



Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2018



Delivering value to our customers and the communities we serve by providing safe, reliable, economical and environmentally sustainable water, wastewater and recycled water services.

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For the Fiscal Year Ended June 30, 2018



Prepared by the

Eastern Municipal Water District
Finance Department

2270 Trumble Road
Perris, CA 92570

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For the Fiscal Year Ended June 30, 2018

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EMWD received a funding appropriation of \$2.78 million from the United States Army Corps of Engineers through its 2018 workplan. The funding from the Army Corps is part of its ongoing commitment to the South Perris Desalter.

INTRODUCTORY SECTION

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November 8, 2018

Board of Directors
Eastern Municipal Water District

We are pleased to present the Eastern Municipal Water District's (District) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2018. 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.

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.

Davis Farr LLP, a firm of licensed certified public accountants, has issued an unmodified opinion on the District's financial statements for the year ended June 30, 2018. The independent auditors' report is presented as the first component of the financial section of this report.

Included are all disclosures management believes necessary to enhance your understanding of the financial condition of the District. Generally accepted accounting principles (GAAP) requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The District's MD&A can be found immediately following the report of the independent auditors in the financial section of this report.

Board of Directors

David J. Slawson, *President* Ronald W. Sullivan, *Vice President* Joseph J. Kuebler, CPA, *Treasurer* Philip E. Paule Randy A. Record

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PROFILE OF THE DISTRICT



Eastern Municipal Water District (District) was incorporated in 1950 under the Municipal Water District Act of 1911 and the provisions of the California Water Code. Its primary purpose was to import 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.

The District is governed by a five-member Board of Directors (Board) elected by the public for a four-year term, each representing comparably sized districts based on population. This five-member Board is responsible to the general public within the District for proper conduct of District affairs. The District is a member of the Metropolitan Water District of Southern California (MWD), a cooperative organization of twenty-six member agencies responsible for providing imported water to Southern California.

The District is located in Southern California and its service area lies within western Riverside County, encompassing approximately 555 square miles. In 1951, the District's service area consisted of 86 square miles. Today, growth has resulted from annexations ranging in area from one to 72,000 acres. The assessed valuation has grown from \$72 million when formed to approximately \$73 billion for this past fiscal year. The District is divided into separate regional service areas for water service and sewer service.

Riverside County has a population of 2.4 million people. Of this population, the District serves approximately 827,000 people (or 33 percent), including the cities of Temecula, Murrieta, Menifee, Hemet, San Jacinto, Moreno Valley, Perris, Wildomar and other unincorporated areas in Riverside County. A map of the service area can be found on page 18 of this report.

The mission of the District is to deliver value to its customers and the communities it serves by providing safe, reliable, economical and environmentally sustainable water, wastewater, and recycled water services. It provides three primary products and services: potable water, wastewater collection and treatment, and recycled water.

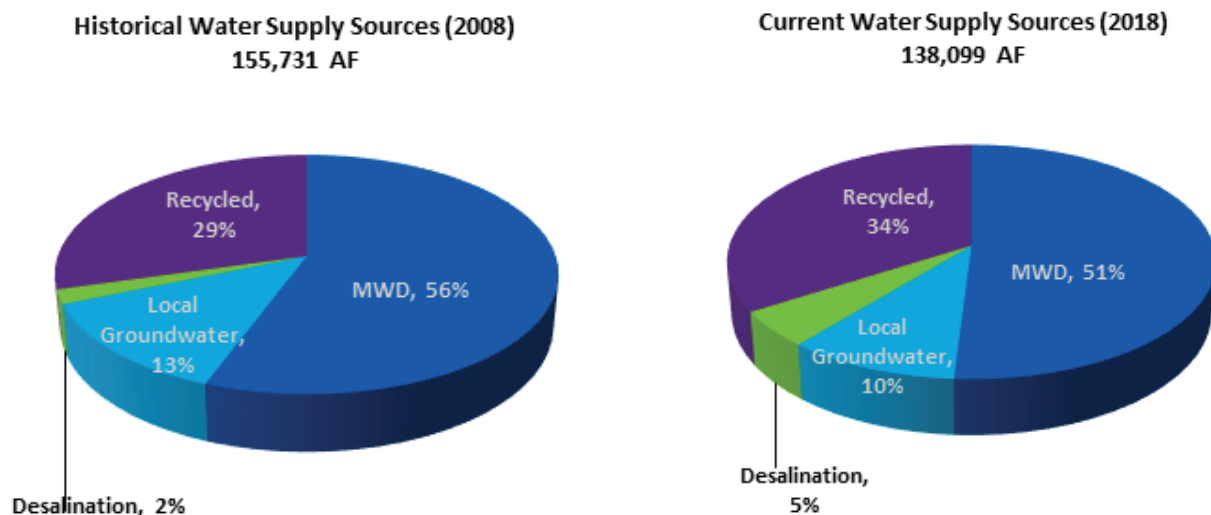
The District's approximately 608 employees are responsible for providing excellent customer service driven by its standards to provide safe, reliable, economical and environmentally friendly services.

WATER SUPPLY AND RELIABILITY

The District's total water supply includes 15 percent local groundwater, 51 percent imported water, and 34 percent recycled water. 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 2008, the District received 56 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. In 2018, the District's level of imported water was 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 methods of treatment vary. The facilities are capable of treating 69 million gallons per day (MGD) of wastewater and serve approximately 827,000 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 infrastructure replacement costs. They are linked through a network of 1,819 miles of pipeline and 50 active lift stations.



The District currently generates approximately 43 MGD of effluent at its regional water reclamation facilities. 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 other local groundwater supplies. In 2018, approximately 46,991 acre feet (AF) or 100 percent of the total recycled water produced, was sold to customers.

THE LOCAL ECONOMY

The District is located within Riverside County which is the fourth largest county in the State. Riverside County and San Bernardino County comprises the Inland Empire, which is one of the fastest growing metropolitan areas in the nation. The Inland Empire covers approximately 27,000 square miles with a population of about 4.2 million. Job growth in the region exceeded those of the State and other areas in Southern California from 2011 to 2015. In 2016, the Inland Empire's job growth of 47,500 jobs ranked second after Los Angeles' 109,200 jobs and next above San Francisco's 43,800 jobs. In June 2018, the number of Inland Empire jobs increased by 43,400, or 3 percent over the prior year. This growth has brought the unemployment rate down from 5.3 percent to 4.7 percent. Sectors of employment gain included logistics, employment agencies, K-12 education, and construction. Overall, between 2011 and 2018, the Inland Empire has created 351,052 new jobs—84,193 or 23.9 percent of which is from the distribution and transportation sectors. Construction jobs increased 12.8 percent; leisure and hospitality, 10.5 percent; and health care, 9.7 percent.



The Inland Empire is an affordable housing alternative to the higher priced homes in the coastal regions of Southern California, and is expected to be the fastest growing part of Southern California over the next few years due to homes having more space and being more affordable. It has continued to see a steady increase in real estate prices due to low inventory of houses for sale and increasing demand resulting from higher income and migration to the region. The median price of homes has registered steady gains since the economic recovery began and, as of the fourth quarter of 2017, the area's median home

price was 9 percent higher than the prior year. Home sales in Riverside County increased 9.9 percent in the beginning of January 2017, compared to the prior year. In San Bernardino, home sales were up 6.7 percent in January 2017, compared to January 2016. Home construction rose by one-fifth in 2017 as single and multi-family permits hit their highest levels in ten years. Non-residential construction, which was depressed from 2009 to 2012, bounced back in 2013 with an increase of new investment in the retail and industrial sectors with several large infrastructure projects and notable growth in the warehousing sector. Permitting for industrial space grew the most in Riverside County, increasing 365 percent year-to-date through the second quarter of 2017.

Business activity in the Inland Empire grew at a steady pace in the second quarter of 2018 and is projected to continue in the near future. Over the past year, the region has outperformed the nation with business activity growing by 4 percent, compared to 2.8 percent growth for the nation. The Center for Forecasting anticipates business activity to increase between 2.5 percent to 3 percent in the third quarter of 2018. The construction sector had a strong year in 2017 and continues to grow in 2018 due to strong demand for housing and other construction activities including building of roadways, other transportation projects, and massive e-commerce centers. Most e-commerce centers in Southern California are built in the Inland Empire, including Amazon's 10 e-commerce centers; with two more to build.



Riverside County’s property assessment roll for the fiscal year 2018 has exceeded the record set in fiscal year 2008 with a value of \$269 billion, a 5.5 percent increase over fiscal year 2017. This is the fifth consecutive year of growth, exceeding the County’s peak assessment roll of \$242.9 billion in 2008.

The District’s property assessment roll for its service areas increased \$3.8 billion, or 5.7 percent in fiscal year 2018. Its service areas include the cities of Temecula, Murrieta, Menifee, Hemet, San Jacinto, Moreno Valley, Perris, Wildomar, and unincorporated areas in Riverside County. The largest growth among the District’s incorporated service areas are in the cities of Perris, 8.5 percent; Menifee, 7.9 percent; and San Jacinto, 7.4 percent.



The District is conveniently accessible by truck and rail service from several significant national and international cargo facilities including the Port of Los Angeles/LongBeach complex, Los Angeles International Airport (LAX), Ontario International Airport (ONT), and Port of San Diego. Additionally, the March Air Reserve Base (MARB), a 12 square-mile airfield and logistics center, is located in the District.

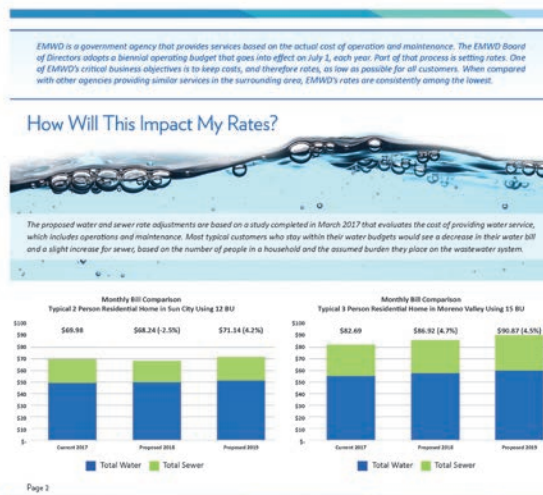
SOUND FINANCIAL POLICIES AND PRACTICES

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 2017, the District completed a cost of service study resulting in a new rate structure, moving from tiered water rates aligned to indoor and outdoor water budgets to new tiered water rates aligned to the District’s sources of water supply. The objectives of the study were to simplify and develop a consistent rate structure for all customers, to provide sufficient revenue for the District to recover operations and maintenance costs incurred in providing water service, and to proportionately allocate these costs among customers. This new water rate structure was adopted by the Board in December 2017 with an effective date of January 1, 2018.

The use of water budgets for the District’s residential customers was first implemented in 2009. These customers received a monthly water budget allocation customized to meet their household and landscape irrigation needs. Effective January 1, 2018, under the new rate structure, customers continued to receive water budgets based on household and landscape size; however, these budgets no longer align with a specific rate. The amount of water billed for each tier is now based on the availability of the District’s water supply sources such as groundwater, treated groundwater, and imported water. All residential customers are billed at the low volume, Tier 1 rate, for the first 20 percent of their monthly budget, according to



the proportional amount of local, low cost water supplies available. The remaining portion of the water budget is billed at the Tier 2 budgeted rate for budgeted supplies, and the Tier 3 and Tier 4 rates cover usage in excess of the total budget. With the new rate structure, water efficient households realize cost savings and customers who stay within their water budgets pay the lowest cost for water.

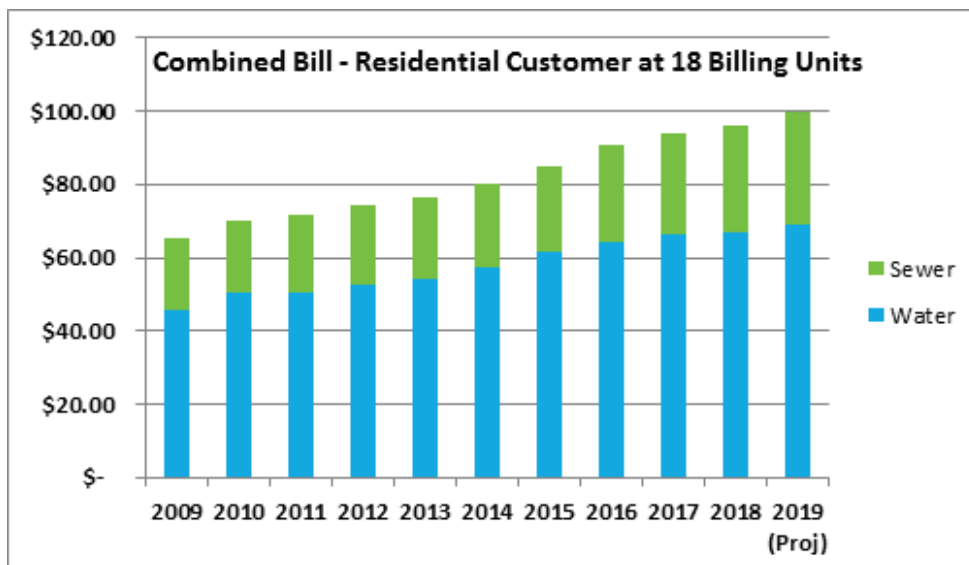
The Board-approved increases in these charges will recover the cost in the water rate structures' three primary charges: the daily service charge based on water meter size, the water supply and reliability capital charge that supports the District's ongoing capital projects, and the water use or commodity rates charged for each unit of water used (tiered rate). The impact to a typical water bill was approximately \$0.60 per month in 2018 and \$2.20 in 2019.

		Price / CCF
Within Budget	Indoor Usage Budget Persons x 55 GPD	Tier 1: \$1.03
	Outdoor Usage Budget Irrigated Area x ET Factor x Conservation Factor	Tier 2: \$3.35
Over Budget	Excessive Use Up to 50% over budget	Tier 3: \$5.52
	Wasteful Use More than 50% over budget	Tier 4: \$11.27

Effective January 1, 2018, sewer rates increased to recover the cost to collect, treat, and recycle or dispose of wastewater. The sewer system capital projects charge also increased to provide funds for future sewer system capital improvement projects essential for maintaining the District's four water reclamation facilities and meeting regulatory and environmental requirements. The impact to a typical sewer bill is approximately \$1.50 per month in 2018 and \$1.77 per month in 2019.

The District's sewer rates are calculated using a baseline daily service charge and block factors based on household occupancy. Residential customers are assigned from one to four sewer blocks depending on number of people in the household. The new sewer rate structure better reflects the demands on the sewer system based on updated customer data. Blocks 1 and 4 proportions are reduced and is expected to result in cost savings with a minimal increase in rates.

The chart below reflects the monthly charges for an average four-person household residential customer with an average monthly consumption of 18 billing units (ccf):



DROUGHT AND WATER CONSERVATION



The District has established itself as a statewide leader in water use efficiency and continues to promote water conservation through investments in infrastructure, technology, education and community outreach programs. During California’s recent drought emergency, the District swiftly responded by moving through the stages of its Water Shortage Contingency Plan (WSCP) to encourage and incentivize customers to reduce demand.

On April 1, 2015, the Governor issued an executive order including a directive to the State Water Resources Control Board (State Board) to impose restrictions to reduce potable urban water use by 25 percent from 2013 levels by February 2016. To implement the Governor’s orders, the State Board passed Emergency Water Conservation Regulations. On May 6, 2015, the State Board adopted regulations that required the District to effect a 28 percent reduction from 2013 water usage. The District’s Board took multiple actions to move through various stages of the WSCP in response to the drought, using the allocation-based rate structure to send pricing signals to encourage changes in water use when needed:

Stage	Date Approved	Description	Actions
Stage 1	April 2011	Supply Watch	Voluntary reduction up to 10%
Stage 2	April 2014	Supply Alert	Voluntary reduction up to 25%
Stage 3	August 2014 (3a) June 2016 (3c)	Mandatory Waste Reduction	3a: No variance adjustments; observation based penalties 3b: Tier 3 budgets decreased by 50% 3c: Tier 3 budgets decreased by 100%; All water waste prohibitions remain in place
Stage 4	May 2015 (4a) September 2015 (4b) January 2015 (4c) April 2016 (4b)	Mandatory Outdoor Reduction	Watering scheduled limited (1-2 days/week) 4a: Tier 2 budgets decreased by 10% 4b: Tier 2 budgets decreased by up to 50% 4c: Tier 2 budgets decreased by up to 100%
Stage 5		Mandatory Indoor Reductions	Catastrophic stage (50% reduction in demand) 5a: Tier 1 budgets decreased by 10% 5b: Tier 1 budgets decreased by up to 30% 5c: Tier 1 budgets decreased by up to 50%

Throughout the State’s mandated water use reductions, the District actively engaged with the State Board, as well as other water agencies throughout the State on a regulatory approach that would better reflect each water agency’s actual water supplies and storage levels. In May 2016, the District self-certified that it had sufficient

supplies to meet demands under a difficult stress test that simulated three additional years of severe drought conditions. As a result, the District's required conservation standard was reduced to zero percent, although the District's customers continued to achieve sustained conservation levels nearing a 20 percent cumulative reduction relative to 2013 water use. In June 2016, the District's Board voted to return customers to a Stage 3c, restoring outdoor water budgets in their entirety.

In February 2017, the emergency regulation was extended another 270 days with a review scheduled for May 2017. Water suppliers were not required to update supply and demand information and the District continued to have a conservation requirement of zero percent. Despite the extension of the emergency regulations through May 2017, water supply conditions improved significantly across California and in February 2017, the District moved out of the mandatory conservation stages of its WSCP to the Stage 2.

The District requested a voluntary 20 percent reduction in potable water use compared to 2013 usage. District customers reduced potable water usage by a cumulative 18 percent, compared to 2013 potable water usage, for the period July 2015 to January 2017.

In April 2017, Governor Jerry Brown announced an end to the drought and the State's transition to a permanent framework for making conservation a California way of life. The District's conservation and water use efficiency efforts have resulted in a per capita demand reduction of over 40 percent from peak usage in 2001.



The District is a charter signatory agency of the California Urban Water Conservation Council and a leader in local and national policy development. Continued commitment to water use efficiency is reflected in its many investments in recycled water infrastructure, tiered rates and water budgets designed to encourage water conservation, technology, education, outreach programs, and customer incentives. Ongoing water conservation efforts include programs and incentives such as the commercial and multi-family drip rebate, free residential home water survey, residential drip retrofit kit discount program, and free outdoor water efficiency kit. The residential rebates include financial incentives or cost share for high efficiency clothes washers, water based irrigation controllers, turf removal rebates, rain barrels, free outdoor water efficiency kits, and conservation packets. New to the District is the residential drip retrofit kit program where participants will be eligible to receive a \$199 drip retrofit kit for \$50. This kit covers 250 to 400 square feet of planter beds.



The District began marketing reclaimed water to local farmers in 1999. Today, it is viewed as an industry leader in recycled water and is one of the largest by volume recyclers in the nation. It has invested close to \$200 million in infrastructure improvements on its recycled water systems and is currently delivering recycled water for use on agricultural crops, parks, schools, and other public landscaping areas. It currently operates 4 regional wastewater reclamation facilities

treating more than 45 million gallons of wastewater per day, and its tertiary treatments results in high quality recycled water. The District has more than 500 recycled water customers and its overall water supply portfolio includes 35 percent recycled water.

FINANCIAL PLANNING

The Board approves a biennial budget as a management tool. The biennial 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 \$399 million for the period from 2017 through 2021. 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 (SRF). The CIP is modified annually to reflect updated assumptions regarding future growth within the District's service area.

RESERVE POLICY

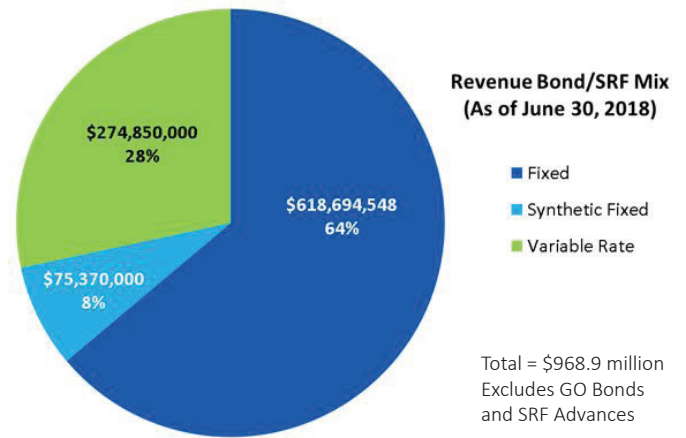
The District adopted a reserve policy, which states the purpose, source, and funding limits for each of its designated reserves within its four main funds: operating, construction, debt service, and trust. The reserves are essential for maintaining liquidity in the marketplace, which enables the District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

ADMINISTRATIVE CODE AND INVESTMENT POLICY

In 2013, the Board adopted an Administrative Code, which incorporates various policies 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 has borrowed from SRF loans to fund its CIP. As of June 30, 2018, the District's total revenue bonds and SRF loans outstanding was \$968.9 million; of which 64 percent were fixed interest rate, 28 percent were variable interest rate, and 8 percent were synthetically fixed through Swap agreements with Wells Fargo Bank—for an overall weighted average cost of funds of 2.08 percent.



The District's parity revenue bond debt has been assigned AAA, Aa1 and AA+ ratings and the subordinate refunding revenue bonds have been assigned ratings of AA+, Aa2, and AA+ from Fitch Ratings, Moody's Investors Service, Inc., and S&P Global Rating's Services, respectively. More information about the District's long-term debt and other noncurrent liabilities is presented in Note 4 to the Basic Financial Statements.

MAJOR INITIATIVES

The District is driven by standards to provide safe, reliable, economical, and environmentally friendly services. These standards and services include highly reliable water, recycled water, and waste water service; protection of public and environmental health; superior customer and community service; sound planning and appropriate investment; efficiency and fiscal responsibility; exemplary employer; and effective communication and accountability.

HIGHLY RELIABLE WATER, RECYCLED WATER AND WASTEWATER SERVICE

To achieve safe, reliable, and cost effective collection and treatment of wastewater and beneficial use of biosolids and a water supply portfolio that achieves an optimum balance of water resources, the District identified and invests in the following initiatives:

Groundwater Program



Current and future growth within the District's service area increase demands for sustainable local water supplies. The District is committed to a comprehensive and collaborative approach toward its local groundwater resources through a variety of Board-adopted initiatives to promote long-term water supply reliability. The District operates 16 active potable wells and 12 active desalter wells that provide 16 percent of its water supply portfolio. This number is anticipated to grow in the future through the development of a water banking program and the expansion of its existing groundwater desalination program.

Santa Ana River Conservation and Conjunctive Use Program (SARCCUP) – Water Banking

The District is one of five member agencies of the Santa Ana Watershed Project Authority (SAWPA) that is participating in a first of its kind regional groundwater banking program known as the Santa Ana River Conservation and Conjunctive Use Program (SARCCUP). This multi-agency watershed wide program will bank imported water to enhance water supply reliability and increase available dry year supplies in the Santa Ana River Watershed. The program will also integrate water conservation measures, habitat enhancements and recreational use. It will develop dry year yield by banking wet year water with 180,000 AF capacity during a ten-year period. The District will implement the San Jacinto Basin component of the program by storing more than 19,500 AF of wet year water per ten-year period. The District will install a one-mile educational hiking trail and 40 acres of open space in the form of a recharge basin in the Santa Ana River Watershed. The five participating agencies include the District, Inland Empire Utilities Agency (IEUA), Orange County Water District (OCWD), San Bernardino Valley Municipal Water District (SBVMWD), and Western Municipal Water District (WMWD).



