



# Eastern Municipal Water District

Comprehensive Annual Financial Report  
for the Fiscal Year Ended June 30, 2010



2270 Trumble Road  
PO Box 8300  
Perris, CA 92572-8300

[www.emwd.org](http://www.emwd.org)

The Eastern Municipal Water District maximizes its resources in many different ways. The covers and divider tabs for this document illustrate some of the District's recent efforts.

Construction is underway on the four million gallon Gibbel Road recycled water storage tank. In an effort to maximize funding, the District pursues many grant opportunities. A grant for approximately \$11 million was received from the U.S. Department of the Interior, Bureau of Reclamation to plan, design, and construct facilities to expand the District's recycled water systems. The Gibbel Road tank, shown on the front and back covers, is one of these new facilities.



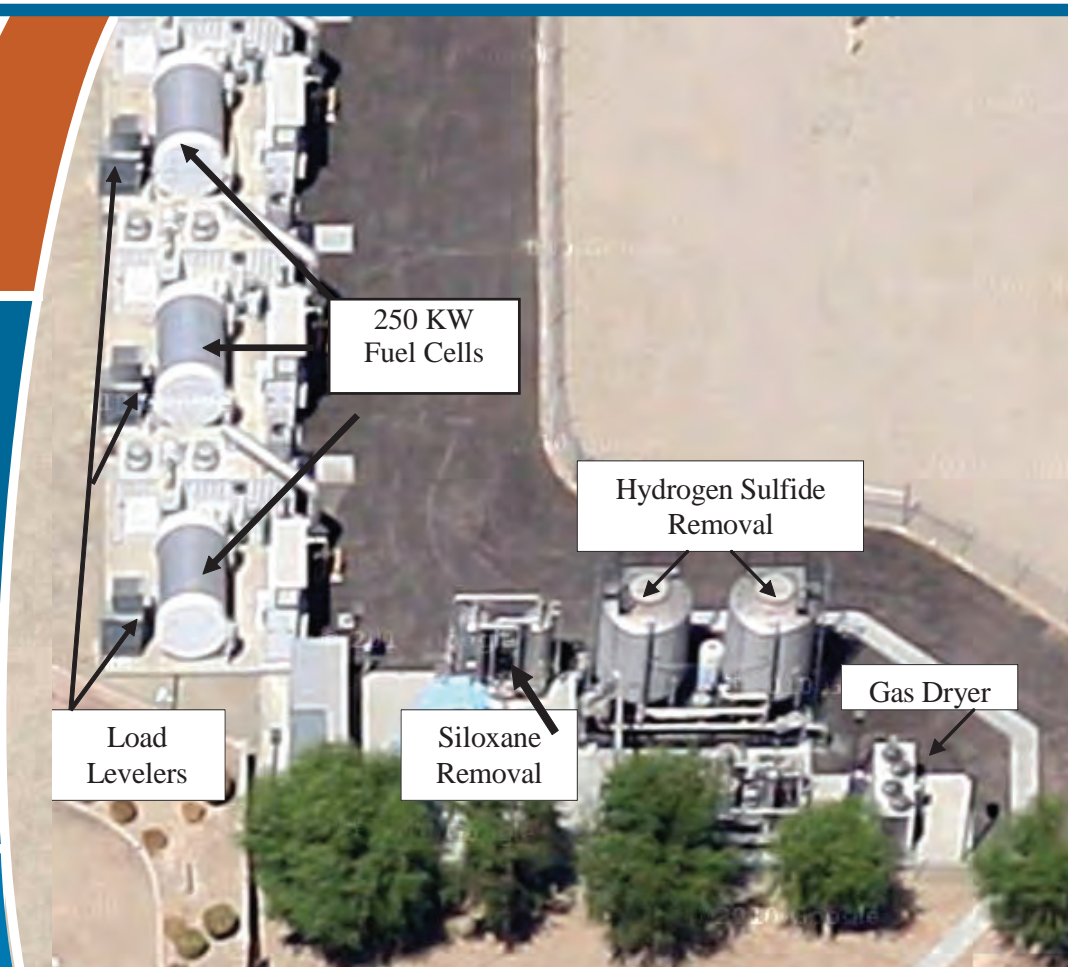
**EASTERN MUNICIPAL WATER DISTRICT**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED**

**JUNE 30, 2010**

**PREPARED BY THE FINANCE DEPARTMENT**



Load  
Levelers

250 KW  
Fuel Cells

Hydrogen Sulfide  
Removal

Siloxane  
Removal

Gas Dryer

This aerial photo shows the fuel cell facilities at the MVRWRF. The source fuel (methane gas) enters the gas dryer and moisture is removed. Next, hydrogen sulfide and siloxane is removed before the methane enters the fuel cells, where it is converted to electricity. From here, the electricity enters the load levelers, which then directs the power to the treatment plant.

## FUEL CELL TECHNOLOGY MORENO VALLEY REGIONAL WATER RECLAMATION FACILITY (MVRWRF)

### *THREE 250KW FUEL CELLS REDUCE COSTS & EMISSIONS*

At peak hours, digester gas driven fuel cells run 40 percent of the MVRWRF virtually free of charge, and reduce greenhouse gas emissions by 10,600 tons annually - the equivalent of taking 908 cars off the road for one year.

---

**EASTERN MUNICIPAL WATER DISTRICT**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
For the Fiscal Year Ended June 30, 2010

**Table of Contents**

---

**INTRODUCTORY SECTION**

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

**FINANCIAL SECTION**

Independent Auditors' Report.....	1-2
Management's Discussion and Analysis (Required Supplementary Information).....	3-11
Basic Financial Statements:	
Statement of Net Assets.....	12-13
Statement of Revenues, Expenses and Changes in Net Assets.....	14
Statement of Cash Flows.....	15-16
Notes to the Basic Financial Statements.....	17-62

**STATISTICAL SECTION**

Statistical Section Contents.....	63
Financial Trends:	
Net Assets by Component - Last Nine Fiscal Years.....	64
Changes in Net Assets - Last Nine Fiscal Years.....	65
Revenues by Source - Last Ten Fiscal Years.....	66
Expenses by Function - Last Ten Fiscal Years.....	67

---

**EASTERN MUNICIPAL WATER DISTRICT**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
For the Fiscal Year Ended June 30, 2010

**Table of Contents (Continued)**

---

**STATISTICAL SECTION (Continued)**

Revenue Capacity:

Water Produced and Consumed and Wastewater Treated - Last Ten Fiscal Years .....	68
Water and Sewer Rates - Last Ten Fiscal Years.....	69
Largest Domestic Water Customers - As of June 30, 2010.....	70
Largest Agricultural and Irrigation Water Customers - As of June 30, 2010.....	70
Largest Recycled Water Customers - As of June 30, 2010.....	71
Largest Sewer Customers - As of June 30, 2010 .....	71
Summary of Imported Water Rates - Last Ten Fiscal Years .....	72
Annual Domestic Consumption (AF) - Last Ten Fiscal Years .....	73

Debt Capacity:

Ratio of Outstanding Debt by Type - Last Ten Fiscal Years.....	74
Ratio of General Bonded Debt Outstanding - Last Ten Fiscal Years .....	75
Parity Debt Service Coverage - Last Ten Fiscal Years .....	76

Demographic and Economic:

Demographic and Economic Statistics - Last Ten Calendar Years .....	77
Principal Employers - Fiscal Year Ended June 30, 2010.....	77

Operating:

District Employees by Function - Last Five Fiscal Years.....	78
Operating and Capital Indicators - Last Eight Fiscal Years .....	79
Customer Account Write Offs as a Percentage of Sales - Last Ten Fiscal Years .....	80
Bad Debt Reserves as a Percentage of Accounts Receivable Balance - Last Ten Fiscal Years.....	80





**Board of Directors**

October 22, 2010

**President**

Ronald W. Sullivan

Board of Directors

Eastern Municipal Water District

**Vice President**

Joseph J. Kuebler, CPA

We are pleased to present the Eastern Municipal Water District's (District) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2010. The purpose of this report is to provide the Board of Directors (Board), the public and other interested parties a complete set of annual financial statements.

**Treasurer**

Joseph J. Kuebler, CPA

Philip E. Paule  
Randy A. Record  
David J. Slawson

**Board Secretary**

Rosemarie V. Howell

**General Manager**

Anthony J. Pack

**Director of the  
Metropolitan Water  
District of So. Calif.**

Randy A. Record

**Legal Counsel**

Redwine & Sherrill

This report was prepared by the District's Finance Department following guidelines set forth by the Governmental Accounting Standards Board and generally accepted accounting principles (GAAP). Responsibility for both the accuracy of the data presented and the completeness and fairness of the presentation, including all disclosures, rests with the District. We believe the information and data, as presented, is accurate in all material respects and that it is presented in a manner that provides a fair representation of the financial position and results of operations of the District. Included are all disclosures we believe necessary to enhance your understanding of the financial condition of the District. GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The District's MD&A can be found immediately following the report of the independent auditors in the financial section of this report.

The District's financial statements have been audited by Mayer Hoffman McCann P.C., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the District for the fiscal year ended June 30, 2010, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the District's financial statements for the fiscal year ended June 30, 2010, are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

---

## **Profile of the District**

### **Authority, Services and Customers**

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

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

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

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

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

### **Governance**

The District is a quasi-governmental agency of the State of California. It is not regulated by the Public Utilities Commission, but instead is governed by a Board of five directors who are publicly elected for four-year terms from comparably sized districts based on population.

The District's vision is "to provide essential services to our community at a level that exceeds the performance of any other public or private agency". Its mission is "to provide safe and reliable water and wastewater services to our community in an economical, efficient and responsible manner now, and in the future". The Board has adopted strategic goals to support the District's vision and mission. In its quest for excellence, the District follows the Malcolm Baldrige quality program framework which promotes continuous improvement of business processes to deliver ever-improving value to customers and to overall organizational performance.

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



The District is a member of the Metropolitan Water District of Southern California (MWD), which is a cooperative organization of 26 cities and water agencies that are responsible for providing imported water to arid southern California. The District is currently entitled to have one representative on the MWD Board.

## Service Area

The District's service area lies within the westerly third of Riverside County, encompassing 346,732 acres (542 square miles). The map below indicates the location of the District's service area in Riverside County. When the District was annexed to the MWD by the District's voters in 1951, its service area consisted of 86 square miles. Growth has resulted from 98 annexations and 8 detachments of service areas ranging in area from 1 to 72,000 acres. The assessed valuation has grown from \$72.0 million when formed to over \$56.7 billion for this past fiscal year.



Riverside County's population increased to a total of approximately 2.14 million as of January 2010. Of this population, the District serves approximately 699,000 (33%).

## Water Supply and Services

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

Approximately 18% of the District's water supply comes from local groundwater sources with an additional 6% from desalination. Such sources are heavily dependent upon rainfall and other sources of recharge. The remaining 76% of the District's water supply comes through purchases from MWD, which in turn obtains its water supply from two primary sources: the Colorado River via the Colorado River Aqueduct; and the State Water Project via the Edmund G. Brown California Aqueduct.

---

Due to a state-wide water shortage caused by record dry conditions in Southern California and court-ordered water pumping cutbacks from Northern California's delta to protect fish, MWD implemented its Water Supply Allocation Plan effective July 1, 2009 which requires mandatory conservation from its member agencies. To meet this requirement, the District implemented Stage 2 of its Water Shortage Contingency plan on June 17, 2009, which requires customers to eliminate all water waste by adhering to efficiency measures and imposes penalties for excessive water run-off. Beginning with April 2009 bills, the District implemented a water budget-based tiered rate structure for water sales to its single and multi-family residential and landscape customers. This new structure was required to provide customers with an adequate amount of water and is designed to reward customers who use water efficiently and discourage those who waste water.

