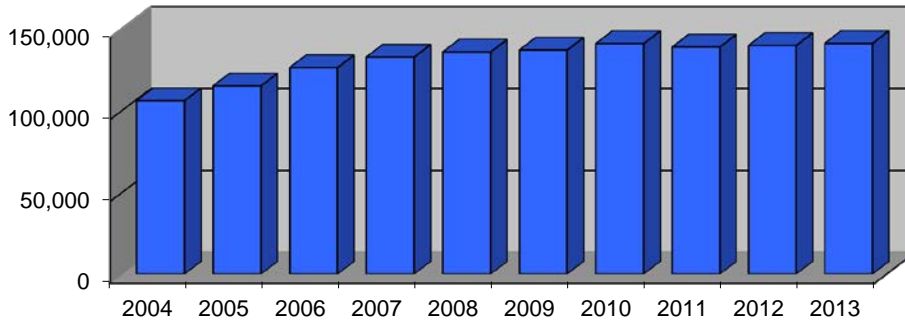
* MWD is continuing discussions with member agencies on the replenishment program.

Source: Metropolitan Water District of Southern California (MWD)

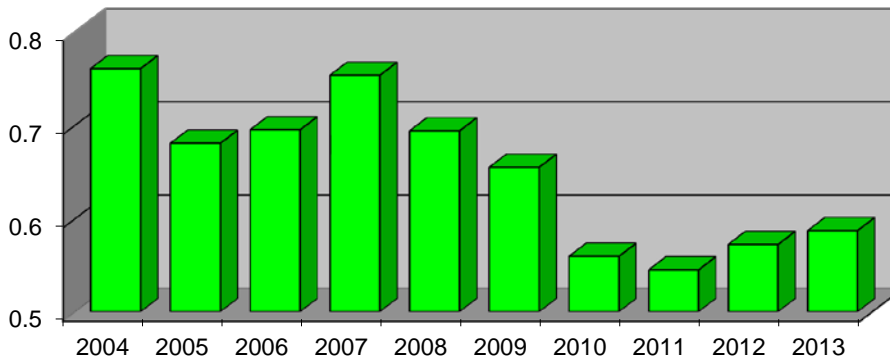
**ANNUAL DOMESTIC CONSUMPTION (AF)
LAST TEN FISCAL YEARS**

Fiscal Year	Usage (AF)	Active Accounts¹	Average AF per Account
2004	79,006	105,828	0.76
2005	77,066	114,882	0.68
2006	87,488	125,988	0.69
2007	99,658	132,396	0.75
2008	93,956	135,522	0.69
2009	89,448	136,689	0.65
2010	78,621	140,615	0.56
2011	75,461	138,568	0.54
2012	79,752	139,478	0.57
2013	82,591	140,784	0.59

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 beginning 2008 is mainly due to lower usage relating to conservation efforts and cooler weather patterns..

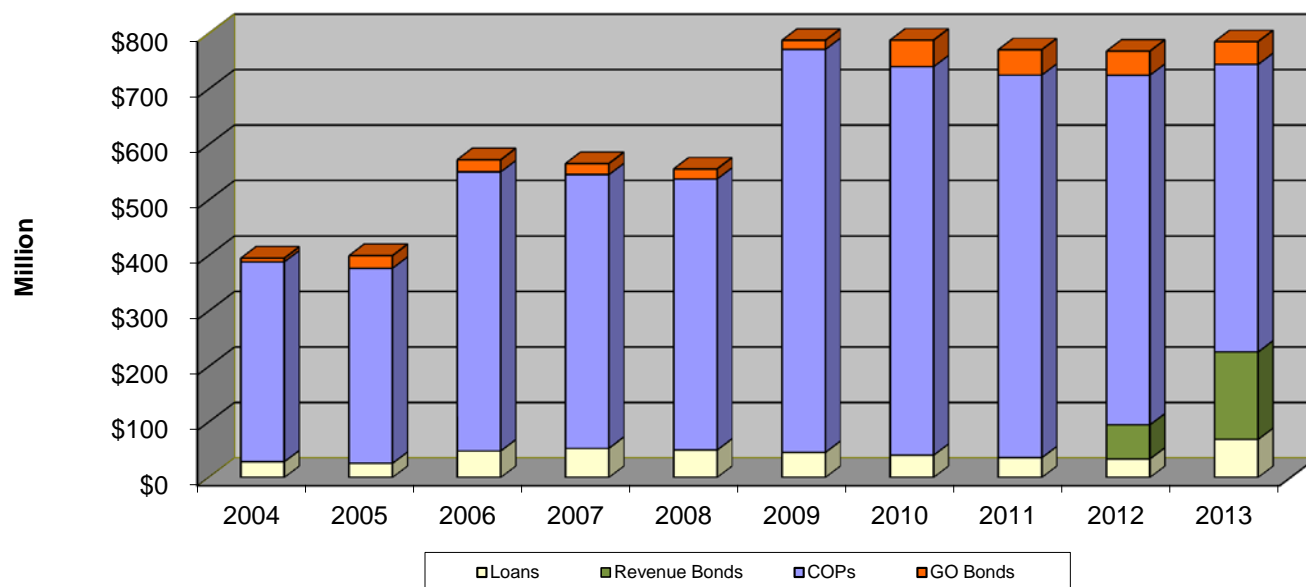
The increase for 2012 and 2013 is mainly due to increased usage relating to warmer weather patterns.