This \$22.9 million project is partly funded by a \$12.7 million Proposition 84 Integrated Regional Water Management Program (IRWMP) grant from SAWPA and is estimated to be completed in August 2022.

Perris II Reverse Osmosis Treatment Facility - Desalination



The Perris II Reverse Osmosis (RO) Treatment Facility Project is a multi-phase project that will produce potable water from the contaminated Perris South Water Groundwater Management Zone. The project consists of construction of RO treatment process facilities, four water supply wells, pipelines, and additional treatment trains at the RO treatment facilities. The Perris II Desalter will treat degraded groundwater from the West San Jacinto Basin so that the water can be used for potable purposes within the District’s service area. The facility will be constructed adjacent to the two existing desalters, the Menifee and Perris I Desalter. The Perris II Desalter, which will initially

produce 3.6 MGD, will be equipped to support expansion to a capacity of 5.4 MGD—meeting the potable water demands of up to 12,000 homes in the Perris and Menifee service areas.

The District was successful in securing \$22.5 million in Proposition I Groundwater grant funds from the State Board in July 2018 to partially fund the \$41 million project. A Local Resources Program (LRP) agreement from MWD was also secured to provide a subsidy of \$305 per AF up to 5,500 AF every year over 25 years. If the maximum amount of groundwater is recovered for beneficial use, MWD will subsidize \$41.9 million for the 137,500 AF. The LRP program is an incentive program for MWD member agencies to produce water that would otherwise be supplied by MWD. The project, which started in December 2014, is anticipated to be completed in March 2021.

Recycled Water Storage Pond Expansion and Optimization – North Trumble and Case Roads

In March 2016, construction started on the Recycled Water Storage Pond Expansion and Optimization project at Trumble and Case Roads in Perris. This project will expand existing storage facilities at both the Trumble Road location (adjacent to the District's headquarters) and the Case Road location (at the Perris Valley RWRF). Construction at the Trumble Road site added approximately 900 AF of storage, increasing capacity from 900 AF to 1,800 AF. The Case Road Pond Recycled Water Pump Station added a total capacity of 4,000 gallons per minute. Additional improvements include upgraded piping and mechanical and electrical systems to optimize future operations. The project will expand winter recycled water storage to meet summer peak demands.



The project, partially funded through the State Board SRF loan and grant, was completed in December 2017.

Temecula Valley Regional Water Reclamation Facility (TVRWRF) Expansion

In 2016, the District's Temecula Valley Regional Water Reclamation Facility (TVRWRF), located in the central commercial area of Temecula, began a 5 MGD wastewater treatment capacity expansion project, bringing the total capacity to 23 MGD once completed in 2020. This increased capacity is needed to accommodate growth in the region. The facility's expansion will include new primary, secondary, tertiary, solids handling and effluent pumping facilities and storage.

In July 2017, the District received \$95.3 million in funding from the State Board to partially fund the \$120 million Recycled Water Supply Optimization Project. The funding includes a Proposition 1 grant and a SRF loan. The project, which will expand the District's recycled water portfolio, includes the TVRWRF expansion project which is estimated to be completed in June 2019.

SOUND PLANNING AND APPROPRIATE INVESTMENT

To deliver the highest quality products and services in a cost-effective manner by leveraging work force, technology, and business resources and implementing industry leading processes and practices.

Energy Efficiency Programs

The District continues to actively pursue alternative sources of energy and electrical power supply to address capacity issues and cost of electrical power by investing in solar, digester gas, fuel cell technology, and microturbines.

Solar power generation systems are installed at the Perris, Moreno Valley, Temecula, San Jacinto, and Sun City facilities. These facilities benefit from an average of 30 percent of its energy usage provided through the solar power generation systems, which produce an average of 1,000 kW of power at each site. These solar systems are anticipated to save ratepayers more than \$1 million over the life of the systems.



Digester gas driven fuel cells are installed at the District's Moreno Valley and Perris Valley RWRFs. These fuel cells—which operate on renewable fuel—provide 20 to 40 percent of these facilities' energy requirements and produce zero emissions; cutting greenhouse gases by more than 10,600 tons and saving an estimated \$1 million on energy costs annually.

The District currently has nine 60 kW **microturbines** that provide additional power generation, saving the District more than \$300,000 each year. The exhaust from these microturbines heats water necessary to power a 150-ton air conditioning unit.



Automated Metering Infrastructure



The District's Automated Meter Infrastructure (AMI) project, a multi-year project authorized by the Board in December 2014, is anticipated to be completed in June 2019. To date, approximately 85 percent of the District's 153,000 water meters have been replaced by automated (smart) meters. The goal of the project is to improve customer service options, save on labor costs, and minimize water loss. In 2017, the District started the three-year accelerated AMI Expansion project, which included the installation of 44,000 meters during the year. AMI technology provides a remote data link between the meters and the District for real-time monitoring and allows hands-free

meter reading resulting in more efficient water reads, eliminating the need to manually read water meters each month with an estimated reduction in mileage driven by District fleet vehicles by about 170,000 miles each year. The smart meters, used in conjunction with the District's existing AMI Tower Gateway and Meter Data Management System, will provide daily and up-to-date customer water usage information and analysis through an online portal that will enable customers to track their water usage in real-time, project their monthly bills, and identify potential leaks in their property. Continuous and early leak detection is a component of water conservation. Projected water savings from the project is 1,945 AF each year with an associated energy savings of 47.1 million kW hours (kWh) per year and water savings of 3,649 AF ongoing per year achieved after five years with an associated 88.4 kWh per year. This \$14 million AMI program is funded in part by grants from the California Department of Water Resources for programs that increase water conservation and energy savings and reduce carbon emissions.

Alternative Fuel Vehicle Fleet

As part of the its effort to expand its clean energy fleet, reduce its carbon footprint, and adapt to a changing regulatory environment for vehicle emissions, the District has recently expanded its clean energy fleet through the purchase of three new compressed natural gas (CNG) powered vactor trucks for wastewater collections operations. These three new trucks are in addition to an already expanding list of alternative fuel vehicles. For the fiscal year 2018 to 2019, six new CNG vehicles will be added to the fleet. These vehicles include heavy duty service trucks, dump trucks and a water tank. Other clean energy vehicles in the fleet include a fully electric vehicle, a plug-in hybrid vehicle, and three new hybrid vehicles. As existing vehicles reach the end of their service life, they will be replaced with clean energy vehicles. The District has a ten-port electric vehicle charging station and also uses public, accessible CNG charging stations.



SUPERIOR CUSTOMER AND COMMUNITY SERVICE

The District is committed to consistently meet or exceed expectations in all facets of its service through customer awareness, service, and customer service technology.

Excellent Service



In June 2018, the District was presented the prestigious, nationally known J.D. Power and Associates Award for having the highest customer satisfaction in the western United States and the sixth highest customer satisfaction score in the nation based on their 2018 Water Utility Residential Customer Satisfaction Survey. The water utility study is in its third year and measures satisfaction of residential customers of utilities delivering water to at least 400,000 people—the District serves approximately 827,000 people in its service area. Customer satisfaction is gauged by measuring 33 attributes within six factors: delivery, price, conservation, billing and payment, communications, and customer service. The District was also

recognized as highest in customer satisfaction among all participating agencies for its customer communication efforts. The study was conducted among nearly 40,000 respondents nationally who are served by the 88 water systems that deliver water to more than 400,000 people.

Community Outreach

In April 2018, the District was presented with two Excellence in Public Information and Communications awards for outstanding community outreach through the California Association of Public Information Officials (CAPIO). The District was recognized for its Water Bottle Fill Station and Employee Photo Contest programs.

The Water Bottle Fill Station Program was launched by the District in 2014 to promote the value of tap water in parks, community centers, libraries, schools, and colleges within its potable water service area. These fill stations provide high quality chilled tap water through a combination of drinking fountain and reusable bottle filler, to help reduce more than one million disposable bottles from being used. More than half of the 11 school districts served by the District are equipped with water bottle fill stations. To date, there are approximately 80 District-sponsored water bottle fill stations within its potable water service area.

Education

The District's award winning Education Program is actively engaged in fostering an understanding of water and wastewater issues and promoting wise water use among students at all grade levels, K-12. The extensive education program provides interested schools within the District's service area complimentary lesson plans, curriculum packets, materials, and a host of other activities and programs. The District sponsors annual poster and write-off contests open to students in K-middle schools with different yearly themes including



water conservation and being sewer smart. Other activities offered include field trips to District facilities which are open to school districts and private schools within the District's service area, these trips are popular and are fully booked in advance of the school year end. For high school students, the District partners with MWD by annually sponsoring teams to the Solar Cup competition. The competition is a solar-powered boat race where students design, build, and race solar-powered boats allowing the use of alternative power and also allowing the students to understand the project based learning and teamwork. This past year, a few of the education outreach activities by the District included presence at the Murrieta High School Career Expo Event and sponsorship of the Theater Assembly Program *H2O, Where Did you Go* for students at Hemet Elementary School. The District also offers complimentary bird walks, education videos, paper and electronic books, and student recognition events.

EFFICIENCY AND FISCAL RESPONSIBILITY

To District continues to focus its efforts in areas that will ensure financial stability and demonstrate responsible stewardship of public funds.

Other Post-Employment Benefits (OPEB)

The District established a funding policy to fund its retiree health program through the California Employers' Retiree Benefit Trust (CERBT) and started funding in fiscal year 2013 with a goal to achieve full funding by fiscal year 2034. The District began funding future costs in July 2012 and July 2013 with initial \$2.5 and \$2.7 million deposits to CERBT. During FY2013-2014, the District implemented a new tier of OPEB benefits for future hires that will dramatically improve the plan funding and viability over the long term. In addition, the District adopted funding policy principles that direct how the OPEB Trust will be funded over time, in accordance with sound funding principles. Commencing in fiscal year 2015, the District made its full Actuarially Determined Contribution (ADC) and intends to continue to do so until its OPEB obligations are fully funded. In fiscal years 2016, 2017, and 2018, the District's contributions to the OPEB Trust exceeded the ADC by \$1.2 million, \$7.5 million, and \$6.5 million, respectively. This was substantially sooner than anticipated when the OPEB funding policy principles were adopted by the Board.

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 ACKNOWLEDGMENTS

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, 2017. This was the 14th 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 for their unfailing support for maintaining the highest standards of professionalism in the management of the District's finances.

Note: Statistical information provided in this letter include the following sources: Eastern Municipal Water District, United States Department of Labor Statistics, Dr. John Husing's Quarterly Economic Report, County of Riverside Assessor 2017-2018 Annual Report, Economic Forecast and Industry Outlook, Institute For Applied Economics, the Press Enterprise and the California Department of Transportation.

Respectfully submitted,



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



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Eastern Municipal Water District
California**

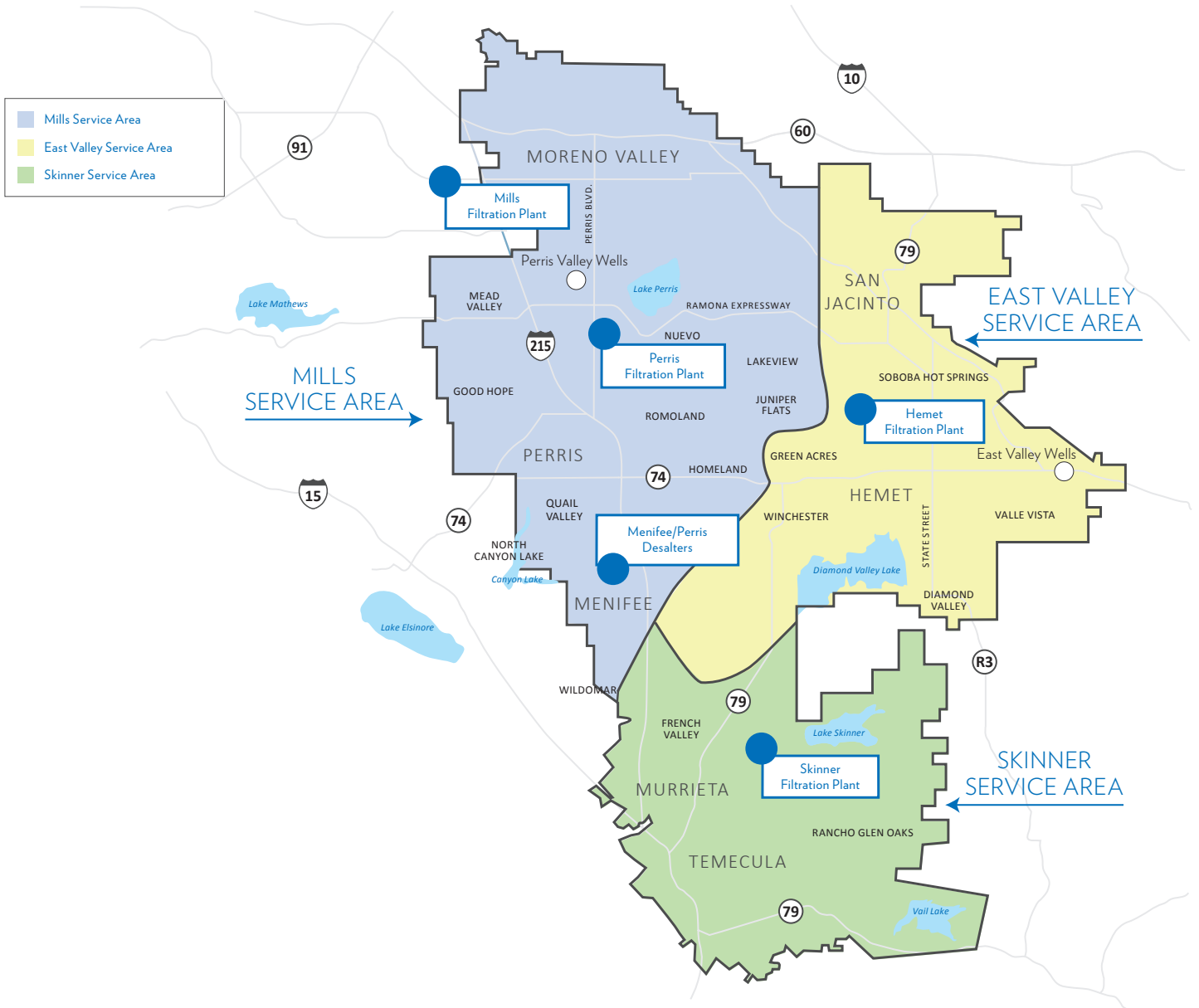
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Christopher P. Morrill

Executive Director/CEO

SERVICE AREA MAP AND INCORPORATED CITIES



**EASTERN MUNICIPAL WATER DISTRICT
LIST OF ELECTED AND APPOINTED OFFICIALS
JUNE 30, 2018**

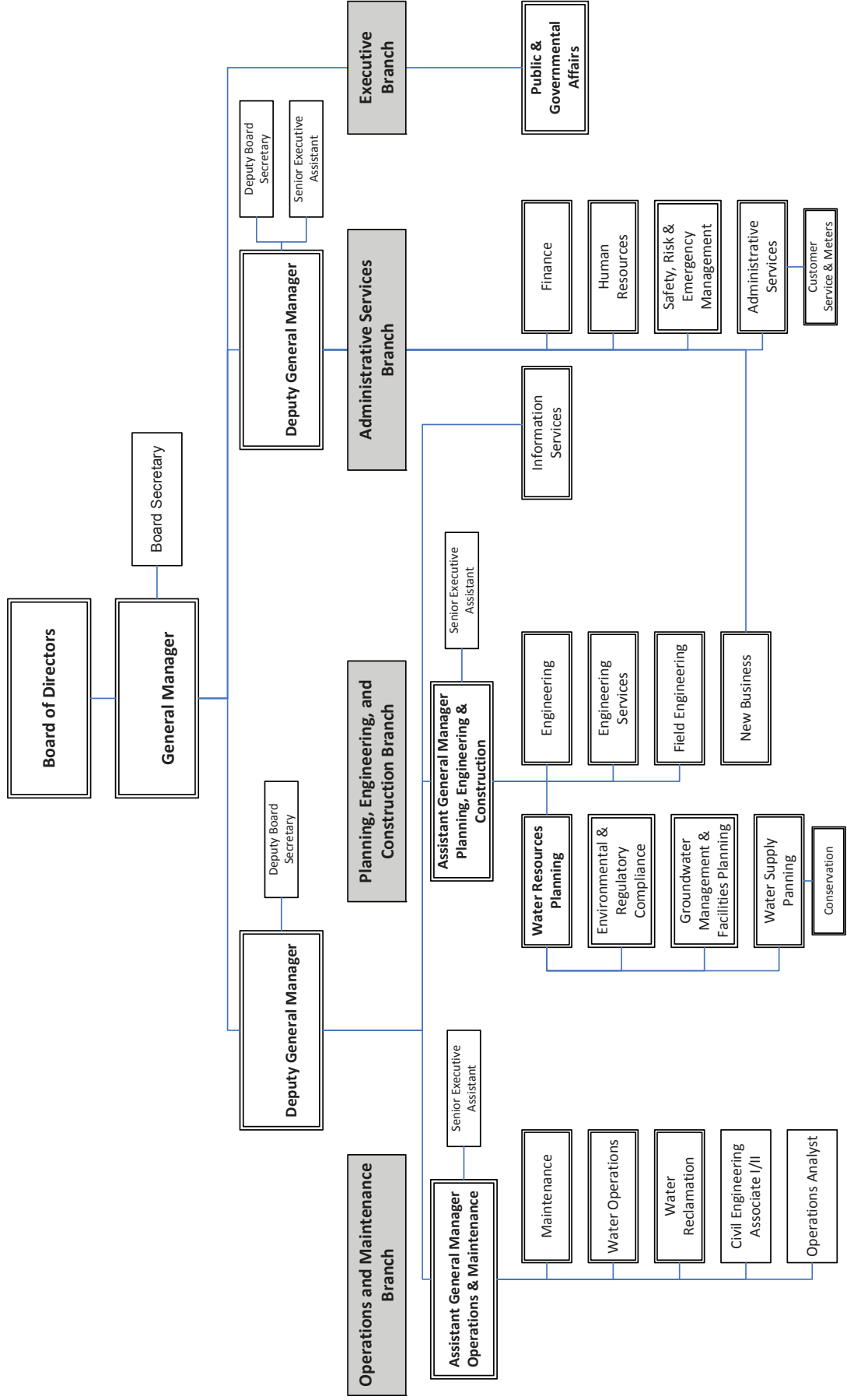
BOARD OF DIRECTORS

Position	Name	Elected	Current Term
President	David J. Slawson	1/1995	2015-2019
Vice President	Ronald W. Sullivan	1/2003	2017-2021
Director/Treasurer	Joseph J. Kuebler, CPA	4/2006	2015-2019
Director	Philip E. Paule	1/2007	2015-2019
Director	Randy A. Record	1/2001	2017-2021

EXECUTIVE MANAGEMENT

Position	Name
General Manager	Paul D. Jones II, P.E.
Deputy General Manager	Deborah S. Cherney, CPA
Deputy General Manager	Nicolas Kanetis, P.E.
Assistant General Manager	Jeff D. Wall, P.E.
Assistant General Manager	Joe Mouawad, P.E.

EASTERN MUNICIPAL WATER DISTRICT DISTRICT ORGANIZATIONAL CHART



EMWD's innovative and award-winning Water Bottle Fill Stations are now in service at more than 75 campuses throughout its service area. The program aims to reduce the use of more than one million plastic bottles.



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Board of Directors
Eastern Municipal Water District
Perris, California

Independent Auditors' 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, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions 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 opinions.

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, 2018, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

The financial statements for the year ended June 30, 2018, reflect a certain prior period adjustment as discussed further in note 15 to the financial statements. The prior period adjustment is the result of the District implementing Governmental Accounting Standards Board (GASB) Statement No. 75 related to other post-employment benefits. The District also implemented GASB Statement No. 89 which changed the accounting for capitalized interest. Our opinion is not modified with respect to these matters.

Prior-Year Comparative Information

We have previously audited the District's 2017 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated November 2, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, 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, Schedule of Changes in Net Pension Liability and Related Ratios During the Measurement Period, Schedule of Pension Plan Contributions, Schedule of Changes in Net OPEB Liability and Related Ratios for the Measurement Period, and the Schedule of OPEB Contributions* 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 November 8, 2018 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Davis Fan UP". The signature is written in a cursive, flowing style.

Irvine California
November 8, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

On behalf of the Eastern Municipal Water District (the "District"), we are pleased to offer the following narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2018. We encourage all readers of the District's financial statements to consider the financial information presented in this section in conjunction with the accompanying financial statements, notes, analyses, and additional information furnished in our letter of transmittal at the opening of this report.

FINANCIAL HIGHLIGHTS

- Total assets and deferred outflow of resources of the District exceeded its liabilities and deferred inflow of resources at the close of fiscal year 2018 by \$1,548.8 million (net position). The District's net position, which increased \$16.3 million or 1.1 percent from the prior fiscal year, includes an adjustment or restatement of \$16.5 million to the beginning balance resulting from the implementation of GASB Statement No. 75, Accounting and Reporting for Other Postemployment Benefits Other Than Pension in fiscal year 2018. Increase in net position, prior to this restatement, is \$32.8 million.
- Total revenue and capital contributions exceeded operating and non-operating expenses by \$32.8 million (change in net position) for the fiscal year 2018. The change in net position is \$20.7 million higher than the prior year due to increases in operating and non-operating revenues of \$31.4 million or 9.6 percent offset by an increase in operating expense of \$13.3 million or 4.6 percent and a decrease in non-operating expense of \$2.5 million or 5.9 percent.

OVERVIEW OF THE 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 and notes to the basic financial statements. This report also includes other supplementary information in addition to the basic financial statements.

- *Statement of Net Position:* This statement presents information on all of the District's assets and liabilities, and deferred outflows/inflows of resources, with the difference reported as net position. Increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.
- *Statement of Revenue, Expenses and Changes in Net Position:* This statement presents information on the District's current fiscal year's revenue and expense. 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.
- *Statement of Cash Flows:* This statement provides relevant information about the District's cash receipts and cash payments segregated among operating, capital and related financing, and investing activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT'D)

- *Notes to the Basic Financial Statements:* These notes 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 ANALYSIS

Our analysis focuses on the net position (Table 1) and changes in net position (Table 2) of the District's total activity.