### **Sewer 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. The Sun City plant has been deactivated as a cost reduction measure and all flows from this service area are treated at the larger Perris facility. Each service area is served by a single regional water reclamation facility (RWRF), for which costs and methods of treatment vary. The facilities are capable of treating 63 million gallons per day (MGD) of wastewater and serve approximately 699,000 people. They are linked to a network of 1,727 miles of pipeline and 46 active lift stations.

### **Recycled Water Supply**

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

The District currently generates approximately 45 MGD of effluent at its four active regional water reclamation facilities. The District's goal is to provide 100% of all recycled water produced as a product to customers as an opportunity for them to maximize the offset of potable water use and to also manage salinity levels in the water basins.

### **Budget Process**

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

## **Information Useful in Assessing Economic Condition**

### **Local Economy**

The Riverside County economy continued to slow due to the nationwide financial recession and its impact on new housing construction. Building permits decreased 29.5% to 4,064 from the prior year amount of 5,763; however the median home price increased approximately 8.1% over

---

the prior year from \$185,000 to \$200,000. The average unemployment rate for 2009 increased 5.0% to 13.6% over the 2008 average of 8.6% and was at 14.5% for the month of June 2010. While the District's population increased by 12,000 or 1.7%, assessed valuations decreased by approximately 16.1% from the 2009 level.

Although the District experienced some growth in fiscal year 2010; measured by the number of system hookups, this rate was at the slower pace of approximately 27% of the prior year. System hookups during fiscal year 2010 were 2,001 for sewer and 1,444 for water. The expectation is that growth will continue at the current slower pace over the next five years. Due to the increase in available recycled water and the demand on available potable water, the District is moving toward developing its recycled water system into a pressurized system. This improvement will allow municipal customers, who currently receive potable water for landscape, decorative ponds and other irrigation purposes, to substitute recycled water at nearly half the price of potable water. This in turn will make available the potable water for the residential customers.

### **Long-term Financial Planning**

Although the growth rate has continued to slow, rapid growth over the past five years and the projections for the next five, have placed significant demands on the District's infrastructure, people and financial resources. Capital expenditures over the past five years have been approximately \$87 million, \$139 million, \$158 million, \$162 million and \$204 million respectively.

The District's current comprehensive Capital Improvement Financial Plan covers the period from 2011 – 2015. This plan calls for total expenditures for water, sewer and recycled water facilities of approximately \$602 million. The planned expenditures for 2010 were at \$151 million compared to the actual \$131 million.

The financing sources for these planned project expenditures will include property taxes, rates and other non-operating funds, connection fees, grants (including American Recovery and Reinvestment Act funds), proceeds from the sale of certificates of participation, proceeds from the sale of general obligation bonds, and state revolving fund loans.

### **Financial Policies**

The District has formally adopted a cash reserve policy which states the purpose, source, and funding limits for each of its designated reserves within its four main funds; operating; construction; debt service; and trust. Within each of these funds are various reserves established to meet internal and/or external legal requirements. These guidelines enable restricting funds for future infrastructure needs; replacement of aging facilities; bond reserves; and various operating reserves to mitigate unexpected occurrences. These reserves are critical to the District's financial strength and high bond rating. All three rating agencies have recently affirmed these ratings with a stable outlook.

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

---

## Major Initiatives

### Water and Sewer Operations

During the past year, the District achieved several major operational accomplishments which will save money, increase efficiency and improve service.

Water operations improvements included:

- Continuing the expansion of the treatment capacity of the Perris Water Filtration Plant from 10 MGD to 20 MGD and use of the “state of the art” method of disinfectant with ultraviolet rays. Also, the addition of the Lake View pipeline, which will enable higher quality State Water Project system water to be supplied to the plant. These improvements allowed the District to increase water supply reliability, decrease the regulatory compliance requirements associated with using chlorine as a disinfectant, and to enhance water quality.
- Continuing to provide laptop computers with access to electronic global interface systems maps to field personnel. This improvement has resulted in increased efficiency and improved customer service by providing timely and accurate information.
- Continuing to implement phases of the Derceto energy optimization program. This program works in concert with the Supervisory Control and Data Acquisition (SCADA) system to provide pump run schemes which result in energy savings by shifting usage from peak demand times to off-peak and mid-peak times without loss of required water output.
- Establishment of a more detailed well monitoring program for desalter facility wells to ensure their operability and to improve production.
- Establishment of a valve exercising database to accurately track valves and conditions and to provide for a more reliable water distribution system by ensuring more valves are operable, when needed.

Sewer operations improvements included:

- Two projects to increase digester gas production at the Moreno Valley RWRf. Fuel cells were installed at this plant which are capable of producing 750 kilowatts of electricity from a combination of digester gas (produced onsite as an output of the treatment process) and natural gas (purchased as a backup source). Due to decreased sewage flows into the plant, levels of digester gas produced were lower than expected. To compensate for this decrease, a headworks chopper pump was installed at the plant to return more organic matter to the process, and high strength waste organic matter was obtained from an industrial processing facility.
- Pressure testing, repairing and recertification of the digester gas storage spheres at the Temecula Valley RWRf, San Jacinto RWRf, and Moreno Valley RWRf, which maximized the ability to utilize digester gas rather than electrical power or natural gas to run the various engines at the Temecula and San Jacinto plants. Digester gas is used in the fuel cells process at the Moreno Valley plant.

- 
- Completion of a pilot project to convert waste oil from restaurant grease traps into biodiesel fuel. Follow-up work is required to ensure sulfur is removed to an acceptable level so the fuel can be used in the District's fleet of diesel powered vehicles.

## **Information Technology**

During the past year, the District achieved several major information technology accomplishments which will save money, increase efficiency and deliver business improvements.

The District:

- Expanded its use of wireless meter reading using "flex-net" technology via the implementation of a stationary radio tower to receive meter reads at regular intervals. The result has been quick and accurate meter reads, thus providing more accurate billing data information and further reducing meter reading labor efforts. In addition, the District replaced the handheld meter reading units, because the previous units were at their "end of life" support cycle.
- Replaced the Laboratory Information Management System which provides increased integration with the laboratory's scientific instruments and other applications.
- Implemented a Microsoft SharePoint solution to provide online operation manuals for the wastewater plants. This improvement means that staff is no longer required to scan through three-ring binders for operational information on a variety of plant systems.
- Upgraded the Computerized Maintenance Management System from a previous version for added functionality and improved stability. This system provides maintenance planning, scheduling and history for over 400,000 District assets.
- Replaced the current Standby Charges program with a system developed using newer Microsoft technology. This application is used to manage the mailing of letters to property owners and track variance requests.
- Implemented Phase I of a custom-developed software solution to automate the process of recording and tracking plan of service efforts relating to new developer-funded construction. This solution will allow information to be more easily and efficiently accessible, because it was previously only maintained in hard-copy format.

## **Bond Credit Rating**

The District was upgraded from AA to AA+ by Fitch Ratings in April 2010. Previously, Fitch cited "sound formal reserve policies and covenants ensure healthy liquidity levels", and "the District has demonstrated the ability to manage growth pressures and achieve sound financial margins." Moody's Investors Service, Inc. upgraded the District from Aa3 to Aa2 in April 2010. Standard & Poor's Rating Services upgraded the District from an AA- rating to AA in June 2008, citing the District's "history of solid finances, conservative financial management, and debt management".

---

## Accounting Systems

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

## Internal Controls

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

## Awards & Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Eastern Municipal Water District for its comprehensive annual financial report for the fiscal year ended June 30, 2009. This was the seventh consecutive year that the District has received this prestigious award. In order to be awarded a Certificate of Achievement, the District must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

We would like to thank Lori Robinson, Controller, the entire Finance Department, numerous staff members of other departments, and the independent accounting firm of Mayer Hoffman McCann P.C. for their efforts put into the preparation of this report. We would also like to thank the Board of Directors for their continued interest and support towards achieving excellence in financial management.

Respectfully submitted,



Anthony J. Pack  
General Manager



Charles E. Rathbone, Jr.  
Chief Financial Officer



---

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

Eastern Municipal Water  
District, California

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2009

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



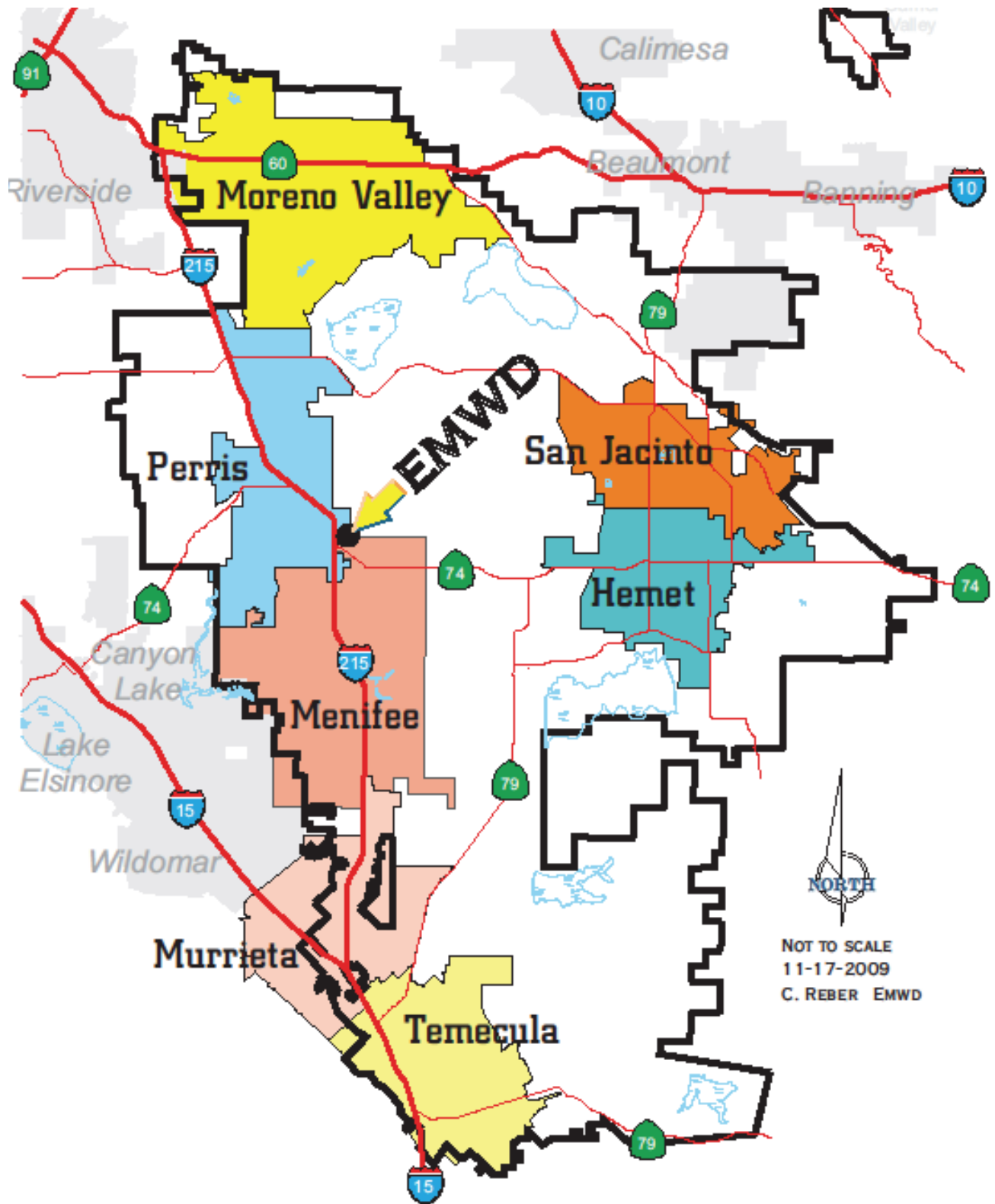
A stylized handwritten signature in black ink.