1. Amounts for all years have been updated due to availability of more precise data.

Source: Eastern Municipal Water District

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

Fiscal Year	Loans ¹	Revenue Bonds ²	Certificates of Participation ^{3,4}	General Obligation Bonds ^{4,5}	Total	Percentage of Personal Income ⁶	Debt per Capita ⁷
2004	\$ 28,603,485	\$ -	\$ 360,370,000	\$ 6,455,000	\$ 395,428,485	0.91%	\$ 665
2005	25,705,169	-	351,615,000	22,695,000	400,015,169	0.85%	638
2006	48,103,473	-	502,990,000	21,675,000	572,768,473	1.13%	862
2007	52,874,716	-	493,190,000	19,945,000	566,009,716	1.03%	814
2008	49,630,496	-	488,460,000	18,140,000	556,230,496	0.92%	777
2009	45,407,198	-	726,270,000	16,260,000	787,937,198	1.24%	1,086
2010	40,279,228	-	700,311,094	47,672,284	788,262,606	1.22%	1,068
2011	35,818,082	-	689,723,765	45,481,394	771,023,241	1.22%	1,014
2012	33,651,101	61,452,320	630,227,034	43,145,504	768,475,959	1.19%	1,000
2013	68,749,388	157,648,717	518,338,874	40,949,446	785,686,425	1.17%	1,011



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.

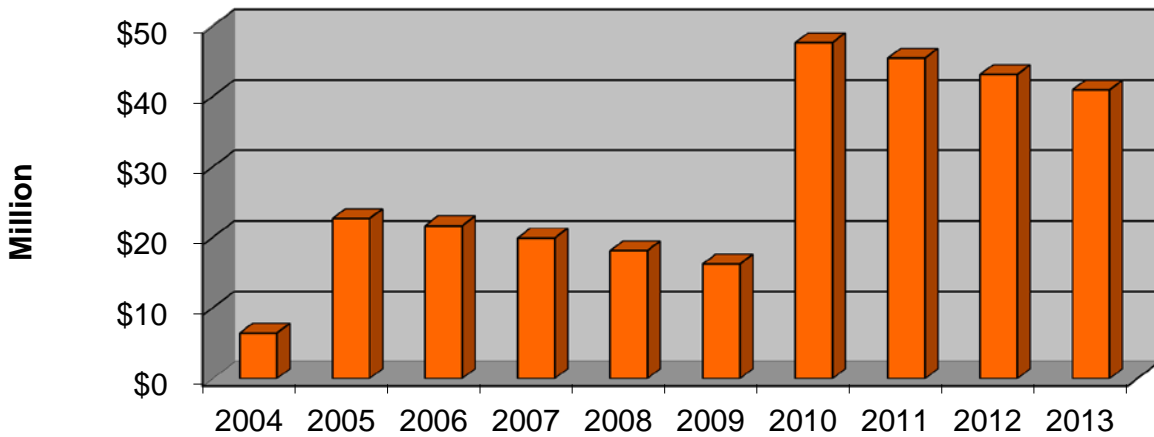
1. The \$38 million construction advance for the SCATT project converted to a loan in 2013.
2. The District issued \$56 million of Refunding Revenue Bonds in 2012. With the added premium and reserve funds, the issuance of these bonds refunded \$62 million of COPs. In 2013, the District issued \$104.6 million of Refunding Revenue Bonds which refunded \$104.6 million of COPs.
3. The District issued over \$160 million of new COPs in 2006 and another \$240 million in 2010.
4. Beginning 2010, amounts shown include net debt premium/discount and deferred refunding charges, if applicable. Beginning 2012, deferred charges on debt refundings are excluded and shown as a separate line item in the financial statements.
5. The District issued \$32 million of new GO Bonds in 2009.
6. 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.
7. 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 Bonds^{1,2}	Assessed Value³	Percentage of Assessed Value	Debt per Capita⁴
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	47,672,284	56,743,387,948	0.08%	65
2011	45,481,394	54,294,174,863	0.08%	60
2012	43,145,504	53,890,135,705	0.08%	56
2013	40,949,446	53,506,155,585	0.08%	53