Table 1 – Net Position

STATEMENT OF NET POSITION FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017	Increase (Decrease)	
			Amount	% Change
ASSETS				
Current assets	\$ 348,392,462	\$ 299,206,465	\$ 49,185,997	16.4%
Restricted assets	272,509,658	344,409,976	(71,900,318)	-20.9%
Net capital assets	2,273,825,780	2,230,149,271	43,676,509	2.0%
Total Assets	\$ 2,894,727,900	\$ 2,873,765,712	\$ 20,962,188	0.7%
Total Deferred Outflows of Resources	\$ 73,400,012	\$ 47,611,651	\$ 25,788,361	54.2%
LIABILITIES				
Current liabilities	\$ 94,366,284	\$ 91,415,435	\$ 2,950,849	3.2%
Other liabilities	222,656,314	185,684,224	36,972,090	19.9%
Long-term debt outstanding	1,091,873,128	1,106,905,634	(15,032,506)	-1.4%
Total Liabilities	\$ 1,408,895,726	\$ 1,384,005,293	\$ 24,890,433	1.8%
Total Deferred Inflows of Resources	\$ 10,414,532	\$ 4,840,427	\$ 5,574,105	115.2%
NET POSITION				
Net investment in capital assets	\$ 1,349,982,180	\$ 1,338,331,638	\$ 11,650,542	0.9%
Restricted	103,986,806	131,839,931	(27,853,125)	-21.1%
Unrestricted	94,848,668	62,360,074	32,488,594	52.1%
Total Net Position	\$ 1,548,817,654	\$ 1,532,531,643	\$ 16,286,011	1.1%
Ratio of Liabilities and Deferred Inflows to Assets and Deferred Outflows of Resources	48%	48%		

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT'D)

Comparing net position over time may serve as a useful indicator of a district's financial position. As shown on Table 1, the District's statement of net position includes assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$1,548.8 million (net position) at the close of fiscal year 2018 representing an increase of \$16.3 million or 1.1 percent from fiscal year 2017.

The ratio of liabilities and deferred inflows of resources to assets and deferred outflows of resources remained at 48 percent in fiscal year 2018. This ratio indicates the degree to which the District's assets are financed through borrowing and other obligations.

- Total assets increased by \$20.9 million or 0.7 percent from fiscal year 2017. Net capital assets increased \$43.7 million mostly due to the completion of the North Trumble Pond and Case Road Recycled Storage Ponds project and the ongoing Temecula Valley RWRf 23 MGD expansion project. Increases in net capital assets, combined with increases in utility accounts receivable, \$2.8 million, materials and supply inventory, \$1.2 million and water inventory, \$2.5 million were offset by a decrease in cash & investments of \$27.4 million as a result of the completion of numerous and ongoing capital infrastructure projects.
- Total deferred outflows of resources increased by \$25.8 million or 54.2 percent in fiscal year 2018. This increase includes \$17.9 million of deferred outflow for OPEB contributions made to the Trust in fiscal year 2018. This contribution will be recognized as expense in fiscal year 2019, per the standards of GASB Statement No. 75 which was implemented in fiscal year 2018. Deferred outflows of resources also includes an increase of \$8.2 million representing the difference in actual and projected earnings on pension investments and changes in actuarial assumptions.
- Total liabilities increased by \$24.9 million or 1.8 percent. This change is primarily due to the \$24.1 million increase in the net other postemployment benefits obligation resulting from the implementation of GASB Statement No. 75. Other significant changes in the District's liabilities include a \$15.4 million increase in net pension liability and a \$15.03 million decrease in long term debt. The increase in net pension liability is due to the change in actuarial assumptions lowering the discount rate from 7.65 percent to 7.15 percent. There were no new debt issuances or debt refundings in fiscal year 2018 other than the \$7.3 million SRF loan advance for construction which went into repayment at the end of fiscal year 2018. Additional information on long term debt can be found in the Long-Term Liabilities section of the Management & Discussion Analysis.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT'D)

Table 2 – Changes In Net Position

CHANGES IN NET POSITION FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017	Increase (Decrease)	
			Amount	% Change
REVENUES				
Operating revenues	\$ 240,507,479	\$ 221,199,222	\$ 19,308,257	8.7%
Non-operating revenues	116,269,089	104,196,820	12,072,269	11.6%
Total Revenues	356,776,568	325,396,042	31,380,526	9.6%
EXPENSES				
Operating expenses	305,184,148	291,883,640	13,300,508	4.6%
Non-operating expenses	40,233,012	42,757,780	(2,524,768)	-5.9%
Total Expenses	345,417,160	334,641,420	10,775,740	3.2%
Increase (Decrease) in				
Net Position before Transfers	11,359,408	(9,245,378)	20,604,786	-222.9%
Capital contributions	21,405,493	21,261,876	143,617	0.7%
Change in Net Position	32,764,901	12,016,498	20,748,403	172.7%
Net Position - Beginning of Year				
	1,532,531,643	1,520,515,145	12,016,498	0.8%
Effect of adoption of GASB 75 (Note 15)	(16,478,890)	-	(16,478,890)	100.0%
Net Position - End of Year	\$ 1,548,817,654	\$ 1,532,531,643	\$ 16,286,011	1.1%

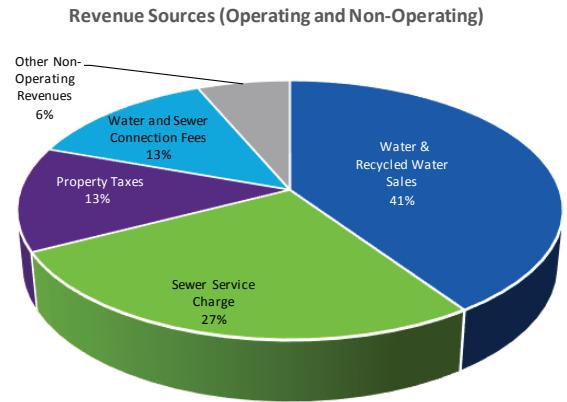
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT'D)

Changes in Financial Performance of the District

The District's statement of revenue, expenses, and changes in net position reports the results of its operations for the fiscal year ended June 30, 2018. A summary of the changes in net position for the fiscal years ended June 30, 2018 and June 30, 2017 is reported on Table 2 of the previous page.

Revenues

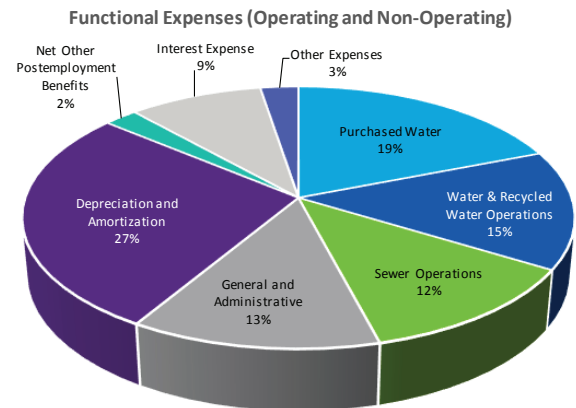
The District's operating revenues, which include water sales, sewer service charge, and recycled water sales, increased \$19.3 million or 8.7 percent in fiscal year 2018. This increase reflects higher water sales of \$14.6 million and a combined increase of \$4.8 million in sewer service charge and recycled water sales revenues. The higher water sales revenue reflects an increase of 8,629 in domestic acre feet sales volume and increased water rates effective January 1, 2018. The increase in sales volumes are due to higher customer demand and record breaking higher temperatures. The District's water contingency plan remained at Stage 2 since April 2017. Sewer service charge revenue increased by \$3.5 million or 3.8 percent as a result of new sewer connections and increased sewer rates effective January 1, 2018.



Non-operating revenues—which include property taxes, water and sewer connection fees, and other revenues—were \$12.1 million or 11.6 percent higher in fiscal year 2018 as a result of increases in water and sewer connection fee revenue, \$6.4 million; investment income, \$3.4 million; and property tax general levy, \$2.2 million. The higher water and sewer connection fee revenues are due to increases in EDU and EMS connections and increases in connection fee rates. The increase in investment income is due to higher interest rates yields in fiscal year 2018 while the increase in property tax general levy is a result of increased home sales and assessed valuation in the District's service area.

Expenses

The District's operating expenses include the cost of purchased water, water service operating cost, sewer service operating cost, recycled water operating cost, general and administrative cost, depreciation cost, and other employment benefit cost. Total operating expenses were \$13.3 million or 4.6 percent higher in fiscal year 2018 due to increases of \$8.3 million in purchased water cost and \$7.6 million in general and administrative cost. Purchased water cost was higher in fiscal year 2018 mostly due to increased domestic retail demand. The increase in general and administrative expense is due to a \$6.2 million increase in pension expense brought about by the change in the actuarial discount rate assumption from 7.65 percent to 7.15 percent.



MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT'D)

Non-operating expenses, which include the loss on disposal of capital assets, interest expense on debt obligations, and other expenses, were \$2.5 million or 5.9 percent lower in fiscal year 2018. This change reflects decreases in research and development costs, \$5.4 million; loss on disposal of fixed assets, \$2.3 million; and other expenses, \$3.3 million, offset by an \$8.6 million increase in debt interest expense.

Capital Contributions

Capital contributions increased by only \$143,000 or 0.7 percent in fiscal year 2018. The \$6.3 million increase in developer contributions was offset by decreases in capital grants revenue, \$4.6 million, and other capital contributions, \$1.6 million.

Capital Assets

The District reported an increase of \$43.7 million in net capital assets in fiscal year 2018. A comparison of changes in capital assets is provided in Table 3 below.

Table 3 – Capital Assets

	CAPITAL ASSETS		FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017	
	2018	2017	Increase/(Decrease)	
			Amount	% Change
Land	\$ 62,655,585	\$ 58,311,851	\$ 4,343,734	7.4%
Tunnel Water Seepage Agreement	1,750,900	1,750,900	-	0.0%
Water capacity rights	30,074,350	30,074,350	-	0.0%
Water plant, lines and equipment	1,206,082,386	1,167,341,886	38,740,500	3.3%
Sewer plant, lines and equipment	1,930,046,536	1,892,138,078	37,908,458	2.0%
Equipment and general facilities	122,650,859	119,494,824	3,156,035	2.6%
Construction in progress	183,831,531	131,631,533	52,199,998	39.7%
Total capital assets	3,537,092,147	3,400,743,422	136,348,725	4.0%
Less accumulated depreciation	(1,263,266,367)	(1,170,594,151)	(92,672,216)	7.9%
Net capital assets	\$ 2,273,825,780	\$ 2,230,149,271	\$ 43,676,509	2.0%

The \$136.3 million increase in capital assets, before accumulated depreciation, include increases in water and sewer plant, lines and equipment of \$76.6 million and construction in progress, \$52.2 million.

Significant additions to water and sewer plant, lines and equipment include the completion of the North Trumble and PVRWRF Case Road Recycled Storage Ponds, \$11.3 million; the Redlands and Hemlock Booster Station, \$5.9 million; and the Paradise Meadows 5.0 MG Storage Tank, \$4.1 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT'D)

The North Trumble Road and PVRWRF Case Road Recycled Storage Ponds project includes the design and construction of additional 900 acre feet (AF) recycled water pond to provide added seasonal storage and peaking capacity that will help the District towards achieving zero discharge. This work also involves improvements to two existing earthen recycled water storage ponds (Trumble Pond and Case Road Pond) including pump station and piping improvements and associated electrical and SCADA system upgrades. The project was substantially completed as of June 30, 2018, with final work to be completed by September 2018.

The Redlands and Hemlock Booster Pumping Station project includes the planning, property acquisition, design and construction of a new booster pump station and discharge pipeline to replace the existing Redlands and Ironwood Booster Pump Station in the City of Moreno Valley. The existing facility was partially below grade, presenting safety concerns, provided inadequate access, was deficient in capacity and had exceeded its useful life. The new station has a capacity of 3,000 GPM to accommodate current demands and is expandable to an ultimate capacity of 6,800 GPM to accommodate projected build-out demands. The project includes demolition and abandonment of the existing station and discharge pipeline. This project was substantially complete as of December 31, 2017, with final work to be completed by December 31, 2018.

The Paradise Meadows 5.0 MG Tank project includes the design and construction of a 5.0 MG storage tank which is located on a 3.62 acre parcel south of the intersection of Paradise Meadows Drive and Hidden Hills Drive in the City of Menifee. The storage tank will alleviate current operational deficiencies, improve water pressure and provide adequate capacity to allow for future growth in the 1627 pressure zone. EMWD participated with Riverside Mitland and Sutter Mitland for oversizing of the Paradise Meadows Tank and associated transmission pipeline, whereby EMWD took the lead to construct the tank and establish a Special Benefit Assessment Area to proportionately reimburse EMWD and Riverside Mitland for sponsoring construction of the facility. The funding contribution between EMWD and Developer is a 35/65 ratio, respectively. This project was substantially complete as of December 31, 2017, with final work completed June 2018.

Additions to construction in progress total approximately \$121.6 million. Significant additions include a \$40.6 million increase in the Temecula Valley RWRf 23 MGC expansion project, \$8.2 million in the automated metering infrastructure replacement project, \$7.2 million in the Perris Water Filtration Plant membrane replacement project and \$5.5 million in the Quail Valley Sewer Improvements Sub-Area 9 Phase 1 project.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT'D)

Some of the major projects currently underway, and where expenditures in fiscal year 2018 exceeded \$2 million, include:

	<u>Millions</u>
• Temecula Valley RWRF 23 MGD Expansion	\$ 40.6
• Sixty-eight water and sewer projects between \$100,000- \$500,000	14.7
• Ten water and sewer projects between \$1,000,000- \$2,000,000	13.4
• Remaining water and sewer projects with expenses less than \$100,000	10.0
• Fourteen water and sewer projects between \$500,000- \$1,000,000	9.9
• Automated Metering Infrastructure (AMI) Meter Replacement	8.2
• PWWP Membrane Replacement	7.2
• Quail Valley Sewer Improvements Sub-Area 9 Phase I	5.5
• Perris & Elder Booster Pump Station & Transmission Main	4.9
• Moreno Valley Sewer Improvement (Indian & Atwood)	2.6
• Audie Murphy Road Sewage Lift Station	2.5
• Perris II Desalter (5.4 MGD), Design Phase	2.1
	<u>2.1</u>
	<u>\$121.6</u>

The District had \$30.3 million in construction contract commitments as of June 30, 2018 (additional information can be found in Note 10 of the Basic Financial Statements).

Long-Term Liabilities

Long-term liabilities consist of debt and other liabilities. Long-term debt includes advances for construction, notes and assessments, revenue bonds, general obligation (GO) bonds and unamortized deferred amounts for premiums/discounts relating to debt issuances. Other long-term liabilities include state revolving fund (SRF) loans, construction advances, advances from developers, other accrued expenses, compensated absences, net other postemployment benefits obligation, and the fair value of swap contracts.

The District had a total of \$1,314.5 million of outstanding debt and other noncurrent liabilities at June 30, 2018, an increase of \$21.9 million or 1.7 percent from the prior year. Increases in net other postemployment benefits obligation of \$24.1 million and net pension liability of \$15.4 million were offset by decreases in revenue bonds liability of \$15.9 million. The \$24.1 million increase in net other postemployment benefits obligation is a result of the implementation of GASB Statement No. 75, Accounting and Financial Reporting for Other Postemployment Benefits (additional information can be found in Notes 1 and 15 of the Basic Financial Statements section). The \$15.4 million increase in net pension liability is due to the change in actuarial assumptions reducing the discount rate from 7.65 percent in fiscal year 2017 to 7.15 percent in fiscal year 2018. The \$15.9 million decrease in outstanding revenue bonds is due to scheduled debt repayment during the fiscal year. At the end of the fiscal year 2018, the \$7.3 million SWRCB SRF loan for the North Trumble Pond project went into repayment and was added to the long-term debt balance on the Statement of Net Position.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT'D)

The District's parity Revenue Bond debt has been assigned an AAA, Aa1, and AA+ rating and the subordinate Refunding Revenue Bonds have been assigned ratings of AA+, Aa2, and AA+ from Fitch Ratings, Moody's Investors Service, Inc., and Standard & Poor's Rating Services, respectively. More detailed information about the District's long-term debt and other noncurrent liabilities is presented in Note 4 to the 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 any of the information provided in this report or need additional financial information, please contact the District's Finance Department at 2270 Trumble Road, P.O. Box 8300, Perris, CA 92572-8300. General information relating to the District can be found on its website <http://www.emwd.org>.

EMWD was honored with the prestigious J.D. Power and Associates award for the 2018 Water Utility Residential Customer Satisfaction Survey. EMWD ranked highest in customer satisfaction in the western region, which consisted of 12 states.



BASIC FINANCIAL STATEMENTS

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EASTERN MUNICIPAL WATER DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2018

(with prior year data for comparison purposes only)

	JUNE 30	
	2018	2017
Assets:		
Current assets:		
Cash and investments	\$ 275,611,138	\$ 231,267,863
Utility accounts receivable, net of allowance	31,754,761	28,997,998
Property taxes receivable	12,344,214	12,316,870
Accrued interest receivable	2,253,452	1,460,599
Other receivables	6,503,773	5,591,835
Prepaid expenses	3,488,668	3,777,535
Materials and supplies inventory	5,832,888	4,678,802
Water inventory	8,159,969	5,663,910
Grants receivable	2,443,599	5,451,053
Total current assets	<u>348,392,462</u>	<u>299,206,465</u>
Noncurrent assets:		
Restricted assets:		
Debt service covenants cash and investments	80,740,900	71,575,859
Property taxes receivable	1,577,112	1,557,253
Soboba reimbursement receivable	12,998,778	12,998,778
Construction cash and investments	175,190,704	256,083,590
Notes receivable	2,002,164	2,194,496
Total restricted assets	<u>272,509,658</u>	<u>344,409,976</u>
Capital assets:		
Land	62,655,585	58,311,851
Tunnel water seepage agreement	1,750,900	1,750,900
Structures, improvements and water rights	3,166,203,272	3,089,554,314
Equipment and general facilities	122,650,859	119,494,824
Construction in progress	183,831,531	131,631,533
Total capital assets	<u>3,537,092,147</u>	<u>3,400,743,422</u>
Less accumulated depreciation	<u>(1,263,266,367)</u>	<u>(1,170,594,151)</u>
Total net capital assets	<u>2,273,825,780</u>	<u>2,230,149,271</u>
Total noncurrent assets	<u>2,546,335,438</u>	<u>2,574,559,247</u>
Total assets	<u>2,894,727,900</u>	<u>2,873,765,712</u>
Deferred outflows of resources:		
Deferred outflows- pension contributions	10,748,902	9,699,290
Deferred outflows- OPEB contributions	17,947,401	-
Deferred outflows- pension actuarial	22,661,050	14,456,901
Deferred charges on debt refundings	22,042,659	23,455,460
Total deferred outflow of resources	<u>\$ 73,400,012</u>	<u>\$ 47,611,651</u>

The accompanying notes are an integral part of these financial statements.

EASTERN MUNICIPAL WATER DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2018

(with prior year data for comparison purposes only)

	JUNE 30	
	2018	2017
Liabilities:		
Current liabilities:		
Accounts payable	\$ 32,656,263	\$ 35,905,829
Accrued salaries and benefits	2,346,509	2,120,487
Customer deposits	10,025,734	9,321,715
Compensated absences	8,713,319	7,634,381
Accrued interest payable	13,713,207	10,911,236
Other payables	3,498,931	2,774,956
Advances for construction, notes and assessments	3,205,739	2,965,225
Revenue bonds	15,922,009	15,452,009
General obligation bonds	1,105,393	1,060,393
Advances from developers	805,037	851,627
Capital lease payable	1,018	11,764
Unearned revenue	455,814	455,814
Other accrued expenses payable	1,917,311	1,949,999
Total Current Liabilities	<u>94,366,284</u>	<u>91,415,435</u>
Noncurrent liabilities:		
Compensated absences	3,384,989	5,168,182
Advances for construction, notes and assessments	83,513,809	82,262,663
Revenue bonds	956,385,437	972,307,446
General obligation bonds	31,739,723	32,845,116
State revolving fund construction advances	6,443,478	4,790,073
Advances from developers	21,092,253	18,765,667
Capital lease payable	-	1,018
Other accrued expenses payable	5,333,330	5,603,228
Net other postemployment benefits liability	67,918,435	43,807,182
Net pension liability	132,603,024	117,160,370
Fair value of swap contracts	6,114,964	9,878,913
Total Noncurrent liabilities	<u>1,314,529,442</u>	<u>1,292,589,858</u>
Total liabilities	<u>1,408,895,726</u>	<u>1,384,005,293</u>
Deferred inflows of resources:		
Accumulated decrease in fair value of swap contracts	4,206,592	442,643
Deferred inflows - pension actuarial	5,335,298	4,397,784
Deferred inflows - other postemployment benefits	872,642	-
Total deferred inflows of resources	<u>10,414,532</u>	<u>4,840,427</u>
Net position:		
Net investment in capital assets	1,349,982,180	1,338,331,638
Restricted for debt service covenants	80,159,371	71,207,358
Restricted for construction	23,827,435	60,632,573
Unrestricted	94,848,668	62,360,074
Total Net Position	<u>\$ 1,548,817,654</u>	<u>\$ 1,532,531,643</u>

The accompanying notes are an integral part of these financial statements.

EASTERN MUNICIPAL WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(with prior year data for comparison purposes only)

	JUNE 30	
	2018	2017
Operating revenues:		
Water sales- domestic	\$ 130,596,237	\$ 115,796,435
Water sales- irrigation	4,832,629	5,074,502
Sewer service charge	96,049,786	92,536,116
Recycled water sales	9,028,827	7,792,169
Total operating revenues	<u>240,507,479</u>	<u>221,199,222</u>
Operating expenses:		
Purchased water	65,846,363	57,512,425
Water operations	44,202,187	44,089,564
Sewer operations	42,110,008	42,232,322
Recycled water operations	6,417,615	6,064,944
General and administrative	43,901,997	36,283,686
Depreciation and amortization	94,853,174	95,968,255
Net other postemployment benefits	7,852,804	9,732,444
Total operating expenses	<u>305,184,148</u>	<u>291,883,640</u>
Operating income (loss)	<u>(64,676,669)</u>	<u>(70,684,418)</u>
Non-operating revenues (expenses):		
Property taxes- general levy	36,294,389	33,971,127
Property taxes- general bond levy	4,508,530	4,606,897
Availability (standby) assessments	5,769,853	5,831,357
Water and sewer connection fees	46,924,875	40,565,197
Interest- operations and restricted funds	8,181,973	4,733,897
Net increase (decrease) in fair value of investments	(2,262,415)	(2,151,319)
Interest- general obligation bond funds	113,520	68,172
Grant revenues	1,646,062	131,672
Other revenues	15,092,302	16,439,820
Gain (loss) on disposal of capital assets	(479,520)	(2,825,645)
Interest- certificates of participation and revenue bonds	(28,623,534)	(20,071,329)
Interest- general obligation bonds	(1,659,398)	(1,705,906)
Interest- other	(1,053,469)	(1,046,127)
General obligation fund service fees	(30,864)	(33,351)
Research and development costs	(3,407,552)	(8,815,131)
Other expenses	(4,978,675)	(8,260,291)
Total nonoperating revenues (expenses)	<u>76,036,077</u>	<u>61,439,040</u>
Income (loss) before contributions	<u>11,359,408</u>	<u>(9,245,378)</u>
Capital contributions:		
Developer contributions	18,762,934	12,498,450
Capital grants	1,482,801	6,032,807
Other capital contributions	1,159,758	2,730,619
Total capital contributions	<u>21,405,493</u>	<u>21,261,876</u>
Change in net position	32,764,901	12,016,498
Total net position- Beginning of year	1,532,531,643	1,520,515,145
Effect of adoption of GASB 75 (Note 15)	(16,478,890)	-
Total net position- End of Year	<u>\$ 1,548,817,654</u>	<u>\$ 1,532,531,643</u>

The accompanying notes are an integral part of these financial statements.