President

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

Executive Director

## Service Area Map and Incorporated Cities



---

## District Officials

June 30, 2010

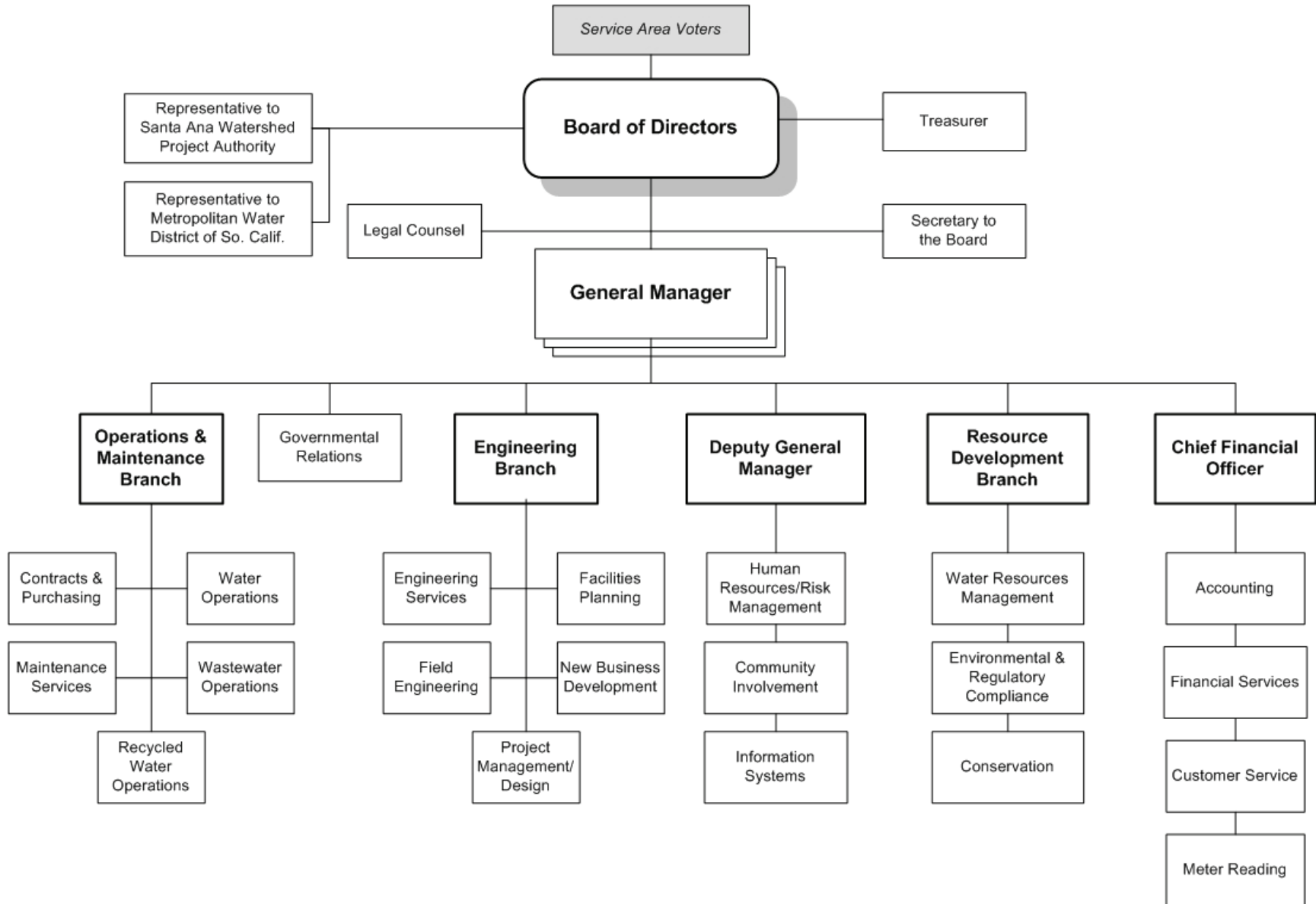
### Elected Board of Directors

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

### District Management

<u>Position</u>	<u>Name</u>
General Manager	Anthony J. Pack
Deputy General Manager	Parameshwaran Ravishanker
Assistant General Manager Operations & Maintenance	Michael A. Luker
Assistant General Manager Resource Development	Bruce B. Mortazavi
Assistant General Manager Engineering	Charles J. Bachmann
Chief Financial Officer	Charles E. Rathbone, Jr.

# Organizational Chart





The District's Board of Directors and staff from the engineering and construction companies, U.S. Environmental Protection Agency, and State Water Resources Control Board join together in celebrating the groundbreaking for the Acid Phase Anaerobic Digester (APAD) project.

## AMERICAN RECOVERY & REINVESTMENT ACT FUNDING MORENO VALLEY REGIONAL WATER RECLAMATION FACILITY (MVRWRF)

### *LOWER INTEREST RATES ON 20 YEAR LOANS*

During fiscal year 2010, the District signed two State Revolving Fund project financing agreements with the California State Water Resources Control Board for the MVRWRF Secondary Clarifier and Tertiary Treatment Expansion (SCATT) and APAD projects. These agreements are partly funded with U.S. American Recovery and Reinvestment Act of 2009 funds which were used to decrease the interest rates on the 20 year loans.

The SCATT project was awarded \$38.4 million at an interest rate of 1% and \$43.5 million was awarded for the APAD project at a rate of 0.422%. These projects are estimated to be completed in September 2011 and March 2012, respectively, and repayment of loan proceeds will begin one year after project completion.





## Mayer Hoffman McCann P.C.

An Independent CPA Firm

2301 Dupont Drive, Suite 200  
Irvine, California 92612  
949-474-2020 ph  
949-263-5520 fx  
www.mhm-pc.com

Board of Directors  
Eastern Municipal Water District  
Perris, California

### INDEPENDENT AUDITORS' REPORT

We have audited the accompanying statement of net assets of Eastern Municipal Water District ("the District") as of June 30, 2010, and the related statement of revenue, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the financial statements of the District for the year ended June 30, 2009 and, in our report dated October 19, 2009, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Eastern Municipal Water District as of June 30, 2010, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

During the year ended June 30, 2010, the District changed the manner in which it accounts for certain financial instruments as a result of the implementation of GASB Statement No. 53, as described further in note 6 to the financial statements.

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





Board of Directors  
Eastern Municipal Water District  
Page Two

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2010, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Mayer Hoffman McCann P.C.*

Irvine, California  
October 22, 2010

---

## **Management's Discussion & Analysis**

We offer readers this narrative overview and analysis of the financial statements of the Eastern Municipal Water District (District) for the fiscal year ended June 30, 2010. Readers are encouraged to consider the information presented in this section in conjunction with the accompanying financial statements and additional information furnished in our letter of transmittal.

### **Operations**

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

### **Basic Financial Statements**

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

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

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

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

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

## Financial Highlights

### Statement of Net Assets June 30, 2010 and 2009

	2009/10	2008/09	Increase/(Decrease)	
			Amount	% Change
<b>Assets</b>				
Current assets	\$ 258,956,481	\$ 215,662,808	\$ 43,293,673	20.1
Restricted assets	312,201,892	344,957,557	(32,755,665)	-9.5
Capital assets	1,808,221,127	1,736,086,649	72,134,478	4.2
Other assets	26,028,954	21,014,888	5,014,066	23.9
<b>Total assets</b>	<b>2,405,408,454</b>	<b>2,317,721,902</b>	<b>87,686,552</b>	<b>3.8</b>
<b>Liabilities</b>				
Current liabilities	104,907,109	98,569,045	6,338,064	6.4
Other liabilities	64,058,851	30,236,769	33,822,082	111.9
Long-term debt outstanding	771,023,241	756,375,646	14,647,595	1.9
<b>Total liabilities</b>	<b>939,989,201</b>	<b>885,181,460</b>	<b>54,807,741</b>	<b>6.2</b>
<b>Net assets</b>				
Invested in capital assets, net of related debt	1,120,121,593	1,084,747,657	35,373,936	3.3
Restricted for debt service/covenants	65,090,658	58,248,958	6,841,700	11.7
Restricted for construction	150,977,362	169,061,541	(18,084,179)	-10.7
Unrestricted	129,229,640	120,482,286	8,747,354	7.3
<b>Total net assets</b>	<b>\$ 1,465,419,253</b>	<b>\$ 1,432,540,442</b>	<b>\$ 32,878,811</b>	<b>2.3</b>
Liabilities to assets ratio	<b>39%</b>	<b>38%</b>		

### Changes in Financial Condition of the District

The liabilities to assets ratio, which indicates the degree to which the District's assets are financed through borrowing and other obligations increased slightly due to added debt from the sales of the 2009 General Obligation Bonds. Total net assets increased \$32.9 million. Overall, the financial position of the District has improved for the fiscal year ended June 30, 2010 and remains strong, providing a foundation for continued growth.

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

- Current assets increased by net \$43.3 million due to an increase in cash of \$40.4 million used to finance District construction projects; an increase of \$1.4 million in property taxes receivable due to current economic conditions; an increase of \$1.3 million in grants receivable; and a net increase of \$0.3 million in various other current assets.

- 
- Restricted assets decreased by a net \$32.8 million due to decreases of \$38.0 million in construction cash used to finance District construction projects; \$1.0 million in notes receivable; and \$0.3 million in property taxes receivable; offset by an increase of \$6.5 million in cash for debt service and covenant requirements relating to debt requirements for Certificate of Participation (COP) issues added in the previous year and the 2009 General Obligation (GO) bond issue.
  - Capital assets increased by a net \$72.1 million due to a net \$226.3 million of operating assets being added to the system; added land of \$2.9 million; and net added equipment and general facilities of \$4.9 million which was offset by a net decrease in construction in progress of \$98.8 million and a net increase in accumulated depreciation totaling \$58.3.
  - Other assets increased by a net \$5.0 million mainly due to an increase in the deferred outflow of resources relating to the District's two swap contracts. The District implemented GASB Statement No. 53 for the fiscal year ended June 30, 2010 and both contracts were determined to be hedge effective.
  - Current liabilities increased by a net \$6.3 million due to increases in accounts and other payables, accrued expenses and customer deposits totaling \$12.8 million; increases in the current portion of COP and GO bonds payable of \$1.7 million due to added debt relating to various 2008 COP issuances and the 2009 GO bond issue; offset by decreases in advances from developers of \$7.5 million from the slowdown in construction activity, and \$0.7 million for debt service payments for advances for construction, notes and assessments payable. See the Long-term debt explanation below.
  - Other liabilities increased by \$33.8 million due to the additions of \$19.6 million in construction deposits relating to state revolving loan reimbursements for the Acid Phase Anerobic Digester (APAD) and Secondary Clarifier and Tertiary Treatment Expansion (SCATT) projects; an increase of \$9.1 million in net other postemployment benefits; and an increase of \$5.1 million in the negative fair value of swap contracts.
  - Long-term debt outstanding increased by a net of \$14.6 million due to an increase of \$29.7 million in GO bonds payable relating to the added 2009 series which was issued in August; offset by \$4.5 million and \$10.6 million in payments that are made in the 2009/2010 year for advances for construction, notes and assessments payable, and COPs, respectively. Also see Note 5 to the basic financial statements regarding debt payments and outstanding balances.
  - The District's net assets increased \$32.9 million, or 2.3% over the prior year. This can be attributed to a net non-operating income of \$50.7 million offset by a net operating loss of \$61.5 million plus contributed capital from developers totaling \$43.7 million for the year. Further information regarding restrictions and commitments associated with net assets can be identified in Notes 10 and 11 to the basic financial statements.