Total 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 2010.

2. Beginning 2010, amounts shown include net bond premium/discount.

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

4. 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**

	2004	2005	2006	2007	2008	2009 ¹	2010	2011	2012	2013
OPERATING REVENUES:										
Water sales	\$ 64,796,401	\$ 66,258,221	\$ 77,611,474	\$ 92,679,789	\$ 94,135,642	\$ 103,013,429	\$ 102,747,031	\$ 102,479,984	\$ 104,741,242	\$ 112,456,804
Sewer service charges	33,496,234	39,739,370	45,462,646	50,318,414	54,408,172	58,889,788	61,885,298	62,840,013	65,983,462	68,957,128
Recycled water sales	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	5,676,043
Total operating revenues	100,361,829	107,496,278	125,018,554	145,746,531	151,108,470	165,625,347	168,684,994	169,824,920	175,859,890	187,089,975
OPERATING EXPENSES:										
Water purchases	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	58,445,847
Water operations	21,777,484	25,111,134	29,030,238	35,332,561	38,447,533	40,834,689	39,967,447	41,364,910	40,789,231	40,994,915
Sewer operations	26,782,007	30,984,587	37,351,240	41,783,797	45,047,856	45,909,954	45,123,786	47,351,385	47,057,011	46,271,994
Other Post Employment Benefits (OPEB) Contribution ²	-	-	-	-	-	-	-	-	2,620,589	5,740,000
General & administrative	15,186,601	18,418,043	21,520,070	25,292,047	30,138,792	27,471,196	30,256,670	27,408,299	27,112,598	28,392,519
Total operating expenses	92,850,932	106,894,288	124,719,006	146,275,137	155,287,611	155,534,642	162,284,082	162,614,444	170,277,422	179,845,275
OPERATING INCOME (LOSS)	7,510,897	601,990	299,548	(528,606)	(4,179,141)	10,090,705	6,400,912	7,210,476	5,582,468	7,244,700
NON-OPERATING REVENUES:										
Property taxes - general levy	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	27,243,490
Availability (standby) assessments	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	5,635,153
Water and sewer connection fees	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	20,364,185
Interest income ³	4,987,397	13,354,263	13,545,983	28,899,522	20,128,848	18,706,820	16,681,744	7,664,191	7,431,966	4,485,217
Grant revenues	-	-	-	-	11,261,996	6,466,818	6,063,577	16,137,906	22,926,555	12,503,511
Other income/(expense)	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)	2,967,319
Total non-operating revenues	107,276,334	101,939,357	135,851,858	121,848,896	110,306,819	82,894,750	70,964,157	67,799,240	70,120,356	73,198,875
NON-OPERATING EXPENSES:										
Parity debt service interest payments (DWR/BOR)	-	-	-	-	-	1,163,677	1,003,731	881,803	777,734	1,154,948
Debt service interest payments (COP/Bonds) ⁴	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	18,531,971
Total non-operating expenses	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	19,686,919
EXCESS OF REVENUE OVER EXPENSES	99,745,180	87,182,390	117,746,589	98,649,890	84,173,716	68,257,544	54,947,573	53,145,947	55,800,410	60,756,656
Add back for parity debt	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	19,686,919
Net revenues for debt coverage	114,787,231	102,541,347	136,151,406	121,320,290	106,127,678	92,985,455	77,365,069	75,009,716	75,702,824	80,443,575
Parity debt: COP & Loan principal and interest	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	39,384,199
PARITY DEBT SERVICE COVERAGE RATIO	5.3	4.3	5.0	3.8	3.7	2.3	2.0	2.0	1.8	2.0

Notes:

1. 2009 amounts were restated for net internal service funds included in other non-operating income rather than general and administrative expense.
2. Beginning 2012, OPEB contribution expense is separated from Water and Sewer operating expense. Total Annual OPEB Cost was \$11,505,000 and \$15,286,000 in 2012 and 2013 respectively. See Note 9 to the basic financial statements.
3. Beginning 2012, interest income excludes change in fair market value of investments (unrealized gain/loss), as these are non-cash items.
4. COP/Bond interest expense amounts include \$7.4, \$8.7, \$1.3 and \$4.9 million of capitalized construction period interest, respectively for 2010 - 2013.