EASTERN MUNICIPAL WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(with prior year data for comparison purposes only)

	June 30	
	2018	2017
Cash flows from operating activities		
Receipts from customers	\$ 239,777,702	\$ 221,494,261
Receipts from availability (standby) assessments	5,749,180	5,770,496
Other receipts	15,092,302	16,719,835
Payments for water	(68,526,398)	(60,745,250)
Payments to employee for services	(94,968,345)	(95,735,999)
Payments to suppliers for goods and services	(51,973,816)	(44,784,457)
Payments for energy and utilities	(13,115,134)	(12,299,485)
Net cash (used for) provided by operating activities	32,035,491	30,419,401
Cash flows from noncapital financing activities		
Proceeds from property taxes, general levy	36,287,718	33,876,619
Proceeds from operating grants	347,206	116,230
Net cash (used for) provided by noncapital financing activities	36,634,924	33,992,849
Cash flows from capital and related financing activities		
Acquisitions and construction of capital assets	(120,390,938)	(76,149,064)
Proceeds from sale of capital assets	144,669	117,897
Proceeds from long-term debt issuance	-	592,889,786
Proceeds from SRF construction advances	8,989,068	3,429,735
Repayment of notes, bonds and certificates of participations	(17,680,767)	(492,668,427)
Interest paid	(31,839,895)	(24,114,900)
Proceeds from property taxes, GO bond levy	4,488,671	4,580,471
Proceeds from water and sewer connection fees	46,924,875	40,565,197
Proceeds from developer advances	35,893,009	9,414,453
Repayments of developer advances	(33,613,013)	(7,716,114)
Proceeds from capital grants	5,789,111	2,435,937
Net cash (used for) capital and related financing activities	(101,295,210)	52,784,971
Cash flows from investing activities		
Purchases of investments	(146,656,733)	(131,467,098)
Proceeds from sales and maturities of investments	102,288,803	64,921,852
Proceeds from earnings on investments	7,502,640	4,337,559
Net cash (used for) provided by investing activities	(36,865,290)	(62,207,687)
Total (decrease) increase in cash and cash equivalents	(69,490,085)	54,989,534
Cash and cash equivalents at beginning of year	313,564,392	258,574,858
Cash and cash equivalents at end of year	\$ 244,074,307	\$ 313,564,392

The accompanying notes are an integral part of these financial statements.

EASTERN MUNICIPAL WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(with prior year data for comparison purposes only)

	June 30	
	2018	2017
Reconciliation of loss from operations to net cash provided by (used for) operating activities:		
Loss from operations	\$ (64,676,669)	\$ (70,684,418)
Adjustments to reconcile loss from operations to net cash provided by (used for) operating activities:		
Depreciation and amortization expense	94,853,174	95,968,255
Other revenues	13,635,686	8,206,388
(Increase) decrease in utility accounts receivable	(2,756,763)	(2,540,707)
(Increase) decrease in other receivables	(932,611)	328,010
(Increase) decrease in prepaid expenses	288,867	668,532
(Increase) decrease in materials and supplies inventory	(1,154,086)	(1,047,571)
(Increase) decrease in water inventory	(2,496,059)	(3,061,838)
(Increase) decrease in notes receivable	192,332	(1,929,087)
Increase (decrease) in accounts payable	(3,249,566)	11,787,482
Increase (decrease) in accrued expenses	647,411	(178,684)
Increase (decrease) in customer deposits	704,019	468,914
Increase (decrease) in compensated absences	(704,255)	(1,629,949)
Increase (decrease) in net other postemployment benefits obligation	7,632,363	(7,829,765)
Increase (decrease) in net pension liability	15,442,654	20,952,704
Increase (decrease) in deferred inflows	1,810,156	(3,684,754)
Increase (decrease) in deferred outflows	(27,201,162)	(15,374,111)
Net cash (used for) provided by operating activities	\$ 32,035,491	\$ 30,419,401
Reconciliation of cash and cash equivalent to statement of net position:		
Current cash and investments	\$ 275,611,138	\$ 231,267,863
Restricted cash and investments:		
Debt service/covenants	80,740,900	71,575,859
Construction	175,190,704	256,083,590
Total cash and investments	531,542,742	558,927,312
Less investments	287,468,435	245,362,920
Cash and cash equivalents	\$ 244,074,307	\$ 313,564,392
Noncash capital, financing, and investing activities		
Capital asset contributions from developers	\$ 18,762,934	\$ 12,498,450
Amortization of bond premiums, discounts, and loss on debt refundings	(3,274,601)	(1,117,194)

The accompanying notes are an integral part of these financial statements.

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 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 formed the Eastern Municipal Water District Financing Authority (Financing Authority) on April 1, 2015, under the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4, Chapter 5, Division 7, Title 1 of the California Government Code. The Financing Authority was formed to enable the District to finance, refinance, or provide interim financing for the acquisition, construction, and operation of water supplies, water and wastewater infrastructure, water rights, public facilities, other public capital improvements, or other projects whenever there is significant public benefits. The Financing Authority 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, the Facilities Corporation and the Financing Authority. Although the District, the Facilities Corporation and the Financing Authority are legally separate entities, the District's Board of Directors also serve as the Facilities Corporation and the Financing Authority's Board of Directors, and therefore, the accompanying financial statements include the accounts and records of the Facilities Corporation and the Financing Authority as required by generally accepted accounting principles using the blending method. There are no separate financial statements for the Facilities Corporation and the Financing Authorities, they merely serve as the legal entity used by the District to issue long-term debt. Accordingly, the Facilities Corporation and the Financing Authority have no separate financial activity to be reported as separate funds of the District.

NOTE 1 — Description of Reporting Entity and Summary of Significant Accounting Policies (cont'd)

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.

Implementation of Governmental Accounting Standards Board (GASB) Pronouncements

In June 2015, the GASB issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions – an amendment of GASB Statement No. 45. The provisions of this Statement are effective for financial statements beginning after June 15, 2017, the District implemented this statement in the fiscal year ended June 30, 2018. Implementation requires reporting the District's net OPEB liability on the financial statements and is applied retroactively by restating the net position as of the beginning of the fiscal year resulting in reducing the net position by \$16,478,890.

In June 2018, the GASB issued Statement No. 89, Accounting for Interest Cost Incurred Before the End of a Construction Period. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period the cost is incurred. Interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset in an enterprise fund. The District early implemented this standard in the fiscal year ended June 30, 2018.

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.

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.

NOTE 1 — Description of Reporting Entity and Summary of Significant Accounting Policies (cont'd)

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.

Capital Assets

Both purchased capital assets and self-constructed capital assets are recorded at acquisition cost. The cost of self-constructed assets includes direct labor, material, contracted services and overhead. Contributed capital assets are recorded at acquisition 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

NOTE 1 — Description of Reporting Entity and Summary of Significant Accounting Policies (cont'd)

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 \$181,535 at June 30, 2018.

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.

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 (non-exchange 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 thirty-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, however, revenues are accrued 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 \$10,185,841 at June 30, 2018.

NOTE 1 — Description of Reporting Entity and Summary of Significant Accounting Policies (cont'd)

Property Taxes

Property tax in California is levied in accordance with Article XIII A of the State Constitution at one 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 are levied.

The property tax calendar is as follows:

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

Debt Discounts, Premiums, and Deferred Amounts on Refunding

General obligation bond and revenue bond premiums and discounts are deferred and amortized over the term of the bonds. The discounts and premiums are presented as an addition (or reduction) of the face amount of the debt. Furthermore, 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 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 paid time off up to a maximum of 675 hours. Hours in excess of the maximum are paid out to employees each November. All employees who separate from the District are entitled to receive 100 percent of their accumulated unused paid time off. The District provides for these future costs by accruing 100 percent of all earned and unused paid time off.

Pensions

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

NOTE 1 — Description of Reporting Entity and Summary of Significant Accounting Policies (cont'd)

Pensions (continued)

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date (VD)	June 30, 2016
Measurement Date (MD)	June 30, 2017
Measurement Period (MP)	June 30, 2016 to June 30, 2017

Other Postemployment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows and inflows of resources related to OPEB and OPEB expense, information about the fiduciary net position of the District's plan (OPEB Plan), the assets of which are held by the California Employers' Retiree Benefit Trust (CERBT) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined by an independent actuary. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

Generally accepted accounting principles require that the reported results must pertain to liability and fiduciary net position information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date (VD)	June 30, 2017
Measurement Date (MD)	June 30, 2017
Measurement Period (MP)	June 30, 2016 to June 30, 2017

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section of deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expenses/expenditures) until then. The District has four items that qualify for reporting in this category: the deferred outflows on pension contributions, the deferred outflows on OPEB contributions, the actuarial difference between projected and actual earnings and changes in assumptions on pension plan investments and the deferred charges on debt refundings. These are reported on the Statement of Net Position.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and will not be recognized as inflow of resources (revenue) until that time. The District has three items that qualify for reporting in this category, the accumulated decrease in fair value of swap contracts, the actuarial difference between expected and actual experience on pension plan investments and the actuarial difference between projected and actual earnings on OPEB plan investments. This is reported on the Statement of Net Position.

NOTE 1 — Description of Reporting Entity and Summary of Significant Accounting Policies (cont'd)

Fair Value Measurements

Certain assets and liabilities are required to be reported at fair value. The fair value framework provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly and fair value is determined through the use of models or other valuation methodologies including:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in markets that are inactive;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement. These unobservable input reflect the District's own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). These unobservable inputs are developed based on the best information available in the circumstances and may include the District's own data.

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.

NOTE 1 — Description of Reporting Entity and Summary of Significant Accounting Policies (cont'd)

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.

Fair values of these interest rate swap contracts are reported as liabilities, and its changes in the fair value are reported as deferred inflows of resources in the statement of net position. As of June 30, 2018, all potential hedging instruments of the District are considered effective hedges.

NOTE 2 — Cash and Investments

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

	<u>2018</u>
Current assets	\$ 275,611,138
Restricted assets:	
Debt service covenants	80,740,900
Construction	175,190,704
Totals	<u>\$ 531,542,742</u>

Cash and investments consisted of the following:

	<u>2018</u>
Cash on hand	\$ 6,500
Deposits with financial institutions	1,572,186
Investments	529,964,056
Total cash and investments	<u>\$ 531,542,742</u>

Cash and cash equivalents consisted of the following:

	<u>2018</u>
Demand accounts and on hand	\$ 1,578,686
Local Agency Investment Fund (LAIF)	180,471,836
Investment Trust of California (CalTRUST)	34,955,063
Money Market Mutual Funds	27,068,722
Total cash and cash equivalents	<u>\$ 244,074,307</u>

NOTE 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 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	\$65,000,000
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.

NOTE 2 — Cash and Investments (cont'd)

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.

NOTE 2 — Cash and Investments (cont'd)

Interest Rate Risk (continued)

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.

Investment Type	Months				
	Total	12 or Less	13 to 24	25 to 60	More than 60
U.S. Agency Securities:					
Federal Farm Credit Bank (FFCB)	\$ 60,850,135	\$ 41,201,935	\$ 4,914,150	\$ 14,734,050	\$ -
Federal Farm Credit Bank (FFCB)- Floating	10,016,800	-	10,016,800	-	-
Federal Home Loan Bank (FHLB)	9,913,450	9,913,450	-	-	-
Federal Home Loan Mortgage Corp. (FHLMC)	30,262,115	20,355,415	9,906,700	-	-
Federal National Mortgage Assn. (FNMA)	30,260,342	4,973,350	21,650,190	3,636,802	-
Corporate- Fixed	52,613,643	29,135,530	8,664,013	14,814,100	-
Corporate- Floating	6,859,741	6,859,741	-	-	-
Municipal	86,692,209	3,727,558	46,448,332	36,516,319	-
LAIF	180,471,836	180,471,836	-	-	-
Investment Trust of California (CalTRUST)	34,955,063	34,955,063	-	-	-
Held by Trustee:					
Money Market Mutual Funds	27,068,722	27,068,722	-	-	-
Total Investments	\$ 529,964,056	\$ 358,662,600	\$ 101,600,185	\$ 69,701,271	\$ -

Investments with Fair Value Highly Sensitive to Interest Rate Risk

Highly sensitive investments are investments whose sensitivity to market interest rate fluctuations are not fully addressed by use of one of the five methods for reporting interest rate risk as specified by the GASB No.40. As of June 30, 2018 the District had \$6,859,741 invested in corporate floating notes and \$10,016,800 in federal agency securities floating notes.

NOTE 2 — Cash and Investments (cont'd)

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.

Category	Total	Minimum Legal Rating	Rating at June 30, 2018			
			AAA	AA	A	Not Rated
U.S. Agency						
FFCB	\$ 60,850,135	N/A	\$ -	\$ 60,850,135	\$ -	-
FFCB- Floating	10,016,800	N/A	-	10,016,800	-	-
FHLB	9,913,450	N/A	-	9,913,450	-	-
FHLMC	30,262,115	N/A	-	30,262,115	-	-
FNMA	30,260,342	N/A	-	30,260,342	-	-
Corporate- Fixed	52,613,643	A	-	50,617,783	1,995,860	-
Corporate- Floating	6,859,741	A	-	6,859,741	-	-
Municipal	86,692,209	N/A	11,242,203	73,450,006	2,000,000	-
LAIF	180,471,836	N/A	-	-	-	180,471,836
CalTRUST	34,955,063	N/A	-	34,955,063	-	-
Held by Trustee:						
Money Market Mutual Funds	27,068,722	N/A	27,068,722	-	-	-
Total Investments	\$ 529,964,056		\$ 38,310,925	\$ 307,185,435	\$ 3,995,860	\$ 180,471,836

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, 2018.

Issuer	Investment Type	Reported Amount
California State	Municipal	\$ 30,080,406
Federal Farm Credit Bank	U.S. Agency Securities	70,866,935
FNMA	U.S. Agency Securities	30,260,342
FHLMC	U.S. Agency Securities	30,262,115

NOTE 2 — Cash and Investments (cont'd)

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, 2018, 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 at fair market value. 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.

NOTE 2 — Cash and Investments (cont'd)

Fair Value Measurement

The District categorizes its fair value investments within the fair value hierarchy established by generally accepted accounting principles. The District has the following recurring fair value measurements as of June 30, 2018:

Category	Fair Value Hierarchy			
	Total	Level 1	Level 2	Level 3
Investments reported at Fair Value				
U.S. Agency				
FFCB	\$ 60,850,135	\$ -	\$ 60,850,135	\$ -
FFCB- Floating	10,016,800	-	10,016,800	-
FHLB	9,913,450	-	9,913,450	-
FHLMC	30,262,115	-	30,262,115	-
FNMA	30,260,342	-	30,260,342	-
Corporate- Fixed	52,613,643	-	52,613,643	-
Corporate- Floating	6,859,741	-	6,859,741	-
Municipal	86,692,209	-	86,692,209	-
Total Investments at Fair Value	<u>\$ 287,468,435</u>	<u>\$ -</u>	<u>\$ 287,468,435</u>	<u>\$ -</u>

NOTE 3 — Capital Asset Activity

The capital asset activity for the fiscal year ended June 30, 2018 was as follows:

	Beginning Balance June 30, 2017	Additions	Reductions	Ending Balance June 30, 2018
Capital assets, not being depreciated				
Land	\$ 58,311,851	\$ 4,343,734	\$ -	\$ 62,655,585
Tunnel Water Seepage Agreement	1,750,900	-	-	1,750,900
Construction in progress	131,631,533	121,644,368	(69,444,370)	183,831,531
Total capital assets not being depreciated	191,694,284	125,988,102	(69,444,370)	248,238,016
Capital assets, being depreciated				
Water plant, lines and equipment	1,167,341,886	39,168,492	(427,992)	1,206,082,386
Water capacity rights	30,074,350	-	-	30,074,350
Sewer plant, lines and equipment	1,892,138,078	38,986,931	(1,078,473)	1,930,046,536
Equipment and general facilities	119,494,824	4,454,716	(1,298,681)	122,650,859
Total capital assets being depreciated	3,209,049,138	82,610,139	(2,805,146)	3,288,854,131
Less accumulated depreciation for				
Water plant, lines and equipment	466,968,913	39,854,189	(289,661)	506,533,441
Water capacity rights	9,508,324	722,730	-	10,231,054
Sewer plant, lines and equipment	613,571,689	48,174,382	(662,342)	661,083,729
Equipment and general facilities	80,545,225	6,101,873	(1,228,955)	85,418,143
Total accumulated depreciation	1,170,594,151	94,853,174	(2,180,958)	1,263,266,367
Total capital assets being depreciated, net	2,038,454,987	(12,243,035)	(624,188)	2,025,587,764
Capital assets, net	\$ 2,230,149,271	\$ 113,745,067	\$ (70,068,558)	\$ 2,273,825,780

NOTE 4 — Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2018 is as follows:

	Ending Balance June 30, 2017	Additions	Reductions	Ending Balance June 30, 2018	Due Within One Year
Long-Term Debt					
Advances for Construction, Notes and Assessments:					
CA DWR Prop 204 (HWFP)	\$ 20,384,974	\$ -	\$ (1,650,960)	\$ 18,734,014	\$ 839,577
SWRCB SRF loan (APAD)	35,418,153	-	(2,144,409)	33,273,744	2,153,459
SWRCB SRF loan (SCATT)	29,424,761	-	(1,827,977)	27,596,784	-
SWRCB SRF loan (N. Trumble Pond)	-	7,335,663	(220,657)	7,115,006	212,703
Total notes payable	85,227,888	7,335,663	(5,844,003)	86,719,548	3,205,739
Capital Lease Obligations	12,782		(11,764)	1,018	1,018
Revenue Bonds:					
2011A refunding	17,730,000	-	(4,145,000)	13,585,000	4,310,000
2015A refunding	50,000,000	-	-	50,000,000	-
2015B	74,430,000	-	-	74,430,000	-
2016A Refunding	205,330,000	-	(5,010,000)	200,320,000	5,260,000
2016B Refunding	124,925,000	-	(1,300,000)	123,625,000	1,350,000
2017A Refunding	54,810,000	-	-	54,810,000	-
2017B Refunding	50,225,000	-	-	50,225,000	-
2017C Refunding	17,515,000	-	-	17,515,000	-
2017D	102,500,000	-	-	102,500,000	-
2017E Refunding	147,970,000	-	(330,000)	147,640,000	335,000
2017F Refunding	47,545,000	-	-	47,545,000	-
Unamortized premium	94,779,455	-	(4,667,009)	90,112,446	4,667,009
Total revenue bonds	987,759,455	-	(15,452,009)	972,307,446	15,922,009
General Obligation Bonds:					
2005A	11,895,000	-	(515,000)	11,380,000	535,000
2009	21,650,000	-	(525,000)	21,125,000	550,000
Unamortized premium	360,509	-	(20,393)	340,116	20,393
Total GO bonds	33,905,509	-	(1,060,393)	32,845,116	1,105,393
Sub-total long term debt	1,106,905,634	7,335,663	(22,368,169)	1,091,873,128	20,234,159
Other Noncurrent Liabilities					
Compensated absences	12,802,563	8,733,770	(9,438,025)	12,098,308	8,713,319
Total long-term liabilities	\$ 1,119,708,197	\$ 16,069,433	\$ (31,806,194)	\$ 1,103,971,436	\$ 28,947,478

NOTE 4 — Long-Term Liabilities (cont'd)

The following schedule summarizes the major terms of outstanding long-term debt:

	Date of Issue	Original Issue	Revenue Sources	Lien	Final Maturity Date	Interest Rates
Advances for construction, notes and assessments:						
CA DWR Prop 204 (HWFP) <i>Hemet Water Filtration Plant Construction Project</i>	3/3/05	\$ 42,098,388	(a)	Subordinate	7/1/28	Imputed-2.273%
SWRCB SRF loan (APAD) <i>Moreno Valley RWRF Acid Phase Anaerobic Digestion Project</i>	9/15/09	43,908,096	(a)	Subordinate	3/16/33	0.422%
SWRCB SRF loan (SCATT) <i>Moreno Valley RWRF Secondary Clarifier & Tertiary Treatment Expansion Project</i>	6/23/09	38,302,852	(a)	Subordinate	7/5/32	1.0%
SWRCB SRF loan (N. Trumble) <i>Recycled Water Pond Optimization Project - N. Trumble & Perris Valley RWRF</i>	4/26/18	7,335,663	(a)	Subordinate	6/30/47	1.0%
Revenue Bonds:						
2011A Refunding	7/20/11	56,225,000	(a)	Senior	7/1/20	4% to 5%
2015A Refunding	6/23/15	50,000,000	(a)	Subordinate	7/1/39	Variable
2015B	6/18/15	74,430,000	(a)	Subordinate	7/1/39	4% to 5%
2016A Refunding	4/5/16	209,230,000	(a)	Subordinate	7/1/39	2% to 5%
2016B Refunding	9/14/16	124,925,000	(a)	Subordinate	7/1/35	2% to 5%
2017A Refunding	4/12/17	54,810,000	(a)	Subordinate	7/1/35	Variable
2017B Refunding	4/12/17	50,225,000	(a)	Subordinate	7/1/38	Variable
2017C Refunding	5/2/17	17,515,000	(a)	Subordinate	7/1/23	5.0%
2017D	5/18/17	102,500,000	(a)	Subordinate	7/1/47	5.0% to 5.25%
2017E Refunding	5/25/17	147,970,000	(a)	Subordinate	7/1/46	Variable
2017F Refunding	5/25/17	47,545,000	(a)	Subordinate	7/1/46	Variable
General Obligation Bonds:						
2005A	6/7/15	18,255,000	(b)	N/A	9/1/35	4% to 5%
2009	8/12/09	31,625,000	(b)	N/A	9/1/39	4.25% to 5.625%

(a) Net water and sewer revenues

(b) Ad valorem taxes levied and collected on sixty-one special improvement districts within the District's service area

NOTE 4 — Long-Term Liabilities (cont'd)

Future principal and interest requirements on all long-term debt are as follows:

Year ending June 30:	Principal	Interest	Total
2019	\$ 15,546,757	\$ 35,464,278	\$ 51,011,035
2020	18,816,517	35,065,028	53,881,545
2021	19,545,290	34,060,836	53,606,126
2022	21,665,198	33,253,229	54,918,427
2023	22,516,267	32,393,647	54,909,914
2024-2028	134,484,586	148,353,957	282,838,543
2029-2033	163,269,807	122,928,706	286,198,513
2034-2038	192,539,652	90,045,150	282,584,802
2039-2043	203,068,907	60,014,528	263,083,435
2044-2048	209,967,585	22,036,271	232,003,856
Sub-total	1,001,420,566	613,615,630	1,615,036,196
Add: Unamortized premium	90,452,562	-	90,452,562
Total	\$ 1,091,873,128	\$ 613,615,630	\$ 1,705,488,758

Advances for Construction, Notes and Assessments

Advances for construction, notes and assessments include project financing agreements executed with the State of California Department of Water Resources and the State of California Water Resources Control Board between March 2005 and January 2016. These agreements, detailed in the summary of major terms of outstanding long-term debt, provide financing for various projects and construction costs.