**Revenues, Expenses and Changes in Net Assets**  
For the Fiscal Years Ended June 30, 2010 and 2009

	<u>2009/10</u>		<u>2008/09</u>		<u>Increase/(Decrease)</u>	
	Amount	% of Total	Amount	% of Total	Amount	% Change
<b>Operating revenues:</b>						
Water sales – domestic	\$ 100,699,778	59.7	\$ 100,967,796	61.0	\$ (268,018)	-0.3
Water sales – irrigation	2,047,253	1.2	2,045,633	1.2	1,620	0.1
Sewer service charges	61,885,298	36.7	58,889,788	35.6	2,995,510	5.1
Recycled water sales	4,052,665	2.4	3,722,130	2.2	330,535	8.9
<b>Total operating revenues</b>	<b>168,684,994</b>	<b>100.0</b>	<b>165,625,347</b>	<b>100.0</b>	<b>3,059,647</b>	<b>1.8</b>
<b>Non-operating revenues:</b>						
Property taxes – general levy	29,474,227	34.6	33,149,232	35.4	(3,675,005)	-11.1
Property taxes – bond levy	4,084,984	4.8	1,953,743	2.1	2,131,241	109.1
Standby charges	5,246,008	6.1	5,015,076	5.3	230,932	4.6
Water and sewer connection fees	13,010,929	15.3	17,789,045	19.0	(4,778,116)	-26.9
Interest – operations and restricted funds	13,117,278	15.4	17,884,375	19.1	(4,767,097)	-26.7
Interest – bond funds	82,469	0.1	386,191	0.4	(303,722)	-78.6
Gain(loss) on disposal of fixed assets	54,043	0.1	(213,845)	-0.2	267,888	125.3
Net increase in fair value of investments	3,564,466	4.2	822,445	0.9	2,742,021	333.4
Grant revenues	6,063,577	7.1	6,466,818	6.9	(403,241)	-6.2
Other revenues	10,456,056	12.3	10,438,521	11.1	17,535	0.2
<b>Total non-operating revenues</b>	<b>85,154,037</b>	<b>100.0</b>	<b>93,691,601</b>	<b>100.0</b>	<b>(8,537,564)</b>	<b>-9.1</b>
<b>Total revenues</b>	<b>253,839,031</b>		<b>259,316,948</b>		<b>(5,477,917)</b>	<b>-2.1</b>
<b>Operating expenses:</b>						
Purchased water	46,936,179	20.4	41,318,803	19.0	5,617,376	13.6
Water operations	39,967,447	17.4	40,834,689	18.8	(867,242)	-2.1
Sewer operations	39,657,747	17.2	41,160,507	18.9	(1,502,760)	-3.7
Recycled water operations	5,466,039	2.4	4,749,447	2.2	716,592	15.1
General and administrative	30,256,670	13.1	27,471,196	12.7	2,785,474	10.1
Depreciation and amortization	58,754,538	25.5	54,545,053	25.1	4,209,485	7.7
Net other postemployment benefits	9,131,657	4.0	7,065,471	3.3	2,066,186	29.2
<b>Total operating expenses</b>	<b>230,170,277</b>	<b>100.0</b>	<b>217,145,166</b>	<b>100.0</b>	<b>13,025,111</b>	<b>6.0</b>
<b>Non-operating expenses:</b>						
Interest – certificates of participation	21,413,765	62.1	23,564,234	69.2	(2,150,469)	-9.1
Interest – bond	1,993,650	5.8	814,612	2.4	1,179,038	144.7
Interest – other	1,064,412	3.1	1,242,190	3.6	(177,778)	-14.3
Bond service fees	70,472	0.2	77,227	0.2	(6,755)	-8.8
Other expenses	9,951,955	28.8	8,379,690	24.6	1,572,265	18.8
<b>Total non-operating expenses</b>	<b>34,494,254</b>	<b>100.0</b>	<b>34,077,953</b>	<b>100.0</b>	<b>416,301</b>	<b>1.2</b>
<b>Total expenses</b>	<b>264,664,531</b>		<b>251,223,119</b>		<b>13,441,412</b>	<b>5.4</b>
(Loss) income before contributions	(10,825,500)		8,093,829		(18,919,329)	-233.8
Capital contributions	43,704,311		34,821,508		8,882,803	25.5
Change in net assets	32,878,811		42,915,337		(10,036,526)	-23.4
Total net assets at beginning of year	1,432,540,442		1,389,625,105		42,915,337	3.1
Total net assets at end of year	<b>\$1,465,419,253</b>		<b>\$1,432,540,442</b>		<b>\$ 32,878,811</b>	<b>2.3</b>

---

## Changes in Financial Performance of the District

The charts in the statistical section of this report on pages 66 and 67 illustrate revenues by source and expenses by function, respectively, for the last ten fiscal years. The following denotes explanations for the major changes between the 2009/10 and 2008/09 fiscal years as shown in the previous table.

- Total revenues – Combined revenues for the fiscal year totaled \$253.8 million compared to a prior year of \$259.3 million. This is a decrease of approximately 2.1%. The table on page 6 presents a comparison of revenues by major source for the two fiscal years 2009/10 and 2008/09.
- Total expenses – Combined expenses for the fiscal year totaled \$264.7 million compared to a prior year of \$251.2 million. This is an increase of approximately 5.4%. The table on page 6 presents a comparison of expenses by category for the two fiscal years 2009/10 and 2008/09.
- Water sales – Total domestic and irrigation sales remained relatively flat with an approximate \$0.3 million decrease. This change reflects an increase in revenues relating to a tiered water rates increase of 14% beginning with billings mailed out February 1, 2010, offset by a decrease of 12.1% in water purchases. This rate increase was required as a result of a 19.7% increase in purchased water costs from MWD. (See water purchases.)
- Sewer service - Wastewater service charges increased \$3.0 million (5.1%) over the previous year's total to end at \$61.9 million. This is primarily attributed to additional billings related to the 2,001 additional sewer hook-ups.
- Property taxes - general – The District's general property tax revenue decreased by \$3.7 million (11.1%) mainly due to decreased home values resulting in assessed valuations 16.1% less than the previous year.
- Property taxes - bond – The District issued \$31,625,000 in new general obligation bonds in August, 2009. The increase of \$2.1 million (109.1%) relates to added assessments for debt service requirements.
- Connection fees – These revenues decreased over the prior year due to the continued downturn in the real estate development market. Sewer hookups were 2,001 compared to a prior year of 3,094, representing a decrease of 35.3% and water hookups were 1,444 compared to a prior year of 1,625, representing a decrease of 9.1%. This resulted in revenue \$4.8 million (26.9%) lower than the previous year
- Interest earnings – The current fiscal year's interest earnings was lower by \$4.8 million (26.7%) compared to the prior years, due to an average portfolio balance which exceeded the previous years by \$8.6 million, offset by yields on investments averaging only 2.72% for the year compared to 3.72% for the previous year.
- Net increase in fair value of investments – In accordance with GASB Statement No. 31, the District adjusts the value of investments each fiscal year end to reflect fair value. This adjustment amount was \$2.7 million greater than the prior year amount due to a decline in short term interest rates during the year.



- 
- Water purchases – Purchased water from our wholesale provider MWD, decreased by 7,205 AF, however, this lower purchase amount was offset by an increase in the cost of treated water of \$122/AF for Tier 1 and \$116/AF for Tier 2 and resulted in the net increase of \$5.6 million. This rate increase was effective September 1, 2009.
  - Sewer operations – The net decrease in expenses of \$1.5 million is primarily a result of lower indirect labor and support costs relating to District-wide efforts to eliminate or postpone expenditures.
  - General and administrative – The \$2.8 million net increase is primarily due to recording a \$3.0 million increase in worker's compensation liability reserve, offset by \$0.2 million in decreased costs from efforts to eliminate or postpone expenditures.
  - Depreciation and amortization – The District capitalized \$224.9 million of depreciable assets over the course of the year which resulted in the \$4.2 million of additional expense.
  - Net other postemployment benefits – In addition to amounts paid for retiree medical and life insurance costs during the year, the District recorded the actuarially determined additional annual required contribution of \$9.1 million, which was \$2.1 million greater than the prior year amount. See Note 9 to the basic financial statements for further information regarding postemployment benefits other than pension.
  - Interest – certificates of participation – The \$2.2 million decrease is primarily due to lower interest rates on the 2008 series B, D, E, F and G, COPs, which carry a variable interest rate.
  - Interest – bond – The \$1.2 million increase is primarily due to added debt service requirements relating to the new general obligation bonds issuance totaling \$31,625,000.
  - Other non-operating expenses – The \$1.6 million increase is primarily due to an increase of \$1.3 million for COP liquidity and remarketing bank fees related to variable interest-rate COPs, combined with \$1.0 million more reports and studies recorded to expense over the previous year, offset by \$0.7 million in various other accounts.
  - Capital contributions - Facilities built by developers and turned over to the District to operate and maintain increased to \$43.7 million compared to \$34.8 million in the previous year, an increase of \$8.9 million.
  - Net assets - The financial condition of the District has improved from the previous year. The District's net assets increased by \$32.9 million to \$1,465.4 million. This is a 2.3% increase over the prior year and is illustrated on the table on page 4 that compares the various categories of assets, liabilities and net assets for the two fiscal years 2009/10 and 2008/09.

## Capital Assets

Net of accumulated depreciation, the District reported capital assets of \$1,808.2 million in fiscal year 2009/10 compared to \$1,736.1 million in fiscal year 2008/09. A comparison of this change is provided below by major category. Also see Note 3 to the basic financial statements for further information regarding capital assets.

### Capital Assets For the Fiscal Years Ended June 30, 2010 and 2009

	2009/10	2008/09	Increase/Decrease	
			Amount	% Change
Land	\$ 36,540,023	\$ 33,652,806	\$ 2,887,217	8.6
Tunnel water seepage agreement	1,750,900	1,750,900	-	0.0
Water capacity rights	23,832,124	23,832,124	-	0.0
Plans & designs	9,481,264	7,350,405	2,130,859	29.0
Water plant, lines & equipment	823,682,841	723,007,943	100,674,898	13.9
Sewer plant, lines & equipment	1,133,459,937	1,014,808,944	118,650,993	11.7
Equipment and general facilities	104,964,349	100,083,610	4,880,739	4.9
Construction in progress	310,762,779	409,520,723	(98,757,944)	-24.1
Total capital assets	2,444,474,217	2,314,007,455	130,466,762	5.6
Less accumulated depreciation	636,253,090	577,920,806	58,332,284	10.1
Net capital assets	\$ 1,808,221,127	\$ 1,736,086,649	\$ 72,134,478	4.2

Significant additions to capital assets include \$43.7 million in contributed capital from developers. Most of the contributed assets were water and sewer lines that were required to keep up with the increased development in the area. Other additions resulted from the completion and capitalization of \$200.1 million construction in progress.

The three largest District projects that were capitalized during the fiscal year ended June 30, 2010 include the Perris Valley Regional Water Reclamation Facility (PVRWRF) Expansion to 22 MGD (\$41.8 million); the San Jacinto Valley Interceptor Sewer Phase I (\$16.0 million); and the Perris Valley Pipeline/Cactus Avenue Feeder Pipeline (\$14.7 million).

The Perris Valley RWRf Expansion project included the design and construction of a 14 MGD tertiary expansion to provide for a total of 22 MGD of tertiary capacity; construction of a new Plant 3 to provide an additional 12 MGD of primary and secondary treatment capacity; as well as converting the Bardenpho Plant (Plant 2) to a more reliable and less energy intensive conventional plant with nitrification and denitrification capabilities. This project was completed at April 30, 2010.

The San Jacinto Valley Interceptor Sewer Phase I project included the design and construction of approximately 19,445 linear feet of 27", 33", 36" and 48" diameter sewer transmission pipelines along Sanderson Avenue, Seventh Street and Santa Fe Avenue. These added pipelines support existing and future development for sewage treatment at the San Jacinto RWRf. This project was completed at June 30, 2010.

The Perris Valley Pipeline/Cactus Avenue Feeder Pipeline project included the design and construction of approximately 13,700 feet of 48" cement mortar lined pipeline from the new Cactus Pump Station through Cactus Avenue and terminating at the Heacock Pumping Plant. This is one of the District's main transmission pipelines that will deliver up to 30,000 GPM from

---

the Mills Pumping Plant to the east and north portions of the District's service area. This project was substantially complete at June 30, 2010, with final work to be completed by September 2010.