Source: Eastern Municipal Water District

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

Calendar Year	Population¹	Personal Income² (thousands of \$)	Per Capita Personal Income²	Unemployment Rate²
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	61,965,156	28,865	14.7%
2011	768,264	63,949,636	29,029	13.6%
2012	776,986	67,024,780	29,927	12.2%

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, 2013**

Employer	No. of Employees	Percentage of Total Employment
County of Riverside	17,766	2.1%
March Air Reserve Base	9,000	1.1%
Stater Brothers Markets	6,900	0.8%
Wal-Mart	5,681	0.7%
University of California, Riverside	5,497	0.7%
Riverside Unified School District	5,000	0.6%
Corona-Norco Unified School District	4,633	0.6%
Kaiser Permanente Riverside Medical Ctr	4,500	0.5%
Moreno Valley Unified School District	3,355	0.4%
Hemet Unified School District	3,270	0.4%
Total	65,602	7.9%
Total Employment	828,800	

Notes: For compliance with GASB Statement No. 34, data for fiscal year ended June 30, 2004 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

**EMPLOYEES BY FUNCTION
LAST EIGHT FISCAL YEARS**

Fiscal Year	2006	2007	2008	2009	2010	2011	2012	2013⁵
<u>Operations and Maintenance Division</u>								
Water Operations and Distribution	60	57	66	63	63	64	64	65
Water Reclamation	75	76	82	82	87	90	90	86
Maintenance Services	19	20	20	22	17	17	17	15
Auto Shop and Fabrication Shop	14	14	14	13	14	16	15	16
Wastewater Collection	13	15	15	14	15	15	13	14
Mechanical Services	26	27	27	27	30	30	30	28
Electrical and Controls	20	20	21	22	21	22	23	24
Buildings, Grounds, and Pipeline Maintenance	36	37	37	37	35	37	34	34
Total Operations & Maintenance Division	263	266	282	280	282	291	286	282
<u>Engineering Division</u>								
General Engineering ¹	61	52	56	57	55	53	52	43
Construction Management and Inspections	36	44	39	40	38	39	39	35
New Business Development ¹	20	34	28	25	25	26	20	17
Total Engineering Division	117	130	123	122	118	118	111	95
<u>Planning and Resources Division</u>								
Planning and Resources ^{2,3}	12	13	17	19	19	19	20	20
Environmental and Regulatory Compliance	8	9	7	8	8	9	9	9
Water Quality and Laboratory	17	18	15	15	14	15	15	14
Source Control	12	10	10	10	8	9	9	9
Total Planning and Resources Division	49	50	49	52	49	52	53	52
<u>Executive and Administration</u>								
Executive and Administration	8	8	10	10	10	10	11	12
Public and Governmental Affairs ⁴	3	3	3	2	3	3	11	11
Human Resources	12	12	13	13	13	13	13	11
Billing/Customer Service	41	47	49	49	60	62	58	55
Meter Reading	24	25	25	25	24	24	24	21
Finance and Accounting	18	18	20	21	21	22	26	22
Information Systems	37	35	33	33	34	33	34	33
Purchasing, Warehouse and Records Mgmt	28	28	28	29	26	27	30	28
Community Involvement ^{2,4}	10	13	9	9	9	8	-	-
Total Executive and Administration	181	189	190	191	200	202	207	193
Total Filled Positions End of Year	610	635	644	645	649	663	657	622
Total Authorized Positions Start of Year	Not Available	Not Available	670	667	676	690	667	636
Change in Authorized Positions from Prior Year	Not Available	Not Available	Not Available	(3)	9	14	(23)	(31)
Number of Vacant Positions as of June 30	Not Available	Not Available	26	22	27	27	10	13
Vacancy Rate as of June 30			3.9%	3.3%	4.0%	3.9%	1.5%	2.0%

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.

The General Engineering department was reorganized again in 2012.