Future principal payments and interest payments on these advances for construction, notes and assessments are as follows:

Year ending June 30:	Principal	Interest	Total
2019	\$ 3,205,739	\$ 424,448	\$ 3,630,187
2020	5,931,517	873,354	6,804,871
2021	6,000,290	804,581	6,804,871
2022	6,070,198	734,673	6,804,871
2023	6,141,267	663,603	6,804,870
2024-2028	31,814,586	2,209,769	34,024,355
2029-2033	23,864,807	687,412	24,552,219
2034-2038	1,259,652	159,613	1,419,265
2039-2043	1,323,907	95,358	1,419,265
2044-2048	1,107,585	27,826	1,135,411
Total	\$ 86,719,548	\$ 6,680,637	\$ 93,400,185

NOTE 4 — Long-Term Liabilities (cont'd)

Advances for Construction, Notes and Assessments (continued)

On January 25, 2016, 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 planning, design and construction costs related to the North Trumble and PVRWRF Case Road Recycled Storage Ponds project. This agreement provided \$11,246,300 in funding with a future thirty-year loan at an interest rate of 1.0 percent. Contingent on the District's performance of its obligations under this agreement, the estimated amount of principal due to the State Water Board was \$7,798,170 with the remaining balance of \$3,448,130 to be awarded as a grant. The project was substantially completed at the end of the fiscal year and loan repayment started in June 30, 2018. The principal amount due at June 30, 2018 was \$7,115,006 and the total grant amount received was \$3,273,630.

On July 12, 2017, 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 Recycled Water Optimization Program project. This agreement provides \$95,264,880 in funding with a future thirty-year loan at an interest rate of 1.8 percent. Contingent on the District's performance of its obligations under this agreement, the estimated amount of principal that will be due to the State Water Board is \$80,264,880 with the remaining \$15.0 million to be awarded as a grant. Loan repayment is expected to begin in September 30, 2019. Construction advances totaling \$6,443,478 for this project were recorded through June 30, 2018.

Revenue Bonds

The outstanding revenue bonds were issued to provide financing for various projects and facility improvements and to refund certain prior revenue Bonds issued for the purpose of decreasing related debt service costs. Outstanding revenue bonds are detailed in the summary of major terms of outstanding long-term debt.

Future principal and interest payments on all revenue Bonds as of June 30, 2018 are as follows:

Year ending June 30:	Principal	Interest	Total
2019	\$ 11,255,000	\$ 33,392,559	\$ 44,647,559
2020	11,750,000	32,595,281	44,345,281
2021	12,360,000	31,711,199	44,071,199
2022	14,355,000	31,027,697	45,382,697
2023	15,090,000	30,298,675	45,388,675
2024-2028	95,875,000	139,974,038	235,849,038
2029-2033	131,355,000	117,926,083	249,281,083
2034-2038	182,625,000	87,919,571	270,544,571
2039-2043	198,670,000	59,743,811	258,413,811
2044-2048	208,860,000	22,008,445	230,868,445
	882,195,000	586,597,359	1,468,792,359
Add: Unamortized premium	90,112,446	-	90,112,446
Total	\$ 972,307,446	\$ 586,597,359	\$ 1,558,904,805

NOTE 4 — Long-Term Liabilities (cont'd)

General Obligation (GO) Bonds

The outstanding general obligation bonds were issued by the Western Riverside Water and Wastewater Financing Authority in May 2005 and August 2009 to finance certain water and/or sewer facilities for the improvement districts and to pay the costs of executing and delivering the GO Bonds. The major terms of these bonds are detailed in the summary of major terms of outstanding long-term debt.

Future principal and interest payments on total general obligation bonds are as follows:

Year ending June 30:	Principal	Interest	Total
2019	\$ 1,085,000	\$ 1,647,265	\$ 2,732,265
2020	1,135,000	1,596,393	2,731,393
2021	1,185,000	1,545,056	2,730,056
2022	1,240,000	1,490,859	2,730,859
2023	1,285,000	1,431,369	2,716,369
2024-2028	6,795,000	6,170,150	12,965,150
2029-2033	8,050,000	4,315,211	12,365,211
2034-2038	8,655,000	1,965,966	10,620,966
2039-2040	3,075,000	175,359	3,250,359
Sub-total	32,505,000	20,337,628	52,842,628
Add: Unamortized premium	340,116	-	340,116
Total	\$ 32,845,116	\$ 20,337,628	\$ 53,182,744

The 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, 2018, general obligation bonds authorized but not issued total \$547,650,000.

The District defeased certain bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the assets in the trust account and the liability for the defeased debt are not included on the District's financial statements. On June 30, 2018, \$140,035,000 of bonds outstanding were considered defeased.

NOTE 4 — Long-Term Liabilities (cont'd)

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 on the Hemet Water Filtration Plant State Revolving Fund in the event that the District has not provided the Trustee with sufficient funds by the installment payment date to make the required installment payments. The current required reserve amount and reserve balance at June 30, 2018 for the outstanding debt is as follows:

<u>Description</u>	<u>Required</u>	<u>Actual</u>	<u>Excess (Deficiency)</u>
Hemet WFP SRF- \$4.21M ¹	\$ 2,104,920	\$ 2,158,641	\$ 53,721
Total Debt Service Reserve Funds	\$ 2,104,920	\$ 2,158,641	\$ 53,721

¹ The total required reserve per loan agreement is \$2,104,920. Half of this amount is required to be and was deposited by the first of ten semi-annual payments (July 1, 2013) and the remainder of the balance was required to be deposited by the tenth year of the repayment period (approximately July 1, 2018).

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, 2018, the District's parity and subordinate obligation debt service coverage ratios were 27.9 times and 2.9 times, respectively.

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 amount and the actual reserve balance at June 30, 2018 was \$39,153,186 and \$41,182,578, respectively.

NOTE 5 - Interest Rate Swap Contracts

Standby Certificate Purchase Agreements

Included in long-term debt at June 30, 2018 are \$155,035,000 Series 2015A, 2017A and 2017B Revenue Bonds (collectively, the Supported Variable Rate Debt). The Supported Variable Rate Debt have a tender provision for bondholders on seven-day notice, to tender their bonds at par value plus accrued interest. In connection with the issuance of the Supported Variable Rate Debt, the District executed Standby Purchase Agreements (SPA) between the Corporation and various banks. The SPA is terminated prior to the expiration date only if there is an occurrence of "events of defaults". As of June 30, 2018, there were no outstanding bonds that have been tendered but failed to be remarketed. The bank and expiration date for each SPA at June 30, 2018 for each Supported Variable Rate Debt is:

<u>Description</u>	<u>SPA Bank</u>	<u>SPA Expiration Date</u>
2015A Bond	The Toronto Dominion Bank	05/21/2021
2017A Bond	Sumitomo Mitsui Banking Corp	04/12/2022
2017B Bond	Sumitomo Mitsui Banking Corp	04/12/2022

Plan Description

The fair value balances and notional amounts of financial instruments (instruments) outstanding at June 30, 2018, classified by type and the changes in fair value of such instruments for the year then ended are shown in the following table.

	<u>Changes in Fair Value</u>		<u>Fair Value at June 30, 2018</u>		
	<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>	<u>Notional</u>
Cash flow hedges:					
2017E Bonds	Pay-fixed interest swap				
	Deferred inflow	\$ 2,757,614	Debt	\$ (5,304,822)	\$ 53,820,000
2017F Bonds	Pay-fixed interest swap- cost of funds				
	Deferred inflow	\$ 1,006,335	Debt	\$ (810,142)	\$ 21,550,000

The expected swap cash flows are calculated using the zero-coupon discounting method which takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction, and assumes that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. The income approach is then used to obtain the fair value of the swaps, where future amounts (the expected swap cash flows) are converted to a single current (discounted) amount, using a rate of return that takes into account the relative risk of nonperformance associated with the cash flows, and time value of money. The observability of inputs used to perform the measurement results in the swap fair values being categorized as Level 2.

NOTE 5 - Interest Rate Swap Contracts (cont'd)

Objective and Terms of Financial Instruments

The District entered into the financial instruments to increase interest rate savings realized by refunding various outstanding 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 fixed rate debt.

The following table displays the objective and terms of the District's financial instruments outstanding at June 30, 2018, along with the credit rating of the associated counterparty.

<u>Type</u>	<u>Objective</u>	<u>Notional Amount</u>	<u>Effective Date</u>	<u>Maturity Date</u>	<u>Terms</u>	<u>Counterparty Credit Rating</u>
Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2017E debt issue	\$ 53,820,000	11/1/14	7/1/30	Pay 3.1%, receive 66% of one-month LIBOR from WFB	S&P: A+ Moody's: Aa2
Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2017F debt issue	\$ 21,550,000	12/1/14	7/1/20	Pay 5.125%, receive the SIFMA Swap Index from WFB	S&P: A+ Moody's: Aa2

Credit Risk

The counterparty credit ratings as of June 30, 2018 are shown in the table above. 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 for Wells Fargo Bank either met or exceeded these rating requirements at June 30, 2018.

Interest Rate Risk

The District is exposed to interest rate risk on its financial instruments. As the 1-month LIBOR or the SIFMA Swap Index 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 5.125 percent and receives the SIFMA Swap Index for the 2017F financial instrument, which may be different from the variable rate payments made on the 2017F debt. The District is exposed to basis risk should the floating rate that it receives on a swap be less than the variable rate the District pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost savings from the swap may not be realized.

NOTE 5 - Interest Rate Swap Contracts (cont'd)

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 2017E and 2017F bonds 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.

Collateral Requirements

The financial instruments include provisions that require the District to post collateral in the event the lowest credit rating assigned to any of its long-term, unenhanced debt secured by a pledge of Net Water and Sewer Revenues falls below A- as issued by Fitch Ratings, A-as issued by 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 counterparty. At June 30, 2018, the aggregate fair value of all financial instruments with these collateral posting provisions is a negative \$6,114,964. If the collateral posting requirements were triggered at June 30, 2018, the District would be required to post \$6,114,964 to the counterparty. The District's credit ratings for its senior Revenue Bonds were AAA/Aa1/AA+ and the credit ratings for its subordinate Revenue Bonds were 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, 2018.

NOTE 6 - Defined Benefit Pensions Plan

Plan Description

All qualified permanent and probationary employees are eligible to participate in the District's agent multiple-employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employees. Benefit provisions under the Plans are established by State statute and local government resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS website.

NOTE 6 — Defined Benefit Pensions Plan (cont'd)

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members who must be public employees and beneficiaries. Benefits are based on years of credited service equal to one year of full-time employment. The Plans' provisions and benefits in effect at June 30, 2018 are summarized as follows:

	Miscellaneous		
	<u>Prior to 11/1/10</u>	<u>11/1/10-1/1/13</u>	<u>On or after 1/1/2013</u>
Hire date			
Benefit formula	2.5% @ 55	2% @ 55	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life	Monthly for life
Retirement age	50-55	50-55	62-67
Monthly Benefits as a % of eligible compensation	2.5%	2.0% to 2.5%	2.0% to 2.5%
Required employee contribution rates	8.0%	7.0%	5.75%
Required employer contribution rates	8.19%	8.19%	0.0%

Employees Covered

The following employees were covered by the benefit terms for each plan:

Active Members	612
Transferred Members	76
Terminated Members	111
Retired Members and Beneficiaries	<u>441</u>
Total	<u><u>1,240</u></u>

Contribution Description

Section 20814 (c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following the notice of a change in the rate. The total plan contributions are determined through the CalPERS annual actuarial valuation report. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ending June 30, 2017 (the measurement date), the District's average contribution rate is 16.02 percent of annual payroll. District contribution rates may change if plan contracts are amended. It is the responsibility of the District to make necessary accounting adjustments to reflect the impact due to any District Paid Member Contributions or situations where members are paying the portion of the District contribution.

NOTE 6 — Defined Benefit Pensions Plan (cont'd)

Actuarial Methods and Assumptions Used To Determine Total Pension Liability

For the measurement period ending June 30, 2016 (the measurement date), the total pension liability was determined using the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Payroll Growth	3.00%
Investment Rate of Return	7.5%Net of Pension Plan Investment and Administrative Expenses; includes inflation
Mortality Rate Table ¹	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

¹ The mortality table used was developed based on CalPERS' specific data. The table includes twenty years of mortality improvements using Society of Actuaries Scale BB.

All other actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality, and retirement rates. The Experience Study Report can be obtained at the CalPERS website under Forms and Publications.

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. The tests revealed the assets would not run out. Therefore, the current 7.15 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.15 percent is applied to all plans in the Public Employees Retirement Fund. The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS website under the GASB 68 section.

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

NOTE 6 — Defined Benefit Pensions Plan (cont'd)

Discount Rate (continued)

In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Taking in to account historical returns of all the Public Employees Retirement Funds' asset classes (which includes the agent plan and two cost-sharing plans or PERF A, B and C funds), expected compound (geometric) returns were calculated over the short-term (first ten years) and the long-term (eleven to sixty years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each PERF fund. The expected rate was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the Board effective July 1, 2016.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1 - 10¹</u>	<u>Real Return Years 11+²</u>
Global Equity	47.00%	4.90%	5.38%
Global Fixed Income	19.00%	0.80%	2.27%
Inflation Sensitive	6.00%	0.60%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Estate	11.00%	2.80%	5.21%
Infrastructure and Forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	-0.90%
	<u>100.00%</u>		

¹An expected inflation of 2.5% used for this period

²An expected inflation rate of 3.0% used for this period

NOTE 6 — Defined Benefit Pensions Plan (cont'd)

Changes in Net Pension Liability

The following table shows the changes in net pension liability recognized over the measurement period:

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (c) = (a) - (b)
Balance at 6/30/2016 (VD)	\$ 386,339,851	\$ 269,179,481	\$ 117,160,370
Changes Recognized for the Measurement Period:			
Service Cost	8,944,792	-	8,944,792
Interest on the Total Pension Liability	28,922,504	-	28,922,504
Changes of Benefit Terms	-	-	-
Differences between Expected and Actual Experience	(3,044,287)	-	(3,044,287)
Net Plan to Plan Resource Movement	-	2,059	(2,059)
Changes of Assumptions	24,934,841	-	24,934,841
Contributions from the Employer	-	9,699,290	(9,699,290)
Contributions from Employees (1)	-	4,294,049	(4,294,049)
Net Investment Income	-	30,717,223	(30,717,223)
Benefit Payments, including Refunds of Employee Contributions	(16,384,470)	(16,384,470)	-
Administrative Expense	-	(397,425)	397,425
Net Changes during 2016-2017	<u>\$ 43,373,380</u>	<u>\$ 27,930,726</u>	<u>\$ 15,442,654</u>
Balance at 6/30/2017 (MD)	<u>\$ 429,713,231</u>	<u>\$ 297,110,207</u>	<u>\$ 132,603,024</u>

(VD) Valuation Date

(MD) Measurement Date

(1) Includes both the employee contributions and the employer paid member contributions

NOTE 6 — Defined Benefit Pensions Plan (cont'd)

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

The following presents the net pension liability of the Plan as of the Measurement Date, calculated using the discount rate of 7.15 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.65 percent) or 1 percentage point higher (8.65 percent) than the current rate:

	Discount Rate -1% <u>6.15%</u>	Current Discount <u>7.15%</u>	Discount Rate +1% <u>8.15%</u>
Plan's Net Pension Liability/(Asset)	\$ 193,371,275	\$ 132,603,024	\$ 82,436,804

Subsequent Events

Effective June 30, 2019, the amortization period for new pension liabilities will change from the current thirty years to twenty years. This change was approved by the CalPERS Board in February 2018.

Recognition of Gains and Losses

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

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

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

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

The EARSL for the Plan for the June 30, 2017 measurement period is 4.6 years, which was obtained by dividing the total service years of 5,852 (the sum of remaining service lifetimes of the active employees) by 1,273 (the total number of participants: active, inactive and retired). Inactive employees and retirees have remaining service lifetimes equal to 0. Total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

NOTE 6 — Defined Benefit Pensions Plan (cont'd)

Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions

For the measurement period ending June 30, 2017 (the measurement date), the District recognized a pension expense of \$17,875,309 for the plan.

As of June 30, 2018, the District reported other amounts for the Plan as deferred outflow and deferred inflow of resources related to pensions as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension Contributions Subsequent to Measurement Date	\$ 10,748,902	\$ -
Changes in Assumptions	19,514,223	(2,685,696)
Differences Between Expected and Actual Experience	-	(2,649,602)
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	<u>3,146,827</u>	<u>-</u>
Total	<u>\$ 33,409,952</u>	<u>\$ (5,335,298)</u>

The \$10,748,902 reported as deferred outflows of resources related to employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Measurement Period Ended June 30</u>	<u>Deferred Outflows/(Inflows) of Resources</u>
2018	\$ 2,985,035
2019	7,630,461
2020	6,182,742
2021	527,514
2022	-

NOTE 7 — Defined Contribution Plan

The District maintains the EMWD 401(a) 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 401(a) 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 401(a) Plan are 7.15 percent of each eligible employee's compensation, up to a maximum annual compensation of \$16,500. The District's contribution to the 401(a) Plan was \$787,033 for the fiscal year ended June 30, 2018.

In July 2011, the District executed a plan amendment to its 401(a) Plan to provide for a contribution to this 401(a) Plan on behalf of the General Manager in accordance with his employment contract. Contribution to this 401(a) Plan was \$44,148 the fiscal year ended June 30, 2018.

The district provides a voluntary 457(b) deferred compensation plan for employees to contribute to their retirement on a tax-deferred basis. In October 2013, the District executed an amendment to its 401(a) Plan to provide for a matching contribution for those employees contributing to the 457(b) deferred compensation plan. The District's matching contributions will be paid into the 401(a) plan equal to 100 percent of an employee's 457(b) contribution at a rate of 2.0 percent in Year 1 of the labor contract (July 24, 2016 to December 31, 2017), 3.0 percent in Year 2 (January 1, 2018 to December 31, 2018), and 4.0 percent in Year 3 (January 1, 2019 to December 31, 2019). Matching contributions to the 401(a) plan totaled \$1,081,382 for the fiscal year ended June 30, 2018.

NOTE 8 — Postemployment Benefits Other Than Pensions

Plan Description

Health Care Benefits - The District provides postemployment health care benefits to all qualified employees who meets the District's California Public Employees' Retirement System (PERS) plan requirements. This plan is an agent multiple-employer defined benefit OPEB plan. This plan contributes an amount for the retiree and dependents, as applicable, with eligibility based on the Health Benefit Vesting Requirements found in Government Code 22893 (Vesting for Contracting Agency Employees). This amount of District's contribution varies according to the retiree's medical benefit tiers as follows:

Tier 1 (hired prior to August 1, 2005) –The District's contribution is 100 percent of the coverage level elected by the retiree up to the greater of the basic monthly rate under PEMHCA for the Blue Shield HMO or Kaiser HMO.

Effective for the 2017 calendar year, the District's contribution is 100 percent of the coverage level elected by the retiree up to the maximum of \$675 per month for single coverage, \$1,350 per month for two-party coverage and \$1,750 per month for family coverage. The District's contribution consists of the CalPERS statutory minimum required contribution of \$128 per month for 2017 and \$133 per month for 2018 and a contribution through a

health reimbursement arrangement (HRA). Retirees in the Kaiser A HMO are required to pay a monthly contribution based on the family coverage category elected. The District's contribution towards retiree medical benefits is paid for the lifetime of the eligible retiree or the surviving spouse upon the death of the eligible retiree.

Tier 2 (hired from August 1, 2005 to March 26, 2014) – The District's contribution is 100 percent of the coverage level elected by the retiree up to the greater of the same contribution amount as a retiree hired prior to August 1, 2005 multiplied by a vesting schedule or the 100/90 amount per PEMHCA. The 100/90 amount is 100 percent of the weighted average of single coverage and 90 percent of the weighted average of additional premium for the two-party and family coverage for the four PEMHCA plans with the highest State enrollment in the prior year (for 2017: \$707 per month for single, \$1,349 per month for two-party and \$1,727 per month for family). The vesting percentages, according to PEMHCA Section 22893, range from 50 percent to 100 percent for retirees with service of ten years to 20 years or more. The District's contribution consists of the CalPERS statutory minimum required contribution of \$128 per month for 2017 and \$133 per month for 2018 and a contribution through a health reimbursement arrangement (HRA). The District's contribution towards retiree medical benefits is paid for the lifetime of the eligible retiree or the surviving spouse upon the death of the eligible retiree.

Tier 3 (hired after March 26, 2014) – The District's contribution is the PEMHCA minimum required contribution of \$ \$128 per month in 2017 and \$133 per month for 2018.

The District also provides healthcare benefits to elected official retirees in accordance with the District's Administrative Code. This plan contributes up to the District's contribution amount for employees and dependent coverage.

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

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

Employees Covered

As of the June 30, 2017 measurement date, the following current and former employees were covered by the benefit terms under the Plan:

Active employees	610
Inactive employees or beneficiaries currently receiving benefits	<u>404</u>
Total	<u><u>1,014</u></u>

NOTE 8 — Postemployment Benefits Other Than Pensions (cont'd)

Contributions

Contribution requirements 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 the Ordinance 70, for the health benefit plan, or with the life insurance company, for the life insurance benefits. The District's policy is to achieve full funding of its unfunded actuarial accrued or net OPEB liability by fiscal year 2033-2034. The District's funding practice is to fund at least the actuarially determined contribution, inclusive of direct payments for retiree health payments and the implied subsidy, which is determined based on the normal cost plus an amortization of the net (unfunded accrued) OPEB liability over a reasonable period of time (currently fifteen years). For the fiscal year ended June 30, 2018, the District's cash contributions were \$17,295,200 in payments to the trust and the estimated implied subsidy was \$652,201.

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.

Net OPEB Liability

The District's net OPEB liability was measured on June 30, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2017 based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.00%
Inflation	2.75%
Salary Increases	3.00% per year, in aggregate
Investment Rate of Return	7.00 % per year; assumes the District invests in the CERBT asset allocation Strategy 1 with a margin of adverse deviation of 28 bps
Mortality Rate ¹	Derived using CalPERS' Membership Data for all funds
Pre-Retirement Turnover ²	Derived using CalPERS' Membership Data for all funds
Healthcare Trend Rate	Recent premium experience assuming 1% to 1.50% increase/decrease due to market trends then reduced to a rate reflecting medical price inflation

Notes:

¹ Pre-retirement mortality information was derived from the pre-retirement mortality rates under the CalPERS pension plan updated to reflect the most recent experience study projected with mortality improvement scale AA. The Experience Study Reports may be accessed on the CalPERS website, www.calpers.ca.gov under Forms and Publications.

² The pre-retirement turnover information was developed based on the termination rates under the CalPERS pension plan.

NOTE 8 — Postemployment Benefits Other Than Pensions (cont'd)

Net OPEB Liability (continued)

The long-term expected rate of return on OPEB plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan's target allocation as of June 30, 2017 are summarized in the following table:

Asset Class	Strategy 1	
	Target Allocation	Long-Term Expected Rate of Return
Global Equity	57.00%	5.50%
REITS	8.00%	3.65%
US Fixed Income	27.00%	2.35%
Commodities	3.00%	1.75%
Inflation Assets	5.00%	1.50%
Total	100.00%	

Long-term expected rate of return is 7.00 percent.