The District had \$60,182,585 in construction contract commitments as of June 30, 2010. See Note 11 to the basic financial statements for further information regarding these commitments.

### **Capital Expenditures**

During the year, additions to construction in progress totaled approximately \$101.3 million. Some of the major projects currently underway and where expenditures in fiscal year 2009/10 exceeded \$2.0 million include the:

- Perris Valley RWRP Plant No. 3 Expansion (\$26.9 million)
- Moreno Valley RWRP - SCATT (\$20.8 million)
- Moreno Valley RWRP - APAD (\$16.3 million)
- Diamond Valley Recycled Water Storage Tank (\$3.4 million)
- Western Way Water Booster Station (\$2.6 million)
- Customer Service Call Center Building Purchase and Improvements (\$2.2 million)
- Murrieta Area Sewer Improvements (\$2.1 million)
- Six water and sewer projects between \$1,000,000 - \$2,000,000 (\$8.4 million)
- Thirteen water and sewer projects between \$500,000 - \$1,000,000 (\$8.3 million)
- Thirty-eight water and sewer projects between \$100,000 - \$500,000 (\$8.6 million)

The remaining \$1.7 million was for various water and sewer projects with expenditures less than \$100,000 in the current fiscal year.

### **Noncurrent Liabilities**

Noncurrent liabilities consist of debt, including advances for construction, notes and assessments, certificates of participation (COPs), and general obligation (GO) bonds; unamortized deferred amounts for premiums/discounts and refundings relating to COP and GO debt issuances; State Revolving Fund (SRF) construction advances; reimbursable agreements; compensated absences; net other postemployment benefits obligation and the fair value of swap contracts. Detailed information relating to the net other postemployment benefits obligation of \$22.4 million is presented in Note 9 to the basic financial statements.

GASB Statement No. 53 was implemented for the fiscal year ended June 30, 2010. This statement changed the manner in which the District accounts for financial instruments and required the District to record the fair value of its swap contracts on the Statement of Net Assets. Detailed information regarding the District's swap contracts is presented in Note 6 to the basic financial statements.

Excluding net other postemployment benefits obligation and the fair value of swap contracts, at June 30, 2010, the District had a net \$818.9 million in total outstanding noncurrent liabilities, a net increase of \$35.3 million or 4.5 percent from the prior year. The amount of debt due within one year totaled \$17.2 million, net of deferred amounts, and the amount of compensated absences due within one year totaled \$5.4 million. Long-term debt increased a net \$15.7 million due to the added \$31.9 million 2009 series GO bond issuance offset by \$16.2 million scheduled debt payments. The District received \$19.6 million in construction advances from the SRF and had an obligation for compensated absences of \$11.0 million at fiscal year end. Deferred amounts were (\$13.9) million at fiscal year end; a decrease of \$1.4 million from the prior year

---

with an amortized amount of (\$1.1) million due within one year. The District's COP debt has been assigned an AA+, AA and Aa2 rating from Fitch Ratings, Standard & Poor's Rating Services and Moody's Investor Service, Inc., respectively. More detailed information about the District's long-term debt and other noncurrent liabilities is presented in Note 5 to the basic financial statements.

### **Contacting the District's Financial Management**

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

---

## Eastern Municipal Water District

### Statement of Net Assets

June 30, 2010

(with prior year data for comparison purposes only)

	June 30	
	2010	2009
<b>Assets</b>		
<b>Current assets:</b>		
Cash and investments (Note 2)	\$ 211,612,980	\$ 171,207,874
Utility accounts receivable, net of allowances	22,854,457	22,855,511
Property taxes receivable	11,445,500	10,060,611
Accrued interest receivable	2,905,256	3,251,737
Other receivables	4,407,342	2,866,933
Prepaid expenses	2,525,132	2,566,454
Materials and supplies inventory	3,191,072	2,836,679
Deposits	14,742	17,009
Total current assets	258,956,481	215,662,808
<b>Noncurrent assets:</b>		
Restricted assets:		
Debt service/covenants cash and investments (Note 2)	137,049,923	130,563,941
Property taxes receivable	1,120,180	1,458,485
Construction cash and investments (Note 2)	173,364,496	211,317,720
Notes receivable	667,293	1,617,411
Total restricted assets	312,201,892	344,957,557
Capital assets: (Note 3)		
Land	36,540,023	33,652,806
Tunnel water seepage agreement	1,750,900	1,750,900
Structures, improvements and water rights	1,990,456,166	1,768,999,416
Equipment and general facilities	104,964,349	100,083,610
Construction in progress	310,762,779	409,520,723
Total capital assets	2,444,474,217	2,314,007,455
Less accumulated depreciation	(636,253,090)	(577,920,806)
Net capital assets	1,808,221,127	1,736,086,649
Other assets:		
Prepaid PERS contribution (Note 4)	5,622,024	6,152,971
Deferred outflow of resources – swap contracts (Note 6)	16,377,731	11,241,573
Unamortized debt issuance costs	4,029,199	3,620,344
Total other assets	26,028,954	21,014,888
Total noncurrent assets	2,146,451,973	2,102,059,094
<b>Total assets</b>	<b>\$ 2,405,408,454</b>	<b>\$ 2,317,721,902</b>

	June 30	
	2010	2009
<b>Liabilities:</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 34,468,882	\$ 27,594,211
Accrued salaries and benefits	2,620,329	2,045,737
Other accrued expenses	4,664,075	1,702,834
Customer deposits	5,907,889	4,895,184
Compensated absences (Note 5)	5,415,193	5,318,430
Accrued interest	10,148,810	9,921,841
Other payables	2,103,790	1,009,224
Advances from developers (Note 14)	22,338,776	29,850,836
Advances for construction, notes and assessments (Note 5)	4,461,146	5,127,969
Certificates of participation (Note 5)	10,587,329	10,382,329
General obligation bonds (Note 5)	2,190,890	720,450
Total current liabilities	<u>104,907,109</u>	<u>98,569,045</u>
<b>Noncurrent liabilities:</b>		
Advances for construction, notes and assessments (Note 5)	35,818,082	40,279,229
State Revolving Fund construction advances (Note 5)	19,608,033	-
Certificates of participation (Note 5)	689,723,765	700,311,094
General obligation bonds (Note 5)	45,481,394	15,785,323
Reimbursable agreements (Note 5)	94,383	54,533
Compensated absences (Note 5)	5,562,626	5,656,242
Net other postemployment benefits obligation (Note 9)	22,416,078	13,284,421
Fair value of swap contracts (Note 6)	16,377,731	11,241,573
Total noncurrent liabilities	<u>835,082,092</u>	<u>786,612,415</u>
<b>Total liabilities</b>	<u>\$ 939,989,201</u>	<u>\$ 885,181,460</u>
<b>Net assets:</b>		
Invested in capital assets, net of related debt	\$ 1,120,121,593	\$ 1,084,747,657
Restricted for debt service/covenants	65,090,658	58,248,958
Restricted for construction	150,977,362	169,061,541
Unrestricted	129,229,640	120,482,286
<b>Total net assets</b>	<u>\$ 1,465,419,253</u>	<u>\$ 1,432,540,442</u>

See accompanying notes to the basic financial statements.

## Eastern Municipal Water District

### Statement of Revenues, Expenses and Changes in Net Assets

For the Fiscal Year Ended June 30, 2010  
(with prior year data for comparison purposes only)

	Fiscal Year Ended June 30	
	2010	2009
<b>Operating revenues:</b>		
Water sales – domestic	\$ 100,699,778	\$ 100,967,796
Water sales – irrigation	2,047,253	2,045,633
Sewer service charges	61,885,298	58,889,788
Recycled water sales	4,052,665	3,722,130
Total operating revenues	168,684,994	165,625,347
<b>Operating expenses:</b>		
Purchased water	46,936,179	41,318,803
Water operations	39,967,447	40,834,689
Sewer operations	39,657,747	41,160,507
Recycled water operations	5,466,039	4,749,447
General and administrative	30,256,670	27,471,196
Depreciation	58,754,538	54,545,053
Net other postemployment benefits	9,131,657	7,065,471
Total operating expenses	230,170,277	217,145,166
Loss from operations	(61,485,283)	(51,519,819)
<b>Non-operating revenues (expenses):</b>		
Property taxes – general levy	29,474,227	33,149,232
Property taxes – bond levy	4,084,984	1,953,743
Standby charges	5,246,008	5,015,076
Water and sewer connection fees	13,010,929	17,789,045
Interest – operations and restricted funds	13,117,278	17,884,375
Net increase in fair value of investments	3,564,466	822,445
Interest – bond funds	82,469	386,191
Grant revenues	6,063,577	6,466,818
Other revenues	10,456,056	10,438,521
Interest – certificates of participation	(21,413,765)	(23,564,234)
Interest – bond	(1,993,650)	(814,612)
Interest – other	(1,064,412)	(1,242,190)
Bond service fees	(70,472)	(77,227)
Gain (loss) on disposal of capital assets	54,043	(213,845)
Other expenses	(9,951,955)	(8,379,690)
Total non-operating revenues	50,659,783	59,613,648
<b>(Loss) income before contributions</b>	<b>(10,825,500)</b>	<b>8,093,829</b>
Capital contributions	43,704,311	34,821,508
Change in net assets	32,878,811	42,915,337
<b>Total net assets at beginning of year</b>	<b>1,432,540,442</b>	<b>1,389,625,105</b>
<b>Total net assets at end of year</b>	<b>\$ 1,465,419,253</b>	<b>\$ 1,432,540,442</b>

See accompanying notes to the basic financial statements.

---

## Eastern Municipal Water District

### Statement of Cash Flows

For the Fiscal Year Ended June 30, 2010  
(with prior year data for comparison purposes only)

	Fiscal Year Ended June 30	
	2010	2009
<b>Cash flows from operating activities</b>		
Cash received from customers	\$ 166,654,761	\$ 161,358,208
Cash payments for water	(46,936,179)	(41,318,803)
Cash payments to employees for services	(59,447,854)	(59,379,011)
Cash payments to suppliers for goods and services	(38,838,871)	(47,773,425)
Cash payments for energy and utilities	(13,274,243)	(14,903,674)
Proceeds from standby charges and other revenues	15,798,257	12,193,887
Other operating revenues	9,300,560	4,911,261
Net cash provided by operating activities	33,256,431	15,088,443
<b>Cash flows from noncapital financing activities</b>		
Proceeds from property taxes, general levy	27,993,145	33,199,235
Proceeds from grants	6,063,577	6,466,818
Net cash provided by noncapital financing activities	34,056,722	39,666,053
<b>Cash flows from capital and related financing activities</b>		
Acquisitions and construction of capital assets	(87,310,164)	(163,399,340)
Proceeds from sale of capital assets	112,392	1,907,457
Proceeds from long-term debt issuance	31,505,041	358,905,000
Proceeds from SRF construction advances	19,608,033	-
Repayment of bonds and certificates of participation	(12,255,000)	(122,975,000)
Proceeds from reimbursement agreements	108,572	141,121
Repayments of notes payable and reimbursements	(5,196,692)	(4,361,862)
Interest paid	(24,220,973)	(24,957,849)
Proceeds from property taxes, bond levy	4,423,289	2,147,369
Proceeds from water and sewer connection fees	13,010,929	17,789,045
Payments of developer advances	(6,417,494)	(8,145,290)
Net cash (used for) provided by capital and related financing activities	(66,632,067)	57,050,651
<b>Cash flows from investing activities</b>		
Purchases of investment securities	(633,167,402)	(595,877,970)
Proceeds from sales and maturities of investment securities	622,627,460	513,086,136
Proceeds from earnings on investments	13,546,228	19,015,449
Net cash provided by (used for) investing activities	3,006,286	(63,776,385)
Total (decrease) increase in cash and cash equivalents	3,687,372	48,028,762
Cash and cash equivalents at beginning of year	85,540,895	37,512,133
Cash and cash equivalents at end of year (Note 2)	\$ 89,228,267	\$ 85,540,895