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

3. The Planning and Resources department was reorganized in 2012 (formerly Water Resources Development and Management).

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

5. The decrease in filled positions is due to 43 employees accepting a retirement incentive and retiring effective June 30, 2012.

Source: Eastern Municipal Water District

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

	<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>2013</u>
<u>POTABLE WATER SYSTEM</u>										
Miles of pipeline:										
transmission and distribution: ¹										
as-built	1,867	2,051	2,345	2,442	2,437	2,444	2,421	2,428	2,430	2,443
construction in progress	1,681	1,747	1,817	1,944	2,038	2,157	2,260	2,280	2,296	2,366
Number of storage tanks ²	186	304	528	498	399	287	161	148	134	77
Maximum storage capacity (million gallons)	78	77	78	79	78	77	77	77	77	77
Number of active pumping plants	188	188	193	193	193	193	193	191	191	191
Number of active wells:	80	80	82	83	81	84	84	83	83	83
domestic	18	18	18	18	18	18	18	21	21	18
desalter	2	2	9	7	5	5	7	7	8	7
Domestic well production capacity:										
gallons per minute	17,953	19,000	19,747	22,076	21,597	21,806	20,361	22,326	22,285	23,292
million gallons per day	25.9	27.4	28.4	31.8	31.1	31.4	29.3	32.1	32.1	33.5
acre feet per year	28,959	30,407	31,852	35,609	34,836	35,173	32,843	36,013	35,945	37,570
Number of water treatment plants:										
desalter	1	1	2	2	2	2	2	2	2	2
filtration	1	1	1	2	2	2	2	2	2	2
Treatment plant capacity: (million gallons per day)										
desalter plants	3.0	3.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
filtration plants	11.4	11.4	11.4	21.4	32.0	32.0	32.0	32.0	32.0	36.0
Number of service connections:										
active domestic accounts	103,919	112,845	123,384	128,506	129,344	131,392	133,810	135,233	136,478	138,141
active agriculture and irrigation accts	153	139	130	129	140	143	146	124	122	116
<u>SEWER SYSTEM</u>										
Miles of sewer lines: ^{1,3}										
as-built	1,400	1,500	1,750	1,857	1,721	1,729	1,727	1,736	1,756	1,780
construction in progress	1,097	1,156	1,218	1,335	1,407	1,539	1,607	1,626	1,639	1,725
Number of treatment plants	303	344	532	522	314	190	120	110	117	55
Treatment plant average design capacity (MGD) ⁴	5	5	5	5	5	5	5	5	5	5
Average million gallons per day treated	50	50	56	56	56	60	60	60	60	68
Percentage of capacity utilized	38.2	43.3	44.8	46.0	46.2	45.2	45.0	46.0	45.0	44.8
Number of active lift stations	76%	87%	80%	82%	82%	75%	75%	77%	75%	66%
	40	43	46	46	46	46	46	46	47	48
<u>RECYCLED WATER SYSTEM</u>										
Miles of pipeline:										
transmission and distribution: ¹										
as-built	139	159	174	192	201	202	199	202	206	213
construction in progress	131	135	149	156	165	172	178	179	186	196
Number of active pumping facilities	8	24	25	36	36	30	21	23	20	17
Maximum storage capacity (acre feet) ⁵	14	15	17	17	17	19	20	20	20	21
	6,653	6,670	6,571	6,694	6,764	5,776	5,714	5,714	5,721	5,736
<u>GENERAL INFORMATION</u>										
Service area (annexed property):										
acres	346,125	346,148	346,337	346,425	346,449	346,691	346,732	346,732	346,732	346,745
square miles	540.8	540.9	541.2	541.3	541.3	541.7	541.8	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	10.90	10.63	9.80	9.98	10.05	10.20	10.47	10.84	11.39	11.31

Notes:

1. 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.
2. Potable water storage tanks and capacity decreased in 2008 and 2009 due to conversion to recycled water.
3. 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.
4. The Sun City RWRf (3 MGD) was formerly included in the total capacity although it was decommissioned. Amounts are now reflected as average design capacity. The Perris RWRf expansion to 23 MGD was completed in 2013.
5. 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
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%
2013	159,559,632	717,146	0.4%
Total	<u>\$ 1,257,919,529</u>	<u>\$ 7,355,157</u>	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
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%
2013	14,195,028	842,850	5.9%

Note: Reserves equal accounts over 60 days.

Source: Eastern Municipal Water District