Discount Rate

The discount rate used to measure total OPEB liability was 7.00 percent, assuming full funding by 2033/2034.

Changes in OPEB Liability

	Total OPEB Liability (a)	Increase (Decrease) Fiduciary Net Position (b)	Net OPEB Liability (c) = (a) - (b)
Balance at 6/30/2017 (VD June 30, 2017)	\$ 100,157,346	\$ 21,107,838	\$ 79,049,508
Changes Recognized for the Measurement Period:			
Service Cost	2,947,902	-	2,947,902
Interest	7,081,960	-	7,081,960
Contributions from the Employer	-	18,111,235	(18,111,235)
Net Investment Income	-	3,066,258	(3,066,258)
Benefit Payments	(3,868,785)	(3,868,785)	-
Administrative Expense	-	(16,558)	16,558
Net Changes	\$ 6,161,077	\$ 17,292,150	\$ (11,131,073)
Balance at 6/30/2018 (MD June 30, 2017)	\$ 106,318,423	\$ 38,399,988	\$ 67,918,435

(VD) Valuation Date

(MD) Measurement Date

NOTE 8 — Postemployment Benefits Other Than Pensions (cont'd)

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

The following presents the net OPEB liability of the District if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate, for the measurement period ended June 30, 2017:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Net OPEB Liability	\$ 83,437,246	\$ 67,918,435	\$ 55,257,196

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

The following presents the net OPEB liability of the District if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rate, for the measurement period ended June 30, 2017:

	1% Decrease (5.00%HMC/5.50%PPO decreasing to 4.00%HMO/4.00%PPO)	Current Healthcare Cost Trend Rates (6.00%HMC/6.50%PPO decreasing to 5.00%HMO/5.00%PPO)	1% Increase (7.00%HMC/7.50%PPO decreasing to 6.00%HMO/6.00%PPO)
Net OPEB Liability	\$ 71,795,958	\$ 67,918,435	\$ 54,165,653

Recognition of Deferred Outflows and Deferred Inflows of Resources

Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time.

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

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

For fiscal year June 30, 2018, the District recognized OPEB expense of \$7,852,804. As of fiscal year ended June 30, 2018, the District reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	\$ 17,947,401	\$ -
Differences between actual and projected earnings	-	872,642
Total	<u>\$ 17,947,401</u>	<u>\$ 872,642</u>

NOTE 8 — Postemployment Benefits Other Than Pensions (cont'd)

The \$17,947,401 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2017 measurement date will be recognized as a reduction of the net OPEB liability during the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources related to OPEB will be recognized as expense as follows:

Measurement Period June 30		Deferred Outflows (Inflows) of Resources
2018	\$	(218,161)
2019		(218,161)
2020		(218,161)
2021		(218,159)
2022		-

NOTE 9 — Restricted and Unrestricted Net Position

Restricted Net Position

Net Position restricted for debt service/covenants represent constraints required by the District's Master Resolution and third party general obligation bondholders.

Net Position restricted for construction represent constraints on legally restricted funds 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 net position. 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.

NOTE 10 — Commitments

Construction Contracts

The District is committed to approximately \$30,265,255 of open construction contracts as of June 30, 2018. The contracts with the largest remaining balances include:

	<u>Contract Amount</u>	<u>Balance To Complete</u>
TVRWRF 23 MGD Expansion	\$ 76,196,829	\$ 10,448,519
Pump Electrification (Phase I)	3,581,376	3,169,176
Potable Water Well #38	3,111,828	2,658,651
Quail Valley Subarea 9 PH 1 Sewer	7,525,008	2,440,011
Post Rd Hydropneumatic Booster PS	2,704,868	2,119,519
MV/PV/SJV RWRF's Disinfection System Conversion	3,236,434	1,961,266
Sun City Lift Station Electrical Upgrades	2,449,690	1,935,732
De Anza Lift Station Force Main	2,659,000	1,486,337
Well #205 Drilling and Testing	1,115,789	1,051,789
Perris and Elder Booster Station	5,595,690	997,449
TOTAL	<u>\$ 108,176,512</u>	<u>\$ 28,268,449</u>

Claims and Judgments

The District is exposed to various risks of loss related to torts, theft, damage, and destruction of assets, error and omissions, road and walkway design hazards, vehicle accidents and flooding 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 \$30,000,000 per occurrence with a \$1,000,000 self-insured retention.

NOTE 10 — Commitments (cont'd)

Claims and Judgments (continued)

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 non-incremental claims adjustment expenses that needed to be included as part of the unpaid claims liability. In November 2012, a workers compensation claim stipulated 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			Ending Balance		Due Within
	June 30, 2017	Additions	Deletions	June 30, 2018	One Year	
General Liability	\$ 351,535	\$ 317,061	\$ (343,853)	\$ 324,743	\$ 324,743	
Workers Compensation	6,872,241	913,908	(1,167,328)	6,618,821	1,500,000	
	<u>\$ 7,223,776</u>	<u>\$ 1,230,969</u>	<u>\$ (1,511,181)</u>	<u>\$ 6,943,564</u>	<u>\$ 1,824,743</u>	

	2018	2017
Unpaid claims, beginning	\$ 7,223,776	\$ 7,189,156
Incurred claims and changes in estimates	1,230,969	1,193,300
Claim Payments	(1,511,181)	(1,158,680)
Unpaid claims, ending	<u>\$ 6,943,564</u>	<u>\$ 7,223,776</u>

There was no significant reduction in insurance coverage by major categories of risk from fiscal year 2017 to 2018. There were no settlements that exceeded insurance coverage for the three prior fiscal years ended June 30, 2017, June 30, 2016 and June 30, 2015. However, the stipulation discussed above did exceed the District's coverage at the time of the legal decision and the District subsequently purchased excess insurance coverage.

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.

NOTE 10 — Commitments (cont'd)

Soboba Settlement Act (continued)

The Settlement Agreement provides that:

- The Tribe shall have a senior rights to 9,000 acre feet of water each year;
- The local agencies shall develop a groundwater management plan (and a committee to operate that plan);
- The District shall contract with MWD for a long term water supply agreement to bring 7,500 acre feet of additional imported settlement water into the area each year to meet the current and future needs;
- The local agencies shall construct facilities to bring in the additional water and recharge it into the groundwater basin;
- 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;
- The federal government shall provide some funding for compliance with the agreement; and,
- 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 (while the 2008H COP has been refunded, it does not change the Soboba repayment schedule) 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 groundwater 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 settlement water and bill the agencies directly on behalf of the Watermaster. The District recorded a \$207,228 receivable from the agencies on behalf of the Watermaster for outstanding billings of imported settlement water deliveries as of June 30, 2018.

NOTE 10 — Commitments (cont'd)

Soboba Settlement Act (continued)

Due to favorable weather and snow pack conditions in early 2017, an abundance of water supply was available for recharge in the second half of calendar year 2017. A total of 19,686 acre feet of water was imported for recharge, thus meeting the annual settlement obligation of 7,500 acre feet and reducing the outstanding obligation of undelivered 2016 settlement water from 6,050 acre feet to zero. The first quarter of calendar year 2018 experienced drier weather and in below average snow pack conditions. During this period, 4,782 acre feet of imported settlement water was available for recharge to meet the calendar year 2018 required settlement obligation, leaving a balance of 2,718 acre feet of undelivered 2018 settlement water. The District's share of imported settlement water recorded in fiscal year 2018 was 5,527 acre feet.

In June 2013, the District established a methodology for valuing its share of the native groundwater in the Hemet-San Jacinto Groundwater Basin, including additions and withdrawals. The District recorded \$8,159,969 in water inventory for the fiscal year ended June 30, 2018. 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 water valued at purchased 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 year ended June 30, 2018.

	Beginning Balance June 30, 2017	Additions	Reductions	Ending Balance June 30, 2018
Acre feet	76,941	13,454	(10,886)	79,509
Dollar value	\$ 5,663,910	\$ 3,297,451	\$ (801,392)	\$ 8,159,969

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, 2018 was \$204,262,447. These are not included in the District's financial statements.

NOTE 11 — 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.

NOTE 12 — 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.

According to the latest available audited financial statements, as of June 30, 2017 SAWPA had total assets of \$178,602,450 and total net assets of \$70,388,238. SAWPA Financial Statements can be obtained by contacting SAWPA at 11615 Sterling Avenue, Riverside, CA 92503 or at www.sawpa.org. The District does not have a measurable equity interest in SAWPA.

NOTE 13 — 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, 2018, the amount of refundable deposits was \$21,897,290. 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.

NOTE 14 — Subsequent Events

In September 2018, the District issued \$195,720,000 in Refunding Revenue Bonds, Series 2018A, B and C. The net proceeds were used to provide funds to refund the District's Series 2017E and F revenue bonds. S&P, Moody's and Fitch Ratings have assigned the District's subordinate obligations the ratings of AA+, Aa2 and AA+, respectively. In September 2018, the District's senior obligation Series 2011A revenue bond was rated AA+, Aa1 and AAA by S&P, Moody's and Fitch Ratings, respectively.

NOTE 15 — Restatement of Prior Year Financial Statements

The implementation of GASB Statement No. 75 requires reporting the District's net OPEB liability on the financial statements and is applied retroactively by restating the net position as of the beginning of the fiscal year. The implementation of GASB Statement No. 75 resulted in reducing the net position by \$16,478,890 at the beginning of fiscal year 2018.

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EMWD is working to increase local groundwater reliability through the Groundwater Reliability Plus program, which seeks to expand groundwater management efforts through Water Banking and Purified Water Replenishment.

REQUIRED SUPPLEMENTARY INFORMATION

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**Schedule of Changes in Net Pension Liability and Related
Ratios During the Measurement Period**

Last Ten Fiscal Years *

Measurement Period	2016-2017	2015-2016	2014-2015	2013-2014
Total Pension Liability				
Service Cost	\$ 8,944,792	\$ 7,843,422	\$ 7,679,279	\$ 7,775,568
Interest	28,922,504	27,711,744	26,241,865	24,817,574
Difference Between Expected and Actual Experience	(3,044,287)	(377,219)	(117,683)	-
Changes of Assumptions	24,934,841	-	(6,714,237)	-
Benefit Payments, Including Refunds of Employee Contributions	(16,384,470)	(15,077,250)	(13,746,546)	(13,419,729)
Net Change in Total Pension Liability	43,373,380	20,100,697	13,342,678	19,173,413
Total Pension Liability - Beginning	386,339,851	366,239,154	352,896,476	333,723,063
Total Pension Liability - Ending (a)	\$ 429,713,231	\$ 386,339,851	\$ 366,239,154	\$ 352,896,476
Plan Fiduciary Net Position				
Contributions- Employer	\$ 9,699,290	\$ 8,782,080	\$ 8,161,529	\$ 7,786,103
Contributions- Employee	4,294,049	4,187,293	4,204,174	4,510,815
Net Investment Income	30,717,223	1,420,440	6,028,932	40,103,890
Benefit Payments, Including Refunds of Employee Contributions	(16,384,470)	(15,077,250)	(13,746,546)	(13,419,729)
Net Plan to Plan Resource Movement	2,059	-	-	-
Administrative Expense	(397,425)	(164,570)	(303,937)	-
Net Change in Fiduciary Net Position	27,930,726	(852,007)	4,344,152	38,981,079
Plan Fiduciary Net Position - Beginning	269,179,481	270,031,488	265,687,336	226,706,257
Plan Fiduciary Net Position - Ending (b)	\$ 297,110,207	\$ 269,179,481	\$ 270,031,488	\$ 265,687,336
Plan Net Pension Liability - Ending (a) - (b)	\$ 132,603,024	\$ 117,160,370	\$ 96,207,666	\$ 87,209,140
Pension Liability	69.14%	69.67%	73.73%	75.29%
Covered Employee Payroll	\$ 53,441,059	\$ 51,405,543	\$ 50,202,213	\$ 48,184,720
Plan Net Pension Liability as a Percentage of Covered Employee Payroll	248.13%	227.91%	191.64%	180.99%

*Fiscal Year 2015 was the first year of implementation, therefore, only four years are shown above.

Notes To Schedule:

Benefit Changes: The figures above do not include any liability impact that may have resulted from plan changes which occurred after the June 30, 2016 valuation date. This applies to voluntary benefit changes as well as any offers of Two Years Additional Service Credit.

Changes in Assumptions: In 2017, the accounting discount rate reduced from 7.65 percent to 7.15 percent. In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without reduction for pension plan administrative expense). In 2014, amounts reported were based on the 7.5 percent discount rate.

Schedule of Pension Plan Contributions

Last Ten Fiscal Years*

	<u>2017-2018</u>	<u>2016-2017</u>	<u>2015-2016</u>	<u>2014-2015</u>
Actuarially Determined Contribution ²	\$ 10,748,902	\$ 9,699,290	\$ 8,782,080	\$ 8,160,464
Contributions in Relation to the Actuarially Determined Contribution ²	<u>(10,748,902)</u>	<u>(9,699,290)</u>	<u>(8,782,080)</u>	<u>(8,160,464)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 Covered Employee Payroll ³	 \$ 52,372,367	 \$ 53,441,059	 \$ 51,405,543	 \$ 50,202,213
 Contributions as a Percentage of Covered Employee Payroll ³	 20.52%	 18.15%	 17.08%	 16.26%

*Fiscal Year 2015 was the first year of implementation, therefore, only four years are shown above.

Notes to Schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2017-18 were from the June 30, 2015 public agency valuations.

Actuarial Cost Method	Entry Age Normal Cost
Amortization Method/Period	20-year period with a 5-year ramp-up/ramp down in accordance with CalPERS Board policy. ¹
Asset Valuation Method	Market Value ¹
Inflation	2.75%
Salary Increase	Varies by entry age and service
Payroll Growth	3.00%
Investment Rate of Return	7.50%, net of Pension Plan Investment Expenses, includes inflation.
Retirement Age	The probabilities of Retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.
Mortality	The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period 1997 to 2011. Pre-retirement and Post-retirement mortality rates include twenty years of projected mortality improvement using Scale BB published by the Society of Actuaries.

¹ For details, see June 30, 2015 Funding Valuation Report

**Schedule of Changes in Net OPEB Liability and Related Ratios
During the Measurement Period***

Measurement Period	<u>2016 - 2017</u>
Service cost	\$ 2,947,902
Interest	7,081,960
Benefit payments, including refunds of member contributions	<u>(3,868,785)</u>
Net Change in Total OPEB Liability	6,161,077
Total OPEB Liability - Beginning	<u>100,157,346</u>
Total OPEB Liability - Ending (a)	<u>\$ 106,318,423</u>
Plan Fiduciary Net Position	
Contributions - Employer	\$ 18,111,235
Net investment income	3,066,258
Benefit payments, including refunds of member contributions	(3,868,785)
Administrative expenses	<u>(16,558)</u>
Net Change in Plan Fiduciary Net Position	\$ 17,292,150
Plan Fiduciary Net Position - Beginning	<u>21,107,838</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 38,399,988</u>
Net OPEB Liability - Ending (a) - (b)	<u>\$ 67,918,435</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	36.1%
Covered Employee Payroll	\$ 53,441,059
Net OPEB Liability as a Percentage of Covered Employee Payroll	127.1%

*Fiscal Year 2018 is the first year of implementation, therefore, only one year is shown above.

Schedule of OPEB Contribution

Last Ten Fiscal Years*

Fiscal Year Ended June 30	<u>2018</u>
Actuarially Determined Contribution	\$ 10,833,584
Contributions in relation to ADC	<u>17,947,401</u>
Contribution deficiency (excess)	<u>\$ (7,113,817)</u>
Covered employee payroll	\$ 52,372,367
Contributions as a percentage of covered employee payroll	34.27%

*Fiscal Year 2018 is the first year of implementation, therefore, only one year is shown above.

Notes To Schedule

Actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2018 were from the June 30, 2017 actuarial valuation.

Methods and assumptions used to determine contributions:

Actuarial Cost Method	Entry Age Normal																		
Amortization Method/Period	Level percent of payroll over a closed rolling 15-year period																		
Asset Valuation Method	Market value																		
Inflation	2.75%																		
Payroll Growth	3% per annum, in aggregate																		
Investment Rate of Return	7.00% per annum. Assumes investing in California Employers' Retiree Benefit Trust asset allocation Strategy 1.																		
Healthcare cost-trend rates	Medical costs are adjusted in future years by the following trends:																		
	<table border="0"> <thead> <tr> <th><u>Year</u></th> <th><u>PPO</u></th> <th><u>HMO</u></th> </tr> </thead> <tbody> <tr> <td>2018</td> <td>Actual</td> <td>Actual</td> </tr> <tr> <td>2019</td> <td>6.5%</td> <td>6.0%</td> </tr> <tr> <td>2020</td> <td>6.0%</td> <td>5.5%</td> </tr> <tr> <td>2021</td> <td>5.5%</td> <td>5.0%</td> </tr> <tr> <td>2022+</td> <td>5.0%</td> <td>5.0%</td> </tr> </tbody> </table>	<u>Year</u>	<u>PPO</u>	<u>HMO</u>	2018	Actual	Actual	2019	6.5%	6.0%	2020	6.0%	5.5%	2021	5.5%	5.0%	2022+	5.0%	5.0%
<u>Year</u>	<u>PPO</u>	<u>HMO</u>																	
2018	Actual	Actual																	
2019	6.5%	6.0%																	
2020	6.0%	5.5%																	
2021	5.5%	5.0%																	
2022+	5.0%	5.0%																	
Retirement Age	<p>According to the retirement rates under the most recent CalPERS pension plan experience study. According to the following retirement tables:</p> <p>Employees hired before 11/4/2010: 2.5%@55 (Tier 1)</p> <p>Employees hired on or after 11/4/2010: 2%@55 (Tier 2)</p> <p>Employees hired on or after 1/1/2013:</p> <p>Classic: 2%@55</p> <p>New Member: 2%@62</p>																		
Mortality	<p>The probabilities of Retirement are based on the most recent CalPERS pension plan experience study.</p> <p>Pre-retirement mortality probability based on 2014 CalPERS 1997-2011 Experience Study covering CalPERS participants. Post-retirement mortality probability based on CalPERS Experience Study 2007-2011 covering participants in CalPERS.</p>																		

*Historical information is required only for measurement periods for which GASB 75 is applicable.

Future years' information will be displayed up to 10 years as information becomes available.

EMWD will see long-term cost savings with Smart Meter upgrades. The new technology will eventually allow customers to use a portal to monitor usage in real time, project monthly bills and identify potential leaks. It also helps save in fuel costs and reduces the need for fleet vehicles dedicated solely toward meter-reading crews.



STATISTICAL SECTION

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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 disclosures, 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.



**EASTERN MUNICIPAL WATER DISTRICT
NET POSITION BY COMPONENT
LAST TEN FISCAL YEARS**

	2009	2010	2011	2012	2013	2014	2015 ¹	2016	2017	2018 ²
Net investment in capital assets	\$ 1,084,747,657	\$ 1,153,155,186	\$ 1,182,870,831	\$ 1,231,275,509	\$ 1,239,753,130	\$ 1,300,393,466	\$ 1,370,476,337	\$ 1,403,875,420	\$ 1,338,331,638	\$ 1,349,982,180
Restricted for debt service/covenants	58,248,958	65,090,658	65,433,313	64,333,290	73,268,230	70,625,613	74,689,785	80,348,698	71,207,358	80,159,371
Restricted for construction	169,061,541	150,977,362	127,083,266	99,513,601	56,375,249	45,199,054	40,347,436	38,265,888	60,632,573	23,827,435
Unrestricted	120,482,286	129,229,640	136,478,455	126,867,540	148,512,588	134,353,793	(7,842,690)	(1,974,861)	62,360,074	94,848,668
Total net position	\$ 1,432,540,442	\$ 1,498,452,846	\$ 1,511,865,865	\$ 1,521,989,940	\$ 1,517,909,197	\$ 1,550,571,926	\$ 1,477,670,868	\$ 1,520,515,145	\$ 1,532,531,643	\$ 1,548,817,654
% Increase	3.1%	4.6%	0.9%	0.7%	-0.3%	2.2%	-4.7%	2.9%	0.8%	1.1%

Notes:

¹ The District implemented GASB Statement Nos. 68 and 71 for the fiscal year ended June 30, 2015. As a result of this GASB implementation, the balance in net position includes a net prior period adjustment of (\$103,259,883).

² The District implemented GASB Statement No. 75 for the fiscal year ended June 30, 2018. As a result of this GASB implementation, the balance in net position includes a net prior period adjustment of (\$16,478,890).

**EASTERN MUNICIPAL WATER DISTRICT
CHANGES IN NET POSITION
LAST TEN FISCAL YEARS**

Fiscal Year	Operating Revenues		Operating Expenses		Operating Loss	Non-operating Revenues/ (Expenses) ¹	Income Before Capital Contributions	Capital Contributions ²	Change in Net Position
	Water	Wastewater	Water	Wastewater					
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)
2014	122,724,175	79,225,506	163,774,490	111,720,396	(73,545,205)	57,381,626	(16,163,579)	48,826,308	32,662,729
2015	117,295,152	83,513,268	162,871,146	116,781,896	(78,844,622)	49,992,435	(28,852,187)	59,211,012	30,358,825
2016	112,457,426	93,833,665	154,989,658	121,778,812	(70,477,379)	75,675,617	5,198,238	37,646,039	42,844,277
2017	120,870,937	100,328,285	167,605,351	124,278,288	(70,684,418)	61,307,368	(9,377,050)	21,393,548	12,016,498
2018	135,428,866	105,078,613	180,352,180	124,831,968	(64,676,669)	76,036,077	11,359,408	21,405,493	32,764,901

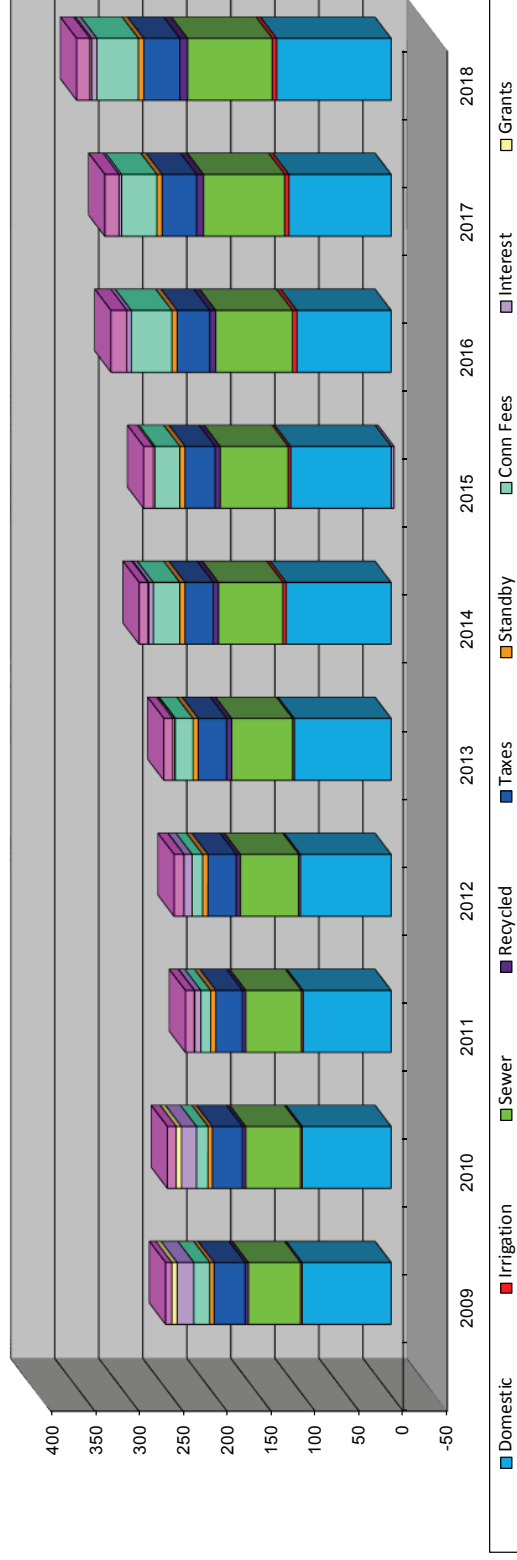
Notes:

¹ Total operating and capital grant revenues are included in non-operating revenues and expenses prior to 2010. Beginning in fiscal year 2010, capital grants are reported in capital contributions.