*(Continued on next page)*



## Eastern Municipal Water District

### Statement of Cash Flows

For the Fiscal Year Ended June 30, 2010  
(with prior year data for comparison purposes only)  
(continued)

	<b>Fiscal Year Ended June 30</b>	
	<b>2010</b>	<b>2009</b>
<b>Reconciliation of loss from operations to net cash provided by operating activities:</b>		
Loss from operations	<b>\$ (61,485,283)</b>	\$ (51,519,819)
Adjustments to reconcile loss from operations to net cash provided by (used for) operating activities:		
Operating activities:		
Depreciation	<b>58,754,538</b>	54,545,053
Standby charges and other revenues/expenses	<b>11,405,778</b>	12,193,887
Changes in assets and liabilities:		
Decrease (increase) in utility accounts receivable	<b>1,054</b>	(2,477,357)
Decrease (increase) in other receivables	<b>(1,540,409)</b>	(819,157)
Decrease (increase) in prepaid expenses	<b>41,322</b>	(280,608)
Decrease (increase) in materials and supplies inventory	<b>(354,393)</b>	(369,949)
Decrease (increase) in deposits	<b>2,267</b>	26,317
Decrease (increase) in notes receivable	<b>950,118</b>	14,923
Decrease (increase) in other assets	<b>530,947</b>	530,946
Increase (decrease) in accounts payable	<b>6,874,671</b>	(4,623,439)
Increase (decrease) in accrued expenses	<b>3,535,833</b>	667,721
Increase (decrease) in customer deposits	<b>1,012,705</b>	(448,647)
Increase (decrease) in compensated absences	<b>3,147</b>	583,100
Increase (decrease) in net other postemployment benefits obligation	<b>9,131,657</b>	7,065,472
Net cash provided by (used for) operating activities	<b>\$ 28,863,952</b>	\$ 15,088,443
<b>Reconciliation of cash and cash equivalents to statement of net assets:</b>		
Current cash and investments	<b>\$211,612,980</b>	\$171,207,874
Restricted cash and investments:		
Debt service/covenants	<b>137,049,923</b>	130,563,941
Construction	<b>173,364,496</b>	211,317,720
Total cash and investments	<b>522,027,399</b>	513,089,535
Less investments	<b>432,799,132</b>	427,548,640
Cash and cash equivalents (Note 2)	<b>\$ 89,228,267</b>	\$ 85,540,895
<b>Noncash capital, financing, and investing activities</b>		
Contributions of capital assets from developers and others	<b>\$ 43,704,311</b>	\$ 34,821,508
Increase in fair value of investments	<b>3,564,466</b>	1,216,534
Amortized costs - prepaid PERS and long-term debt	<b>1,101,401</b>	1,152,221

*See accompanying notes to the basic financial statements.*

---

# **Eastern Municipal Water District**

## **Notes to the Basic Financial Statements**

For the Fiscal Year Ended June 30, 2010

### **1. Description of Reporting Entity and Summary of Significant Accounting Policies**

#### **Reporting Entity**

The Eastern Municipal Water District (District) was formed in October 1950, under the California Water Code for the primary purpose of importing Colorado River Water to augment local water supplies. The District serves an area of approximately 346,691 acres (542 square miles), encompassing the westerly third of Riverside County. The District is operated under the direction of a five-member Board of Directors (Board) elected for four-year terms. The District presently imports 76% of its water supply from the Metropolitan Water District of Southern California (MWD) and derives the remaining 24% of its water supply from local groundwater sources. The District is a member agency of MWD and is currently entitled to have one District representative sit on the Board of MWD.

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

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

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

---

# **Eastern Municipal Water District**

## **Notes to the Basic Financial Statements**

(continued)

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

#### **Basis of Accounting and Measurement Focus**

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

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

#### **Pronouncements of GASB and FASB**

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

#### **Cash and Investments**

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

#### **Cash Equivalents**

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

#### **Classification of Revenues and Expenses**

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

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

**Eastern Municipal Water District**  
**Notes to the Basic Financial Statements**

(continued)

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

**Capital Assets**

Purchased capital assets are recorded at cost and contributed capital assets are recorded at fair market value at the time they are received. The contributed assets consist primarily of distribution lines and connections constructed and donated by developers. The District follows the below capitalization thresholds for all purchased assets 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.

<b>Asset Group</b>	<b>Amount (Minimum)</b>	<b>Estimated Useful Life</b>
Department tools and equipment; computer hardware and software	\$ 5,000	> than 3 years
Facilities plant and equipment	\$ 5,000	> 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:

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

**Allowance for Doubtful Accounts**

An allowance for doubtful accounts has been established for utility accounts receivables that are 60+ days delinquent at year-end. This allowance is netted against the receivable on the Statement of Net Assets and amounts to \$678,848 and \$838,543 at June 30, 2010 and 2009, respectively.

**Inventories**

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

---

# Eastern Municipal Water District

## Notes to the Basic Financial Statements

(continued)

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

#### Restricted Assets

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

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

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

#### Revenue Recognition

Revenues are recognized when earned. Metered water accounts are read and billed daily on 30-day cycles. Wastewater customers are also billed and included with the water billing. In certain areas of the District, the wastewater billing is handled by another water utility agency, but is accrued as revenues by the District each month. Collections are forwarded monthly, based on actual receipts. Unbilled water and wastewater charges are accrued for the period from the last meter reading through year-end and are included in accounts receivable. Unbilled accounts receivable amounted to \$7,671,001 and \$8,204,295 at June 30, 2010 and 2009, respectively.

#### Property Taxes

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

The property tax calendar is as follows:

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

---

# Eastern Municipal Water District

## Notes to the Basic Financial Statements

(continued)

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

#### Debt Issuance Costs

General obligation bond and certificate of participation premiums and discounts, loss on refunding (amortized over the shorter life of the new or old bonds), and issuance costs are deferred and amortized over the term of bonds using the effective interest method. Net bond and certificate of participation discounts and loss on refunding are presented as a reduction of the face amount of certificates of participation and bonds payable, whereas issuance costs are recorded as other assets.

#### Compensated Absences

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

#### Use of Estimates

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

#### Prior Year Data

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

#### Interest Rate Swap Contracts

Effective July 1, 2009, The District changed the manner in which it accounts for financial instruments. Prior to July 1, 2009, financial instruments were not recognized in the Statement of Net Assets. On July 1, 2009, the District implemented GASB Statement No. 53 which requires that the fair value of financial instruments be recognized on the Statement of Net Assets. Prior year amounts presented for comparative purposes have been restated to conform to this accounting change.

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. The changes in fair value of hedging financial instruments do not affect investment revenue, but are recorded as



**Eastern Municipal Water District**  
**Notes to the Basic Financial Statements**

(continued)

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

**Interest Rate Swap Contracts (continued)**

deferred outflows. As of June 30, 2010, all potential hedging instruments of the District are considered effective hedges.

**2. Cash and Investments**

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

	<b>2010</b>	<b>2009</b>
Current assets	<b>\$ 211,612,980</b>	\$ 171,207,874
Restricted assets:		
Debt service/covenants	<b>137,049,923</b>	130,563,941
Construction	<b>173,364,496</b>	211,317,720
Totals	<b>\$ 522,027,399</b>	\$ 513,089,535

Cash and investments at June 30 consisted of the following:

	<b>2010</b>	<b>2009</b>
Cash on hand	<b>\$ 4,900</b>	\$ 3,600
Deposits with financial institutions	<b>1,317,174</b>	26,845,494
Investments	<b>520,705,325</b>	486,240,441
Total cash and investments	<b>\$ 522,027,399</b>	\$ 513,089,535

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

	<b>2010</b>	<b>2009</b>
Demand accounts and on hand	<b>\$ 1,322,074</b>	\$ 26,849,094
Local Agency Investment Fund (LAIF)	<b>63,706,473</b>	57,949,100
Investment Trust of California (CalTRUST)	<b>286,313</b>	742,701
Money market mutual funds	<b>23,913,407</b>	-
Total cash and cash equivalents	<b>\$ 89,228,267</b>	\$ 85,540,895

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

The table on the next page identifies the investment types that are authorized for the District by the California Government Code and the District's investment policy. The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

**Eastern Municipal Water District**  
**Notes to the Basic Financial Statements**

(continued)

**2. Cash and Investments (continued)**

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

<b>Investment Types Authorized by State Law</b>	<b>Authorized by Investment Policy</b>	<b>Maximum Maturity *</b>	<b>Maximum Percentage of Portfolio*</b>	<b>Maximum Investment in One Issuer *</b>
U.S. treasury obligations	Yes	5 Years	None	None
U.S. agency securities	Yes	5 Years	None	None
Bankers' acceptances	Yes	180 Days	40%	30%
Negotiable certificates of deposit	Yes	1 Year	30%	25%
Commercial paper	Yes	270 Days	25%	10%
Repurchase agreements	No(1)	1 Year	None	None
Reverse repurchase agreements	No	92 Days	20%	None
Medium-term notes	Yes	5 Years	30%	25%
Mortgage pass – through securities	No	5 Years	None	None
LAIF	Yes	None	None	\$50,000,000
Local agency bonds	No	5 Years	None	None
Mutual funds	No	N/A	20%	10%
Money market mutual funds	Yes	N/A	15%	10%
County pooled investment funds	No	N/A	None	None
Joint powers authority (CalTRUST)	Yes	N/A	15%	15%

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

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

**Investments Authorized by Debt Agreements**

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

<b>Authorized Investment Type</b>	<b>Maximum Maturity</b>	<b>Maximum Percentage of Portfolio</b>	<b>Maximum Investment in One Issuer</b>
U.S. treasury obligations	None	None	None
U.S. agency securities	None	None	None
State obligations or political subdivision of states	None	None	None
Bankers' acceptances	1 Year	None	None
Certificates of deposit	None	None	None
Commercial paper	None	None	None
Guaranteed investment contracts	None	None	None
Repurchase agreements	30 Days	None	None
Money market mutual funds	None	None	None
LAIF	None	None	None

# Eastern Municipal Water District

## Notes to the Basic Financial Statements

(continued)

### 2. Cash and Investments (continued)

#### Disclosures relating to Interest Rate Risk

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

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

Investment Type	Total Amount	12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
U.S. agency securities:					
Federal Farm Credit Bank (FFCB)	\$ 125,930,224	\$ -	\$ -	\$ 125,930,224	\$ -
Federal Home Loan Bank (FHLB)	72,871,094	20,043,750	-	52,827,344	-
Federal Home Loan Mortgage Corp. (FHLMC)	77,548,041	37,244,555	-	40,303,486	-
Federal National Mortgage Assn. (FNMA)	85,065,797	21,975,953	-	63,089,844	-
LAIF	40,614,149	40,614,149	-	-	-
Investment Trust of California (CalTRUST)	286,313	286,313	-	-	-
Held by trustee:					
LAIF	23,092,324	23,092,324	-	-	-
Money market mutual funds	23,913,406	23,913,406	-	-	-
Guaranteed investment contracts (GICs)	15,582,797	-	-	-	15,582,797
U.S. agency securities:					
FHLMC	5,723,180	4,910,004	-	813,176	-
FNMA	50,078,000	50,078,000	-	-	-
<b>Total investments</b>	<b>\$ 520,705,325</b>	<b>\$ 222,158,454</b>	<b>\$ -</b>	<b>\$ 282,964,074</b>	<b>\$ 15,582,797</b>

#### Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

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

#### Disclosures Relating to Credit Risk

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

**Eastern Municipal Water District**  
**Notes to the Basic Financial Statements**

(continued)