² Fluctuations in contributed capital are due to the volume of construction activity and project close outs in a fiscal year.

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	% of Total	Standby Assmnts	% of Total	Connect Fees	% of Total	Interest Income	% of Total	Grants ¹	% of Total	Other	% of Total	Total Revenues
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	42.8%	1,811,255	0.8%	62,609,731	26.8%	4,504,923	1.9%	30,354,685	13.0%	5,569,818	2.4%	10,815,294	4.6%	7,553,352	3.2%	5,17,888	0.2%	10,117,631	4.3%	234,052,867
2012	103,226,203	41.9%	1,515,039	0.6%	65,983,462	26.8%	5,135,186	2.1%	31,730,750	12.9%	5,600,661	2.3%	12,150,826	4.9%	9,208,523	3.7%	373,285	0.2%	11,533,511	4.7%	246,457,446
2013	110,468,194	42.8%	1,988,610	0.8%	68,957,128	26.7%	5,676,043	2.2%	32,555,228	12.6%	5,635,153	2.2%	20,364,185	7.9%	831,935	0.3%	2,052,613	0.8%	9,579,321	3.7%	258,108,410
2014	118,695,153	41.5%	4,029,022	1.4%	73,100,086	25.6%	6,125,420	2.1%	32,578,837	11.4%	5,700,591	2.0%	30,149,861	10.5%	4,923,583	1.7%	969,474	0.3%	9,622,670	3.4%	285,894,697
2015	113,859,511	40.8%	3,435,641	1.2%	77,120,505	27.7%	6,392,763	2.3%	34,100,580	12.2%	5,735,466	2.1%	28,307,625	10.1%	(2,593,627)	-0.9%	-	0.0%	10,834,613	3.9%	278,911,003
2016	107,319,708	33.7%	5,137,718	1.6%	87,184,856	27.4%	6,648,809	2.1%	36,876,790	11.6%	5,784,242	1.8%	45,715,784	14.4%	5,056,957	1.6%	-	0.0%	18,313,734	5.8%	318,038,598
2017	115,796,435	35.6%	5,074,502	1.6%	92,536,116	28.4%	7,792,169	2.4%	38,578,024	11.9%	5,831,357	1.8%	40,565,197	12.5%	2,650,750	0.8%	131,672	0.0%	16,439,820	5.1%	325,396,042
2018	130,596,237	36.6%	4,832,629	1.4%	96,049,786	26.9%	9,028,827	2.5%	40,802,919	11.4%	5,769,853	1.6%	46,924,875	13.2%	6,033,078	1.7%	1,646,062	0.5%	15,092,302	4.2%	356,776,568

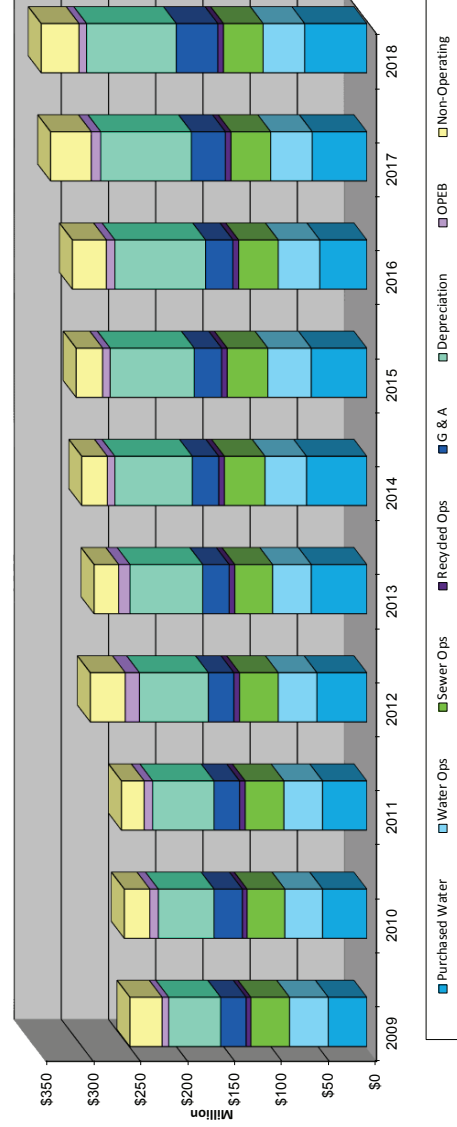


Notes:

¹ Operating and capital grants are reported in grants revenue for fiscal year 2009. Beginning in fiscal year 2010, capital grants are reported in capital contributions on the Statement of Revenue & Expenditures.

**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	% of Total	Total Non-Operating Expenses	% of Total	Total Expenses
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
2014	63,850,688	21.1%	44,193,507	14.6%	42,710,741	14.1%	5,992,372	2.0%	28,352,049	9.4%	82,037,529	27.2%	8,358,000	2.8%	26,563,390	8.8%	302,058,276
2015	59,040,009	19.2%	45,691,510	14.8%	42,743,947	13.9%	6,101,759	2.0%	28,677,026	9.3%	88,830,791	28.9%	8,568,000	2.8%	28,110,148	9.1%	307,763,190
2016	50,334,462	16.1%	43,582,087	13.9%	42,095,206	13.5%	6,287,916	2.0%	29,687,364	9.5%	95,302,858	30.5%	9,478,577	3.0%	36,071,890	11.5%	312,840,360
2017	57,512,425	17.2%	44,089,564	13.2%	42,232,322	12.6%	6,064,944	1.8%	36,283,686	10.8%	95,968,255	28.7%	9,732,444	2.9%	42,757,780	12.8%	334,641,420
2018	65,846,363	19.1%	44,202,187	12.8%	42,110,008	12.2%	6,417,615	1.9%	43,901,997	12.7%	94,853,174	27.5%	7,852,804	2.3%	40,233,012	11.6%	345,417,160



Notes:

¹ The increase in fiscal year 2017 includes a \$4.6 million increase in unallocated pension expense. The higher general and administrative expense in fiscal year 2018 includes a \$6.2 million increase in pension expense due to the change in the actuarial discount rate assumption.

EASTERN MUNICIPAL WATER DISTRICT
WATER PRODUCED AND CONSUMED AND WASTEWATER TREATED
LAST TEN FISCAL YEARS

Fiscal Year	Gallons Produced ¹			Water		Gallons Consumed		Unbilled		Gallons of Wastewater Treated		Total Direct Rate		
	Purchased	Wells	Desalters	Total	Gallons Consumed		Total	Avg %	Treated	Base Rate ^{2,5}	Usage Rate ^{3,5}	Sewer ⁴	Water	
					Domestic	Ag & Irrig							Total	Rate
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	28,938	2,363	7.6%	16,363	10.52	49.92	24.72	
2014	25,057	6,192	1,820	33,069	28,982	1,820	30,802	2,267	6.9%	16,389	10.77	52.50	25.90	
2015	22,246	3,789	2,427	28,462	26,040	1,449	27,489	971	3.4%	16,334	11.16	53.76	27.01	
2016	19,016	4,820	2,285	26,121	21,608	2,086	23,695	2,426	9.3%	15,483	11.59	57.56	30.12	
2017	21,366	5,125	2,194	28,685	23,618	1,951	25,569	3,117	10.9%	15,812	11.83	56.70	31.47	
2018	22,908	4,901	2,138	29,947	26,429	1,711	28,140	1,806	6.0%	15,538	11.86	54.38	32.19	

Notes:

The Information reported above 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" through 2017. Effective 2018, the rate shown is for meters up to and including 3/4".

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 2018, the District revised the daily fixed charge meter factors for all domestic retail customers with meter sizes greater than 3/4". In April 2009, the District implemented a budget based tiered rate structure for single family and multi-family residential and landscape domestic usage.

**EASTERN MUNICIPAL WATER DISTRICT
WATER AND SEWER RATES
LAST TEN FISCAL YEARS**

Fiscal Year	2009³	2010	2011	2012	2013	2014	2015	2016	2017	2018⁴
Water Rates										
Monthly base rate (meter size)										
<=1"	\$ 10.52	\$ 10.52	\$ 10.52	\$ 10.55	\$ 10.52	\$ 10.77	\$ 11.16	\$ 11.62	\$ 11.83	\$ 11.86
1"	-	-	-	-	-	-	-	-	-	16.12
1 1/2"	27.68	27.68	27.68	27.76	27.68	28.29	29.50	30.50	31.03	44.71
2"	51.40	51.40	51.40	51.55	51.40	52.62	54.45	56.73	57.79	69.35
3"	171.25	171.25	171.25	171.72	171.25	175.20	181.59	189.10	192.54	135.05
4"	270.40	270.40	270.40	271.15	270.40	276.49	286.83	298.60	303.86	208.96
6"	505.53	505.53	505.53	506.91	505.53	517.08	536.25	558.15	568.18	414.28
8"	633.28	633.28	633.28	635.01	633.28	647.88	671.60	699.06	712.05	660.65
10"	-	-	-	-	-	-	-	-	-	989.15
12"	-	-	-	-	-	-	-	-	-	1,390.04
Usage rate (per billing unit)¹	\$ 41.52	\$ 46.32	\$ 48.26	\$ 47.50	\$ 49.92	\$ 52.50	\$ 53.76	\$ 57.56	\$ 56.70	\$ 54.38
Sewer Rates (avg per month)²	\$ 21.88	\$ 22.73	\$ 22.90	\$ 23.96	\$ 24.72	\$ 25.90	\$ 27.01	\$ 30.12	\$ 31.47	\$ 32.19

Notes:

The Information reported above 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 a weighted average monthly rate per customer.

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.

⁴ In January 2018, the District revised the daily fixed charge meter factors for all domestic retail customers.

**EASTERN MUNICIPAL WATER DISTRICT
CUSTOMERS BY WATER SERVICE TYPE
LAST TEN FISCAL YEARS**

Fiscal Year	← Treated and Untreated Water →									
	Residential & Non-Residential ³	Commercial	Industrial	Public Agency	Construction & Temporary	Irrigation	Agricultural	Total	Recycled	Total
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
2011¹	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
2014	134,656	3,347	136	679	426	2412	721	142,377	316	142,693
2015	136,425	3,410	138	665	412	2,446	759	144,255	356	144,611
2016	138,247	3,472	137	663	432	2,484	790	146,225	379	146,604
2017	140,332	3,573	136	645	449	2,526	812	148,473	420	148,893
2018²	143,017	3,617	145	662	510	2,496	227	150,674	511	151,185

**TREATED AND UNTREATED WATER SERVICE TYPE BY CUSTOMER CATEGORY
FISCAL YEAR 2018**

	Residential & Non-Residential ³	Commercial	Industrial	Public Agency	Construction & Temporary	Irrigation	Agricultural ²	Total
	Domestic	143,007	3,615	145	630	510	2,494	129
Agricultural	10	2	-	4	-	2	98	116
Wholesale	-	-	-	28	-	-	-	28
Total	143,017	3,617	145	662	510	2,496	227	150,674

Notes:

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

² Residential customers increased by 2,685 or 1.9 percent due to increased construction. The increase also includes converting 627 agricultural customers to the new non-residential tiered rate included in the residential customer total.

³ Effective 1/1/18, Non-Residential customers applies to Landscape accounts only and excludes Commercial, Industrial and Institutional accounts.

**EASTERN MUNICIPAL WATER DISTRICT
LARGEST DOMESTIC WATER CUSTOMERS
AS OF JUNE 30, 2018**

Rank	Customer Name	2018			2009			
		Annual Water Sales in Acre Feet	Annual Revenues	Percentage	Rank	Annual Water Sales in Acre Feet	Annual Revenues	Percentage
1	Western Municipal Water District ^{1,2}	1,880	\$ 2,381,825	19.7%	2	1,811	\$ 1,316,592	16.4%
2	City of Perris ¹	1,718	2,178,527	18.0%	1	1,994	1,459,915	18.1%
3	City of Moreno Valley	902	1,466,997	12.1%	5	954	856,814	10.7%
4	Valley-Wide Recreation Park	814	1,276,534	10.6%	4	1,006	885,129	11.0%
5	Moreno Valley Unified School District	825	1,090,808	9.0%	3	1,161	1,036,111	12.9%
6	Stonegate at Towngate	641	817,138	6.8%	-	-	-	-
7	Val Verde Unified School District	554	798,671	6.6%	7	612	541,973	6.7%
8	County of Riverside	304	743,146	6.1%	10	362	313,219	3.9%
9	City of Murrieta	403	684,642	5.7%	9	536	490,502	6.1%
10	Country Meadows II Assoc.	440	659,583	5.5%	-	-	-	-
	Nuevo Mutual Water Company ¹	-	-	-	6	914	606,773	7.5%
	Shadow Mountain Comm. Assoc.	-	-	-	8	572	536,658	6.7%
	Total	8,481	\$ 12,097,871			9,922	\$ 8,043,686	
	Total domestic water sales	81,109	\$ 130,596,237			94,280	\$ 100,967,796	
	Percentage of total	10.5%	9.3%			10.5%	8.0%	

Notes:

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

**EASTERN MUNICIPAL WATER DISTRICT
LARGEST AGRICULTURAL & IRRIGATION WATER CUSTOMERS
AS OF JUNE 30, 2018**

Rank	Customer Name	2018			2009			
		Annual Water Sales in Acre Feet	Annual Revenues	Percentage	Rank	Annual Water Sales in Acre Feet	Annual Revenues	Percentage
1	Pauline Doan	216	\$ 279,379	25.9%	4	102	\$ 67,259	7.6%
2	Metropolitan Water District	186	240,969	22.4%	3	95	70,571	8.0%
3	Country Meadows II Assoc.	101	131,172	12.2%	-	-	-	-
4	HP Mobile Estates	73	93,782	8.7%	-	-	-	-
5	Moon Valley Nursery	64	83,483	7.7%	-	-	-	-
6	Expressway Dairy	77	56,176	5.2%	-	-	-	-
7	Demler Egg Ranch	78	54,272	5.0%	7	107	50,717	5.8%
8	Brothers Nursery	43	52,163	4.8%	-	-	-	-
9	Pastime Lakes Dairy	60	44,165	4.1%	-	-	-	-
10	Margaret McLaughlin	35	41,921	3.9%	-	-	-	-
	C and R Farms	-	-	-	1	675	346,469	39.3%
	Mc Anally Egg Enterprises	-	-	-	2	141	105,199	11.9%
	Abacherli Dairy	-	-	-	5	85	55,834	6.3%
	Sunnymead Ranch PCA	-	-	-	6	69	54,413	6.2%
	San Jacinto Cemetery District ¹	-	-	-	8	94	48,633	5.5%
	Valley Health System	-	-	-	9	65	42,776	4.9%
	MCM Poultry	-	-	-	10	46	38,854	4.4%
	Total	933	\$ 1,077,482			1,479	\$ 880,725	
	Total ag. & irrigation water sales	5,251	\$ 4,832,629			3,758	\$ 2,045,633	
	Percentage of total	17.8%	22.3%			39.4%	43.1%	

Notes:

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

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

Source: Eastern Municipal Water District

**EASTERN MUNICIPAL WATER DISTRICT
LARGEST RECYCLED WATER CUSTOMERS
AS OF JUNE 30, 2018**

Rank	Customer Name	2018			2009			
		Annual Water Sales in Acre Feet	Annual Revenues	Percentage	Rank	Annual Water Sales in Acre Feet	Annual Revenues	Percentage
1	Valley Wide Recreation Park	817	\$ 411,888	15.4%	-	-	-	-
2	Rancho Casa Loma	4,298	339,251	12.7%	5	2,674	\$ 130,627	8.1%
3	A G Sod Farms	2,399	278,035	10.4%	8	1,493	102,121	6.4%
4	Marvo Holstein	2,597	268,829	10.1%	-	-	-	-
5	America Greenworld Inc	699	259,887	9.7%	-	-	-	-
6	Dept of Fish and Wildlife	4,548	248,894	9.3%	7	3,110	103,234	6.4%
7	Agri Empire	2,092	231,670	8.7%	1	4,987	308,431	19.2%
8	Hemet Golf Club Landmark	394	212,867	8.0%	2	593	247,258	15.4%
9	The Golf Club at Rancho California	456	211,370	7.9%	-	-	-	-
10	Don Bean Farms	1,717	204,165	7.7%	-	-	-	-
	Inland Empire Energy Center LLC	-	-	-	3	850	234,279	14.6%
	SCGA Members Club	-	-	-	4	652	176,866	11.0%
	Sun City Golf Course LLC	-	-	-	6	466	126,168	7.9%
	City of Moreno Valley	-	-	-	9	328	88,742	5.5%
	Hemet Unified School District	-	-	-	10	314	87,247	5.4%
	Total	20,017	\$ 2,666,856			15,467	\$ 1,604,973	
	Total recycled water sales	36,185	\$ 9,028,827			31,344	\$ 3,722,130	
	Percentage of total	55.3%	29.5%			49.3%	43.1%	

Notes:

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

**EASTERN MUNICIPAL WATER DISTRICT
LARGEST SEWER CUSTOMERS
AS OF JUNE 30, 2018**

Rank	Customer Name	2018			2009		
		Annual Revenues	Percentage	Rank	Annual Revenues	Percentage	Rank
1	Pechanga Resort and Casino	\$ 828,259	25.7%	1	\$ 451,564	30.9%	
2	New Highland Meadows	758,866	23.5%	-	-	-	
3	Iris Landing HOA	376,095	11.7%	-	-	-	
4	Murrieta Valley Unified School District	224,693	7.0%	-	-	-	
5	Val Verde School District	197,273	6.1%	-	-	-	
6	Stonagate at Towngate	193,444	6.0%	2	130,781	8.9%	
7	Hemet Unified School District	168,413	5.2%	6	111,602	7.6%	
8	Casabella Owner's Association	164,248	5.1%	-	-	-	
9	Waterstone at Murrieta Apartments	163,568	5.1%	-	-	-	
10	Westwind Enterprises	151,690	4.7%	-	-	-	
	United Dominion Realty Trust	-	-	3	118,145	8.1%	
	Palm Court Apartments	-	-	4	114,203	7.8%	
	Western States Mobile Home Park	-	-	5	111,871	7.6%	
	Apartments Cottonwood Place	-	-	7	110,724	7.6%	
	Sonoma at Mapleton Commons Apts	-	-	8	105,554	7.2%	
	El Dorado Pointe Apt Invts Llc	-	-	9	104,411	7.1%	
	Sienna Pointe Apartments Lp	-	-	10	103,803	7.1%	
	Total	\$ 3,226,549			\$ 1,462,659		
	Total sewer revenue	\$ 96,049,786			\$ 58,889,788		
	Percentage of total revenue	3.4%			2.5%		

Source: Eastern Municipal Water District

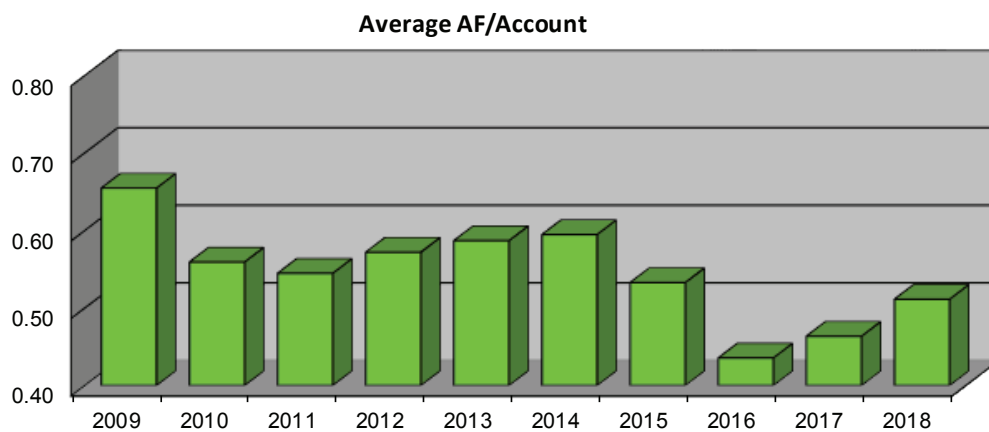
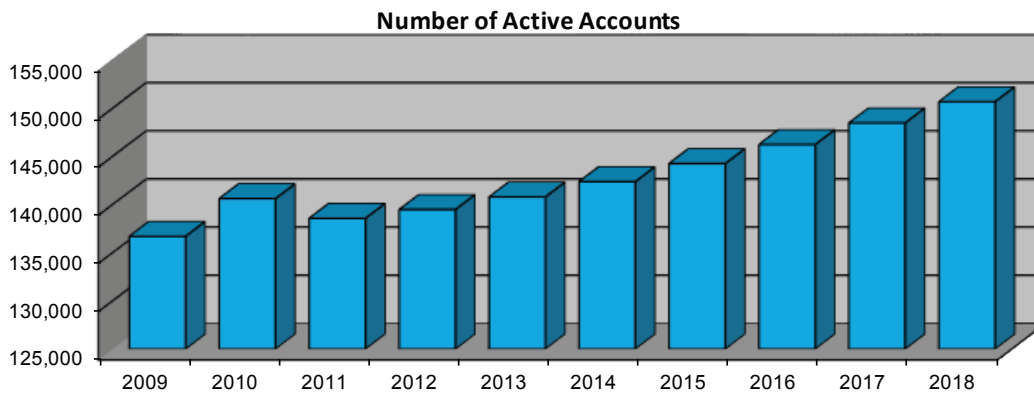
**EASTERN MUNICIPAL WATER DISTRICT
SUMMARY OF IMPORTED WATER RATES
LAST TEN FISCAL YEARS**
(dollars per acre-foot)

	Rates Effective Beginning January	Full Service Domestic	
		Treated	Untreated
2009	Tier 1	\$ 579	\$ 412
	Tier 2	695	528
2010	Tier 1	701	484
	Tier 2	811	594
2011	Tier 1	744	527
	Tier 2	869	652
2012	Tier 1	794	560
	Tier 2	920	686
2013	Tier 1	847	593
	Tier 2	997	743
2014	Tier 1	890	593
	Tier 2	1,032	735
2015	Tier 1	923	582
	Tier 2	1,055	714
2016	Tier 1	942	594
	Tier 2	1,076	728
2017	Tier 1	979	666
	Tier 2	1,073	760
2018	Tier 1	1,015	695
	Tier 2	1,101	781

Source: Metropolitan Water District of Southern California (MWD)

**EASTERN MUNICIPAL WATER DISTRICT
ANNUAL DOMESTIC CONSUMPTION (AF)
LAST TEN FISCAL YEARS**

<u>Fiscal Year</u>	<u>Usage (AF)</u>	<u>Active Accounts</u>	<u>Average AF per Account</u>
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
2014	84,650	142,377	0.59
2015	76,832	144,255	0.53
2016	63,673	146,225	0.44
2017	68,813	148,473	0.46
2018	77,020	150,674	0.51



Notes:

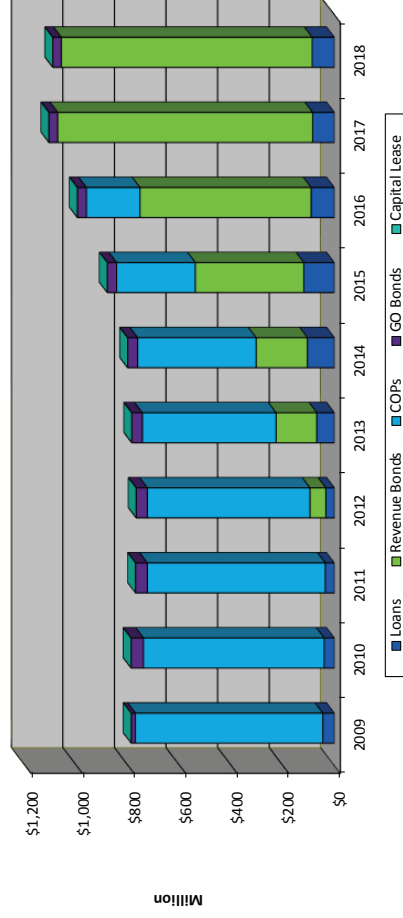
Amounts exclude wholesale accounts.

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.

**EASTERN MUNICIPAL WATER DISTRICT
RATIO OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS**

* See Debt Footnotes for dollar amounts

Fiscal Year	Loans	Revenue Bonds ¹	Certificates of Participation ¹	General Obligation Bonds	Capital Lease	Total	Percentage of Personal Income ²	Debt per Capita ³
2009	\$ 45,407,198	\$ -	\$ 726,270,000	\$ 16,260,000	\$ -	\$ 787,937,198	1.19%	1,086
2010	40,279,228	-	700,311,094	47,672,284	-	788,262,606	1.17%	1,068
2011	35,818,082	-	689,723,765	45,481,394	-	771,023,241	1.18%	1,014
2012	33,651,101	61,452,320	630,227,034	43,145,504	-	768,475,959	1.15%	1,000
2013	68,749,388	157,648,717	518,338,874	40,949,446	-	785,686,425	1.10%	1,011
2014	105,195,668	198,525,127	459,710,090	38,446,800	55,072	801,932,757	1.10%	1,022
2015	119,352,359	420,407,712	305,016,307	35,896,296	41,574	880,714,248	1.17%	1,108
2016	90,787,233	663,582,542	207,389,271	34,920,903	23,752	996,703,701	1.26%	1,240
2017	85,227,888	987,759,455	-	33,905,509	12,782	1,106,905,634	1.31%	1,356
2018	86,719,548	972,307,446	-	32,845,116	1,018	1,091,873,128	1.24%	1,320



Notes:

Details regarding the District's outstanding debt can be found in Note 4 to the Basic Financial Statements.

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

¹ In fiscal year 2017, the District issued six refunding revenue bonds to redeem all outstanding certificates of participation and five refunding revenue bonds. A new series revenue bond was issued to finance the construction of water and sewer capital improvements.

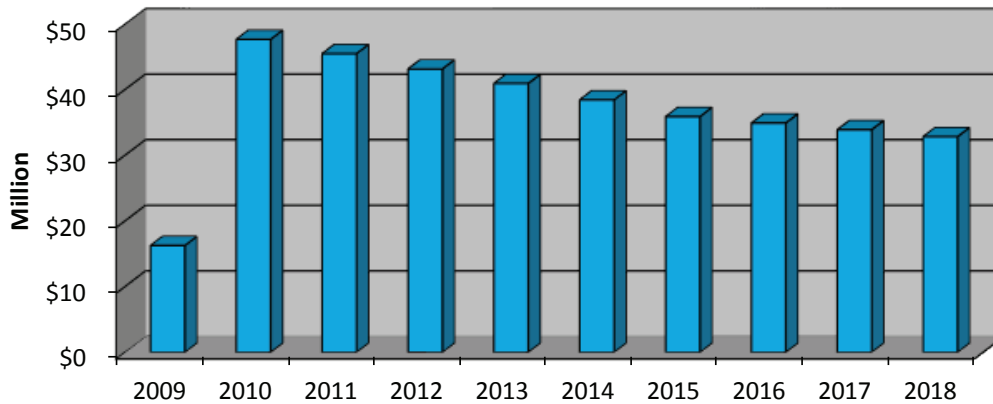
² Based upon Riverside County personal income amounts. The District is located in the County of Riverside. See the personal income amounts on the Demographic and Economic Statistics schedule.

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

**EASTERN MUNICIPAL WATER DISTRICT
RATIO OF GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS**

Fiscal Year	General Obligation Bonds¹	Assessed Value²	Percentage of Assessed Value	Debt per Capita³
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
2014	38,446,800	55,926,804,094	0.07%	49
2015	35,896,296	61,313,471,497	0.06%	45
2016	34,920,903	66,226,873,815	0.05%	43
2017	33,905,509	70,005,613,492	0.05%	42
2018	32,845,116	74,231,240,058	0.04%	40

Total Bonds Outstanding



Notes:

Details regarding the District's outstanding debt can be found in Note 4 to the Basic Financial Statements.

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

¹ Beginning 2010, amounts shown include net bond premium/discount.

² Bonds are issued by improvement district, but the amounts shown are for the District's entire service area. Beginning 2016, included District No. 04-5408: EMWD Detachment #2 in the assessed value.

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

**EASTERN MUNICIPAL WATER DISTRICT
PARITY DEBT SERVICE COVERAGE
LAST TEN FISCAL YEARS**

	2009 ¹	2010	2011	2012	2013	2014	2015	2016	2017	2018
OPERATING REVENUES:										
Water sales	\$ 103,013,429	\$ 102,747,031	\$ 102,479,984	\$ 104,741,242	\$ 110,468,195	\$ 122,724,175	\$ 117,295,152	\$ 112,457,426	\$ 120,870,937	\$ 135,428,866
Sewer service sales	58,889,788	61,885,298	62,840,013	65,983,462	70,945,738	73,100,086	77,120,505	87,184,856	92,536,116	96,049,786
Recycled water	3,722,130	4,052,665	4,504,923	5,135,186	5,676,043	6,125,420	6,392,763	6,648,809	7,792,169	9,028,827
Total operating revenues	165,625,347	168,684,994	169,824,920	175,859,890	187,089,976	201,949,681	200,808,420	206,291,091	221,199,222	240,507,479
OPERATING EXPENSES:										
Water purchases	41,318,803	46,936,179	46,489,850	52,697,993	58,445,847	63,850,688	59,040,009	50,334,462	57,512,425	65,846,363
Water operations	40,834,689	39,967,447	41,364,910	40,789,231	40,994,915	44,193,507	45,691,510	43,582,087	44,089,564	44,202,187
Sewer operations	45,909,954	45,123,786	47,351,385	47,057,011	46,271,994	48,703,113	48,845,706	48,383,122	48,297,266	48,527,623
Other Post Employment Benefits (OPEB) Contribution ²	-	-	-	2,620,589	5,740,000	6,123,000	8,568,000	9,478,577	9,732,444	7,852,804
General & administrative	27,471,196	30,256,670	26,707,578	27,112,598	28,392,519	28,352,049	28,677,026	29,687,364	36,283,686	43,901,997
Total operating expenses	155,534,642	162,284,082	161,913,723	170,277,422	179,845,275	191,222,357	190,822,251	181,465,612	195,915,385	210,330,974
OPERATING INCOME (LOSS)	10,090,705	6,400,912	7,911,197	5,582,468	7,244,701	10,727,324	9,986,169	24,825,479	25,283,837	30,176,505
NON-OPERATING REVENUES:										
Property taxes- general purpose	33,149,232	29,474,227	25,884,964	26,574,300	27,243,491	28,061,489	30,843,713	32,271,305	33,971,127	36,294,389
Standby charges	5,015,076	5,246,008	5,569,818	5,600,661	5,635,153	5,700,591	5,735,466	5,784,242	5,831,357	5,769,853
Water and sewer connection fees	17,789,045	13,010,929	10,815,294	12,150,826	20,364,185	30,149,861	28,307,625	45,715,784	40,565,197	46,924,875
Interest income ³	18,706,820	16,681,744	7,664,191	7,431,966	4,485,217	3,133,313	3,092,643	3,405,039	4,733,897	8,181,973
Grant revenues	6,466,818	6,063,577	16,137,906	22,926,555	12,503,511	5,214,780	3,830,382	2,823,624	6,164,479	3,128,863
Other income/(expense)	1,767,759	487,672	1,727,067	(4,563,952)	2,967,319	947,126	829,006	2,859,968	(3,494,598)	6,195,688
Total non-operating revenues	82,894,750	70,964,157	67,799,240	70,120,356	73,198,876	73,207,160	72,638,836	92,859,962	87,771,459	106,495,641
Net Water and Sewer Revenues for Debt Coverage	92,985,455	77,365,069	75,710,437	75,702,824	80,443,577	83,934,484	82,625,004	117,685,441	113,055,296	136,672,146
PARITY OBLIGATION DEBT SERVICE:										
Parity Obligation Payments (COP/Bonds)	34,779,234	32,958,765	32,731,966	37,044,680	35,061,971	35,521,108	26,604,369	22,545,830	34,166,392	4,907,150
State Loan Payments	5,074,279	5,800,750	5,703,603	4,115,116	4,322,228	4,013,353	5,877,892	-	-	-
Total Parity Obligation Debt Service	39,853,513	38,759,515	38,435,569	41,159,796	39,384,199	39,534,461	32,482,262	22,545,830	34,166,392	4,907,150
PARITY OBLIGATION DEBT SERVICE COVERAGE	2.3	2.0	2.0	1.8	2.0	2.1	2.5	5.2	3.3	27.9
REVENUES AVAILABLE FOR SUBORDINATE OBLIGATIONS	53,131,942	38,605,554	37,274,868	34,543,028	41,059,379	44,400,023	50,142,743	95,139,611	78,888,904	131,764,996
SUBORDINATE OBLIGATION DEBT SERVICE	-	-	-	-	-	-	2,917,542	20,192,253	10,421,019	45,597,191
SUBORDINATE OBLIGATION DEBT SERVICE COVERAGE	NA	NA	NA	NA	NA	NA	17.2	4.7	7.6	2.9
REMAINING REVENUES	53,131,942	38,605,554	37,274,868	34,543,028	41,059,379	44,400,023	47,225,200	74,947,358	68,467,886	86,167,805
TOTAL DEBT SERVICE	39,853,513	38,759,515	38,435,569	41,159,796	39,384,199	39,534,461	35,399,804	42,738,083	44,587,410	50,504,341
ALL-IN DEBT SERVICE COVERAGE	2.3	2.0	2.0	1.8	2.0	2.1	2.3	2.8	2.5	2.7

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 FY 2012, OPEB contribution expense was separated from Water and Sewer operating expense.

³ Beginning FY 2012, excludes change in fair market value of investments (unrealized gain/loss) as these are non-cash items.

Source: Eastern Municipal Water District

**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
2008	725,610	66,347,611	31,972	8.5%
2009	737,868	67,367,683	31,932	13.4%
2010	760,128	65,359,484	30,446	14.7%
2011	768,264	66,904,690	30,380	13.6%
2012	776,986	71,213,948	31,847	12.2%
2013	784,834	73,158,724	32,301	10.3%
2014	794,790	75,223,346	32,828	8.2%
2015	803,973	79,066,137	34,044	6.5%
2016	816,411	84,429,454	35,883	6.1%
2017	827,343	87,827,068	36,782	5.2%

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

**EASTERN MUNICIPAL WATER DISTRICT
PRINCIPAL EMPLOYERS
FISCAL YEAR ENDED JUNE 30, 2018**

	2018		2009		
	Employer	No. of Employees	Percentage of Total Employment	No. of Employees	Percentage of Total Employment
County of Riverside		22,538	2.2%	21,425	2.6%
University of California, Riverside		8,686	0.9%	8,400	1.0%
March Air Reserve Base		8,500	0.8%	7,147	0.9%
Amazon		7,500	0.7%	6,550	0.8%
Kaiser Permanente Riverside Medical Ctr		5,739	0.6%	6,500	0.8%
Corona-Norco Unified School District		5,399	0.5%	5,099	0.6%
Riverside Unified School District		4,236	0.4%	5,000	0.6%
Pechanga Resort & Casino		4,000	0.4%	4,500	0.5%
Riverside University Health System		3,876	0.4%	3,765	0.5%
Eisenhower Medical Center		3,665	0.4%	3,200	0.4%
	Total	74,139	7.3%	71,586	8.6%
	Total Employment	1,016,200		835,000	

Notes:

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

**EASTERN MUNICIPAL WATER DISTRICT
EMPLOYEES BY FUNCTION
LAST TEN FISCAL YEARS**

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013⁴</u>	<u>2014</u>	<u>2015⁵</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
<u>Operations and Maintenance Division</u>										
Water Operations and Distribution	63	63	64	64	65	66	61	65	65	65
Water Reclamation	82	87	90	90	86	87	88	87	85	83
Assets & Facility Management (formerly Maintenance Services)	22	17	17	17	15	15	22	19	19	19
Auto Shop and Fabrication Shop (reassigned)	13	14	16	15	16	15	-	-	-	-
Wastewater Collection	14	15	15	13	14	14	15	14	14	14
Mechanical Services (includes Fab Shop)	27	30	30	30	28	29	31	31	31	30
Electrical Services	22	21	22	23	24	24	23	24	22	26
Pipeline Maintenance (formerly included Building & Grounds)	37	35	37	34	34	34	22	22	22	21
Total Operations & Maintenance Division	280	282	291	286	282	284	262	262	258	258
<u>Engineering Division</u>										
General Engineering ^{1,6}	57	55	53	52	43	44	46	42	45	46
Construction Management and Inspections	40	38	39	39	35	33	29	32	30	31
Development Services ⁷	25	25	26	20	17	18	19	21	21	20
Total Engineering Division	122	118	118	111	95	95	94	95	96	97
<u>Planning and Resources Division</u>										
Planning and Resources ²	19	19	19	20	20	19	20	24	24	24
Environmental and Regulatory Compliance	8	8	9	9	9	10	11	12	12	8
Water Quality and Laboratory	15	14	15	15	14	14	12	12	12	12
Source Control	10	8	9	9	9	10	10	10	11	11
Total Planning and Resources Division	52	49	52	53	52	53	53	58	59	55
<u>Executive and Administration</u>										
Executive and Administration ⁶	10	10	10	11	12	12	13	15	16	12
Public and Governmental Affairs ³	2	3	3	11	11	11	12	12	12	13
Human Resources (formerly included Risk Management)	13	13	13	13	11	12	8	6	7	7
Safety/Risk and Emergency Management	-	-	-	-	-	-	4	5	5	5
Billing/Customer Service	49	60	62	58	55	53	56	56	54	61
Meter Services	25	24	24	24	21	19	16	14	13	14
Finance and Accounting	21	21	22	26	22	22	22	22	22	22
Information Systems	33	34	33	34	33	31	30	27	23	24
Purchasing, Warehouse and Records Management	29	26	27	30	28	27	28	28	25	28
Fleet Services (formerly Auto Shop)	-	-	-	-	-	-	11	11	11	12
Community Involvement ³	9	9	8	-	-	-	-	-	-	-
Total Executive and Administration	191	200	202	207	193	187	200	196	188	198
Total Filled Positions End of Year	645	649	663	657	622	619	609	611	601	608
Total Authorized Positions Start of Year	667	676	690	667	636	633	629	631	629	632
Change in Authorized Positions from Prior Year	(3)	9	14	(23)	(31)	(3)	(4)	2	(2)	3
Number of Vacant Positions as of June 30	22	27	27	10	13	10	20	20	28	15
Vacancy Rate as of June 30	3.3%	4.0%	3.9%	1.5%	2.0%	1.6%	3.2%	3.2%	4.5%	2.4%

Notes:

- All directors and managers are included with their divisions.
- Temporary, contract and summer help employees are not included.
- 1. The General Engineering departments were reorganized in 2012.
- 2. The Planning and Resources workgroup was reorganized in 2016.
- 3. Community Involvement was restructured into Public and Governmental Affairs in 2012.
- 4. The decrease in filled positions is due to 43 employees accepting a retirement incentive and retiring effective June 30,2012.
- 5. Organizational changes in March 2015 affected all divisions and eliminated 3 vacant positions.
- 6. Organizational changes in December 2015 resulted in the movement of staff from General Engineering to Executive and Administration.
- 7. Department name changed in 2018 from New Business to Development Services

**EASTERN MUNICIPAL WATER DISTRICT
OPERATING AND CAPITAL INDICATORS
LAST TEN FISCAL YEARS**

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
<u>POTABLE WATER SYSTEM</u>										
Miles of pipeline:										
transmission and distribution: ¹	2,444	2,421	2,428	2,430	2,443	2,448	2,463	2,465	2,380	2,476
as-built	2,157	2,260	2,280	2,296	2,366	2,376	2,391	2,399	2,314	2,397
construction in progress	287	161	148	134	77	72	72	66	66	79
Number of storage tanks ²	77	77	77	77	77	77	77	78	79	79
Maximum storage capacity (million gallons)	193	193	191	191	191	191	191	199	203	203
Number of active pumping plants	84	84	83	83	83	83	83	83	84	86
Number of active wells:										
domestic	18	18	21	21	18	18	18	16	16	14
desalter ⁵	5	7	7	8	7	11	11	12	12	12
Domestic well production capacity:										
gallons per minute	21,806	20,361	22,326	22,285	23,292	23,382	19,299	19,604	14,708	15,625
million gallons per day	31.4	29.3	32.1	32.1	33.5	33.7	27.8	28.2	21.2	22.5
acre feet per year	0	0	0	0	0	0	31,129	31,622	23,725	25,203
Number of water treatment plants:										
desalter	2	2	2	2	2	2	2	2	2	2
filtration	2	2	2	2	2	2	2	2	2	2
Treatment plant capacity: (million gallons per day)										
desalter plants	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
filtration plants	32.0	32.0	32.0	32.0	36.0	36.0	36.0	36.0	36.0	36.0
Number of service connections: ⁶										
active domestic accounts	131,392	133,810	135,233	136,478	140,653	142,244	144,123	146,098	148,348	150,558
active agriculture accounts	143	146	124	122	131	133	132	127	125	116
<u>SEWER SYSTEM</u>										
Miles of sewer lines: ¹										
as-built	1,729	1,727	1,736	1,756	1,780	1,799	1,813	1,816	1,790	1,819
construction in progress	1,539	1,607	1,626	1,639	1,725	1,735	1,749	1,772	1,741	1,759
Number of treatment plants	190	120	110	117	55	64	64	44	49	60
Number of treatment plants	5	5	5	5	5	5	5	5	5	5
Treatment plant average										
design capacity (MGD) ³	60	60	60	60	68	68	70	70	69	69
Average million gallons per day treated	45.2	45.0	46.0	45.0	44.8	44.9	44.8	42.4	43.3	42.6
Percentage of capacity utilized	75%	75%	77%	75%	66%	66%	64%	61%	63%	62%
Number of active lift stations	46	46	46	47	48	48	47	46	46	50
<u>RECYCLED WATER SYSTEM</u>										
Miles of pipeline:										
transmission and distribution: ¹	202	199	202	206	213	215	217	217	207	211
as-built	172	178	179	186	196	198	200	208	197	197
construction in progress	30	21	23	20	17	17	17	9	10	14
Number of active pumping facilities ⁷	19	20	20	20	21	24	24	24	24	24
Maximum storage capacity (acre feet) ⁴	5,776	5,714	5,714	5,721	5,736	6,184	6,448	6,448	7,571	7,599
<u>GENERAL INFORMATION</u>										
Service area (annexed property):										
acres	346,691	346,732	346,732	346,732	346,745	346,745	346,745	346,808	346,808	347,280
square miles	541.7	541.8	541.8	541.8	541.8	541.8	541.8	541.9	541.9	542.6
Gross service area (square miles)	555	555	555	555	555	555	555	555	555	555
Average years of service of employees	10.20	10.47	10.84	11.39	11.31	12.11	12.50	12.25	11.90	11.68

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 2009 due to conversion to recycled water.
3. 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 25 MGD was completed in 2014.
4. Recycled storage decreased in 2009 due to a change in the reporting method to show only tertiary-treated water dedicated to distribution. Prior years included capacity for secondary-treated storage. Decrease in 2010 relates to lower capacity for Winchester ponds due to operational assessments. Increase in 2014 storage is due to more accurate measurements from recent surveys, plus a conversion of some secondary storage to tertiary storage.
5. Desalter wells formerly inactive were placed back into service during 2014.
6. Starting 2013, the number of customer connections billed within the year was used instead of the number of customers as of June 30th.
7. The counts of recycled pumping facilities for 2014 and 2015 were corrected in 2016.

Source: Eastern Municipal Water District

**EASTERN MUNICIPAL WATER DISTRICT
CUSTOMER ACCOUNT WRITE OFFS AS A PERCENTAGE OF SALES
LAST TEN FISCAL YEARS**

<u>Fiscal Year</u>	<u>Retail Sales</u>	<u>Write Offs</u>	<u>% of Sales</u>
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%
2014	170,496,733	851,419	0.5%
2015	169,744,235	823,650	0.5%
2016	171,146,902	714,213	0.4%
2017	182,818,310	475,022	0.3%
2018	200,388,220	331,561	0.2%
Total	<u>\$ 1,629,378,661</u>	<u>\$ 7,772,209</u>	<u>0.5%</u>

Note:

Excludes sales collected by other agencies.

Source: Eastern Municipal Water District

**EASTERN MUNICIPAL WATER DISTRICT
BAD DEBT RESERVES AS A PERCENTAGE OF ACCOUNTS RECEIVABLE BALANCE
LAST TEN FISCAL YEARS**

<u>Fiscal Year</u>	<u>Year End A/R Balance</u>	<u>Reserves</u>	<u>% of A/R</u>
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%
2014	13,805,842	850,608	6.2%
2015	9,916,469	609,075	6.1%
2016	10,127,047	324,530	3.2%
2017	11,882,229	215,340	1.8%
2018	13,595,401	181,535	1.3%

Note:

Reserves equal accounts over 60 days past due.

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