**2. Cash and Investments (continued)**

**Disclosures Relating to Credit Risk (continued)**

Investment Type	Total Amount	Min. Legal Rating	Rating at End of Year			Unrated
			AAA	AA	A+	
U.S. agency securities:						
FFCB	\$ 125,930,224	N/A	\$ 125,930,224	\$ -	\$ -	\$ -
FHLB	72,871,094	N/A	72,871,094	-	-	-
FHLMC	77,548,041	N/A	77,548,041	-	-	-
FNMA	85,065,797	N/A	85,065,797	-	-	-
LAIF	40,614,149	N/A	-	-	-	40,614,149
CalTRUST	286,313	N/A	-	-	-	286,313
Held by trustee:						
LAIF	23,092,324	N/A	-	-	-	23,092,324
Money market mutual funds	23,913,406	N/A	23,913,406	-	-	-
Guaranteed investment contracts	15,582,797	N/A	-	-	-	15,582,797
U.S. agency securities:						
FHLMC	5,723,180	N/A	5,723,180	-	-	-
FNMA	50,078,000	N/A	50,078,000	-	-	-
Total investments	\$ 520,705,325		\$ 441,129,742	\$ -	\$ -	\$ 79,575,583

**Concentration of Credit Risk**

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

Issuer	Investment Type	Reported Amount
FNMA	U.S. Agency Securities	\$ 135,143,797
FFCB	U.S. Agency Securities	125,930,224
FHLMC	U.S. Agency Securities	83,271,221
FHLB	U.S. Agency Securities	72,871,094
LAIF	State Investment Pool	63,706,473

**Custodial Credit Risk**

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of a failure of the counter party (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investment, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must

---

## **Eastern Municipal Water District Notes to the Basic Financial Statements**

(continued)

### **2. Cash and Investments (continued)**

#### **Custodial Credit Risk (continued)**

equal 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

#### **Investment in State Investment Pool**

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized costs of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

#### **Investment in Investment Trust of California (CalTRUST)**

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

**Eastern Municipal Water District**  
**Notes to the Basic Financial Statements**

(continued)

**3. Capital Assets**

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

	<b>Beginning Balance June 30, 2009</b>	<b>Additions</b>	<b>Reductions</b>	<b>Transfers</b>	<b>Ending Balance June 30, 2010</b>
Capital assets, not being depreciated:					
Land	\$ 33,652,806	\$ 2,713,189	\$ -	\$ 174,028	\$ 36,540,023
Tunnel Water Seepage Agreement	1,750,900	-	-	-	1,750,900
Plans and designs *	7,350,405	2,130,859	-	-	9,481,264
Construction in progress *	409,520,723	101,318,750	(200,076,694)	-	310,762,779
Total capital assets, not being depreciated	452,274,834	106,162,798	(200,076,694)	174,028	358,534,966
Capital assets, being depreciated:					
Water plant, lines and equipment	723,007,943	100,780,576	(5,678)	(100,000)	823,682,841
Water capacity rights	23,832,124	-	-	-	23,832,124
Sewer plant, lines and equipment	1,014,808,944	118,839,112	(114,091)	(74,028)	1,133,459,937
Equipment and general facilities *	100,083,610	5,308,683	(427,944)	-	104,964,349
Total capital assets, being depreciated	1,861,732,621	224,928,371	(547,713)	(174,028)	2,085,939,251
Less accumulated depreciation for:					
Water plant, lines and equipment	215,436,157	21,524,089	(1,178)	-	236,959,068
Water capacity rights	4,009,027	595,803	-	-	4,604,830
Sewer plant, lines and equipment	299,395,546	30,775,486	(24,184)	-	330,146,848
Equipment and general facilities	59,080,076	5,859,160	(396,892)	-	64,542,344
Total accumulated depreciation	577,920,806	58,754,538	(422,254)	-	636,253,090
Total capital assets, being depreciated, net	1,283,811,815	166,173,833	(125,459)	(174,028)	1,449,686,161
Capital assets, net	<u>\$1,736,086,649</u>	<u>\$272,336,631</u>	<u>\$(200,202,153)</u>	<u>\$ -</u>	<u>\$1,808,221,127</u>

\* Beginning balance was restated for correction in classification between categories

Depreciation breakdown at June 30, 2010:

Water	\$ 21,606,209
Sewer	26,826,564
Recycled	4,442,378
Admin/Other	5,879,387
Total	<u>\$ 58,754,538</u>

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



## Eastern Municipal Water District Notes to the Basic Financial Statements

(continued)

### 4. PERS Prepaid Unfunded Liability

The District amended its California Public Employees Retirement System (PERS) contract on January 4, 1998 to implement a 2% at 55 retirement program. The actuarial division of PERS determined that the present value impact on the District was an unfunded liability of \$4,939,895. This would result in an employer rate increase of 1.495% of eligible payroll over the next 20 years. However, the District opted to pay this liability in advance and is amortizing this prepaid amount over the next 20 years. The current portion is \$246,995, and future deferred expense is \$1,646,680 at June 30, 2010.

The District amended its PERS contract on August 5, 2005 to implement a 2-1/2% at 55 retirement program. The actuarial division of PERS determined that the present value impact on the District was an unfunded liability of \$5,679,062. This would result in an employer rate increase of 2.145% of eligible payroll over the next 20 years. However, the District opted to pay this liability in advance and is amortizing this prepaid amount over the next 20 years. The current portion is \$283,953 and future deferred expense is \$3,975,344 at June 30, 2010.

### 5. Noncurrent Liabilities

A summary of the long-term debt and other liabilities (excluding net other postemployment benefits obligation and fair value of swap contracts) at June 30 is as follows:

	Beginning Balance June 30, 2009	Additions	Reductions	Ending Balance June 30, 2010	Due Within One Year
<b>Long-term Debt</b>					
Advances for construction, notes and assessments	\$ 45,407,198	\$ -	\$ (5,127,970)	\$ 40,279,228	\$ 4,461,146
Certificates of participation	710,693,423	-	(10,382,329)	700,311,094	10,587,329
General obligation bonds	16,505,773	31,937,781	(771,270)	47,672,284	2,190,890
Sub-total	772,606,394	31,937,781	(16,281,569)	788,262,606	17,239,365
<b>Other Liabilities</b>					
State Revolving Fund construction advances	-	19,608,033	-	19,608,033	-
Reimbursable agreements	54,533	108,572	(68,722)	94,383	-
Compensated absences	10,974,672	7,802,077	(7,798,930)	10,977,819	5,415,193
Sub-total	11,029,205	27,518,682	(7,867,652)	30,680,235	5,415,193
Total noncurrent liabilities	<u>\$ 783,635,599</u>	<u>\$ 59,456,463</u>	<u>\$ (24,149,221)</u>	<u>\$ 818,942,841</u>	<u>\$ 22,654,558</u>

**Eastern Municipal Water District**  
**Notes to the Basic Financial Statements**

(continued)

**5. Noncurrent Liabilities (continued)**

The future maturities of long-term debt (excluding State Revolving Fund (SRF) construction advances, reimbursable agreements and compensated absences) as of June 30, 2010 are as follows:

Year Ending June 30:	Principal	Interest	Total
2011	\$ 18,336,146	\$ 33,376,481	\$ 51,712,627
2012	17,617,221	32,297,525	49,914,746
2013	21,845,357	31,673,577	53,518,934
2014	21,628,689	31,087,148	52,715,837
2015	22,960,032	29,824,967	52,784,999
2016-20	122,045,479	133,798,515	255,843,994
2021-25	143,477,854	104,333,144	247,810,998
2026-30	135,383,450	77,194,648	212,578,098
2031-35	157,175,000	46,419,649	203,594,649
2036-39	141,710,000	10,981,334	152,691,334
Sub-total	802,179,228	530,986,988	1,333,166,216
Less: Unamortized premium/discount and deferred refunding charges	(13,916,622)	-	(13,916,622)
Total	<u>\$ 788,262,606</u>	<u>\$ 530,986,988</u>	<u>\$ 1,319,249,594</u>

**Advances for Construction, Notes and Assessments**

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

	2010	2009
State of California Department of Water Resources- Safe, Clean, Reliable Water Supply Act (Proposition 204)	<b>\$ 31,646,488</b>	\$ 33,008,915
State of California Department of Water Resources- Safe, Clean, Reliable Water Supply Act (Proposition 204)	<b>1,418,283</b>	1,507,602
State of California Department of Water Resources- Water Conservation Bond Law of 1988 (Proposition 82)	<b>2,238,229</b>	2,379,186
Elsinore Valley Municipal Water District	<b>25,849</b>	50,338
Santa Anna Watershed Project Authority	<b>669,189</b>	975,650
1992 State of California Agricultural Drainage Water Management Loan	<b>2,760,542</b>	3,691,159
1991 Federal Reclamation Facilities Project Loan	<b>1,520,648</b>	3,794,348
Total	<b>40,279,228</b>	45,407,198
Less current portion	<b>4,461,146</b>	5,127,969
Total long-term advances for construction, notes and assessments	<b><u>\$ 35,818,082</u></b>	<b><u>\$ 40,279,229</u></b>

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

**Eastern Municipal Water District**  
**Notes to the Basic Financial Statements**

(continued)

**5. Noncurrent Liabilities (continued)**

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

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

On March 3, 2005, the District executed a loan contract with the State (California) Department of Water Resources to provide financing under the Safe, Clean, Reliable Water Supply Act (Proposition 204) for the construction costs of the Hemet Water Filtration Plant. This project was completed in November 2007.

The total loan amount to the District was \$42,098,388 repayable in semiannual payments of approximately \$1,052,460 including principal and imputed interest. The loan contract required that the District make certain payments to the State in order to receive loan advances. The District's recorded liability for this obligation has been presented net of these required payments which totaled \$8,419,718. The loan contract carries no stated interest rate; however interest has been imputed at approximately 2.273% with calculated amounts ranging from \$11,825 to \$382,705. Semiannual payments began January 1, 2009 with the final payment scheduled for July 1, 2028.

<b>Year Ending June 30:</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2011	\$ 1,393,567	\$ 711,352	\$ 2,104,919
2012	1,425,419	679,501	2,104,920
2013	1,457,998	646,921	2,104,919
2014	1,491,322	613,597	2,104,919
2015	1,525,408	579,512	2,104,920
2016-20	8,166,222	2,358,376	10,524,598
2021-25	9,143,102	1,381,494	10,524,596
2026-29	7,043,450	323,768	7,367,218
Total	<u>\$ 31,646,488</u>	<u>\$ 7,294,521</u>	<u>\$ 38,941,009</u>

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

<b>Year Ending June 30:</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2011	\$ 91,838	\$ 39,076	\$ 130,914
2012	94,354	36,560	130,914
2013	97,158	33,755	130,913
2014	99,827	31,087	130,914
2015	102,642	28,272	130,914
2016-20	558,257	96,313	654,570
2021-23	374,207	18,534	392,741
Total	<u>\$ 1,418,283</u>	<u>\$ 283,597</u>	<u>\$ 1,701,880</u>

**Eastern Municipal Water District**  
**Notes to the Basic Financial Statements**

(continued)

**5. Noncurrent Liabilities (continued)**

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

**Water Conservation Bond Law of 1988 (Proposition 82)**

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

<b>Year Ending June 30:</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2011	\$ 144,932	\$ 61,667	\$ 206,599
2012	148,902	57,697	206,599
2013	153,328	53,270	206,598
2014	157,540	49,059	206,599
2015	161,982	44,617	206,599
2016-20	881,000	151,993	1,032,993
2021-23	590,545	29,250	619,795
Total	<u>\$ 2,238,229</u>	<u>\$ 447,553</u>	<u>\$ 2,685,782</u>

**Elsinore Valley Municipal Water District**

Elsinore Valley Municipal Water District, financial participation agreement note; interest rates ranging from 2.0% to 4.0% with annual principal installments ranging from \$21,314 to \$25,849 through July 15, 2011.

<b>Year Ending June 30:</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2011	\$ 25,849	\$ 1,034	\$ 26,883
Total	<u>\$ 25,849</u>	<u>\$ 1,034</u>	<u>\$ 26,883</u>

**Santa Ana Watershed Project Authority**

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

<b>Year Ending June 30:</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2011	\$ 324,849	\$ 40,151	\$ 365,000
2012	344,340	20,660	365,000
Total	<u>\$ 669,189</u>	<u>\$ 60,811</u>	<u>\$ 730,000</u>

**Eastern Municipal Water District**  
**Notes to the Basic Financial Statements**

(continued)

**5. Noncurrent Liabilities (continued)**

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

**1992 State of California Agricultural Drainage Water Management Loan**

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

<u>Year Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 959,463	\$ 85,578	\$ 1,045,041
2012	989,206	55,835	1,045,041
2013	811,873	20,066	831,939
Total	<u>\$ 2,760,542</u>	<u>\$ 161,479</u>	<u>\$ 2,922,021</u>

**1991 Federal Reclamation Facilities Project Loan**

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

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

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

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

---

**Eastern Municipal Water District**  
**Notes to the Basic Financial Statements**

(continued)

**5. Noncurrent Liabilities (continued)**

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

**1991 Federal Reclamation Facilities Project Loan (continued)**

Repayment of the loan began on May 1, 1999, with net loan proceeds repayable in 15 annual installments varying from \$552,900 to \$2,650,300 plus interest at rates varying from 0% to 9% on the fish and wildlife component and a portion of the water supply component. On October 6, 2003, the District elected to pay off the Fish and Wildlife component of the loan, with a payment of \$4,180,139. The interest rate applied to the outstanding balance of the Water Supply component (the interest on investment, or IOI) was 7.875% for the fiscal year ended June 30, 2010. However, only the portion of the calculated interest on investment amount and the annual reimbursable interest during construction (RIDC) amount allocated to the delivery of water to excess lands and to the furnishing of M&I water (water delivery ratio) is repayable. For 2010, the water delivery ratio was 8.26%, resulting in an actual interest rate of 0.40% for the period and the actual IOI and RIDC amounts paid were \$24,681 and \$56,564, respectively.

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

<u>Year Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 1,520,648	\$ -	\$ 1,520,648
Total	<u>\$ 1,520,648</u>	<u>\$ -</u>	<u>\$ 1,520,648</u>

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

On June 15, 2009 and September 8, 2009, the District executed loan contracts with the California State Water Resources Control Board to provide financing under the Clean Water State Revolving Fund. These loans are for construction costs relating to two projects located at the Moreno Valley RWRP; the Secondary Clarifier and Tertiary Treatment (SCATT) project and the Acid Phase Anerobic Digestion (APAD) project. Both projects consist of upgrading various current and adding new facilities that will result in increased secondary and tertiary treatment capacity. The SCATT project focuses on the treatment of liquid waste and the APAD project focuses on the treatment of solid waste. These projects are anticipated to be complete in September 2011 and March 2012, respectively.

The future 20-year loans to the District are anticipated to be \$38,362,890 with an interest rate of 1.000% for the SCATT and \$43,546,128 with an interest rate of 0.422% for the APAD projects, of which \$8,445,896 and \$11,162,137, respectively, was received through June 30, 2010. Debt service requirements to maturity have not been presented for these obligations because they have not yet been determined by the lending party. A schedule of payments will be determined upon completion of the funding for the loans.

**Eastern Municipal Water District**  
**Notes to the Basic Financial Statements**

(continued)

**5. Noncurrent Liabilities (continued)**

**Certificates of Participation**

Certificates of participation consist of the following at June 30:

	<b>2010</b>	<b>2009</b>
1991 certificates of participation	<b>\$ 12,920,000</b>	\$ 16,695,000
2001A refunding certificates of participation	<b>46,900,000</b>	50,065,000
2001C refunding certificates of participation	<b>6,675,000</b>	8,190,000
2006A certificates of participation	<b>106,320,000</b>	106,320,000
2007A refunding certificates of participation	<b>20,635,000</b>	20,710,000
2008A refunding certificates of participation	<b>56,155,000</b>	56,410,000
2008B refunding certificates of participation	<b>54,575,000</b>	54,575,000
2008C refunding certificates of participation	<b>54,070,000</b>	54,400,000
2008D refunding certificates of participation	<b>54,205,000</b>	54,760,000
2008E refunding certificates of participation	<b>62,235,000</b>	64,110,000
2008F certificates of participation	<b>50,000,000</b>	50,000,000
2008G certificates of participation	<b>50,000,000</b>	50,000,000
2008H certificates of participation	<b>140,035,000</b>	140,035,000
Total	<b>714,725,000</b>	726,270,000
Less current portion	<b>11,750,000</b>	11,545,000
Total noncurrent certificates of participation payable	<b>\$ 702,975,000</b>	\$ 714,725,000
Total current portion	<b>\$ 11,750,000</b>	\$ 11,545,000
Less net unamortized discount/premium and deferred refunding charges	<b>(1,162,671)</b>	(1,162,671)
Total net current portion	<b>\$ 10,587,329</b>	\$ 10,382,329
Total noncurrent portion	<b>\$ 702,975,000</b>	\$ 714,725,000
Less net unamortized discount/premium and deferred refunding charges	<b>(13,251,235)</b>	(14,413,906)
Total net noncurrent portion	<b>\$ 689,723,765</b>	\$ 700,311,094

**Eastern Municipal Water District**  
**Notes to the Basic Financial Statements**

(continued)

**5. Noncurrent Liabilities (continued)**

**Certificates of Participation (continued)**

**2008H Certificates of Participation**

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

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

	<b>Beginning Balance June 30, 2009</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance June 30, 2010</b>	<b>Due Within One Year</b>
Certificates of participation	\$ 140,035,000	\$ -	\$ -	<b>\$ 140,035,000</b>	\$ -
COP discount	(2,103,801)	-	80,916	<b>(2,022,885)</b>	(80,915)
<b>Total</b>	<b>\$ 137,931,199</b>	<b>\$ -</b>	<b>\$ 80,916</b>	<b>\$ 138,012,115</b>	<b>\$ ( 80,915)</b>

<b>Year Ending June 30:</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2011	\$ -	\$ 7,001,750	\$ 7,001,750
2012	-	7,001,750	7,001,750
2013	-	7,001,750	7,001,750
2014	-	7,001,750	7,001,750
2015	-	7,001,750	7,001,750
2016-20	-	35,008,750	35,008,750
2021-25	5,185,000	34,879,125	40,064,125
2026-30	31,335,000	29,959,125	61,294,125
2031-35	80,045,000	17,475,875	97,520,875
2036	23,470,000	586,750	24,056,750
<b>Total</b>	<b>\$ 140,035,000</b>	<b>\$ 152,918,375</b>	<b>\$ 292,953,375</b>



**Eastern Municipal Water District**  
**Notes to the Basic Financial Statements**

(continued)

**5. Noncurrent Liabilities (continued)**

**Certificates of Participation (continued)**

**2008D Refunding Certificates of Participation**

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

The 2008D Certificates include principal installments due in varying amounts from \$555,000 to \$11,820,000 annually on July 1 in the years 2009 to 2023; with interest payable monthly at a variable rate for a weekly period. The future interest amounts shown below are calculated using an average interest rate of 3.5%. The District may prepay all or part of the certificates at any time at par.

	<b>Beginning Balance June 30, 2009</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance June 30, 2010</b>	<b>Due Within One Year</b>
Certificates of participation	\$ 54,760,000	\$ -	\$ (555,000)	<b>\$ 54,205,000</b>	\$ 415,000
Deferred refunding charges	(3,880,585)	-	277,185	<b>(3,603,400)</b>	(277,185)
COP discount	(72,138)	-	5,153	<b>(66,985)</b>	(5,153)
<b>Total</b>	<b>\$ 50,807,277</b>	<b>\$ -</b>	<b>\$ (272,662)</b>	<b>\$ 50,534,615</b>	<b>\$ 132,662</b>

<b>Year Ending June 30:</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2011	\$ 415,000	\$ 1,889,912	\$ 2,304,912
2012	435,000	1,800,853	2,235,853
2013	590,000	1,857,117	2,447,117
2014	315,000	1,915,464	2,230,464
2015	2,350,000	1,794,625	4,144,625
2016-20	12,955,000	7,656,659	20,611,659
2021-24	37,145,000	3,077,111	40,222,111
<b>Total</b>	<b>\$ 54,205,000</b>	<b>\$ 19,991,741</b>	<b>\$ 74,196,741</b>

**Eastern Municipal Water District**  
**Notes to the Basic Financial Statements**

(continued)

**5. Noncurrent Liabilities (continued)**

**Certificates of Participation (continued)**

**2008E Refunding Certificates of Participation**

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

The 2008E Certificates include principal installments due in varying amounts from \$1,875,000 to \$3,640,000 annually on July 1 in the years 2009 to 2033; with interest payable monthly at a variable rate for a weekly period. The future interest amounts shown below are calculated using an average interest rate of 3.5%. The District may prepay all or part of the certificates at any time at par.

	<b>Beginning Balance June 30, 2009</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance June 30, 2010</b>	<b>Due Within One Year</b>
Certificates of participation	\$ 64,110,000	\$ -	\$ (1,875,000)	<b>\$ 62,235,000</b>	\$ 1,765,000
Deferred refunding charges	(1,051,888)	-	43,829	<b>(1,008,059)</b>	(43,829)
COP discount	(86,570)	-	3,607	<b>(82,963)</b>	(3,607)
<b>Total</b>	<b>\$ 62,971,542</b>	<b>\$ -</b>	<b>\$ (1,827,564)</b>	<b>\$ 61,143,978</b>	<b>\$ 1,717,564</b>

<b>Year Ending June 30:</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2011	\$ 1,765,000	\$ 2,147,338	\$ 3,912,338
2012	1,820,000	2,005,042	3,825,042
2013	2,035,000	2,017,195	4,052,195
2014	1,780,000	2,029,990	3,809,990
2015	2,000,000	1,884,225	3,884,225
2016-20	11,000,000	8,300,333	19,300,333
2021-25	12,870,000	6,220,476	19,090,476
2026-30	15,115,000	3,760,047	18,875,047
2031-34	13,850,000	1,010,971	14,860,971
<b>Total</b>	<b>\$ 62,235,000</b>	<b>\$ 29,375,617</b>	<b>\$ 91,610,617</b>

**Eastern Municipal Water District**  
**Notes to the Basic Financial Statements**

(continued)

**5. Noncurrent Liabilities (continued)**

**Certificates of Participation (continued)**

**2008F Certificates of Participation**

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

The 2008F Certificates include principal installments due in varying amounts from \$16,000,000 to \$17,290,000 annually on July 1 in the years 2036 to 2038; with interest payable monthly at a variable rate for a weekly period. The future interest amounts shown below are calculated using an average interest rate of 3.5%. The District may prepay all or part of the certificates at any time at par.

	<b>Beginning Balance June 30, 2009</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance June 30, 2010</b>	<b>Due Within One Year</b>
Certificates of participation	\$ 50,000,000	\$ -	\$ -	<b>\$ 50,000,000</b>	\$ -
COP discount	(68,232)	-	2,353	<b>(65,879)</b>	(2,353)
<b>Total</b>	<b>\$ 49,931,768</b>	<b>\$ -</b>	<b>\$ 2,353</b>	<b>\$ 49,934,121</b>	<b>\$ (2,353)</b>

<b>Year Ending June 30:</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2011	\$ -	\$ 1,750,000	\$ 1,750,000
2012	-	1,679,687	1,679,687
2013	-	1,750,000	1,750,000
2014	-	1,820,313	1,820,313
2015	-	1,750,000	1,750,000
2016-20	-	8,751,421	8,751,421
2021-25	-	8,750,000	8,750,000
2026-30	-	8,676,660	8,676,660
2031-35	-	8,678,097	8,678,097
2036-39	50,000,000	4,564,878	54,564,878
<b>Total</b>	<b>\$ 50,000,000</b>	<b>\$ 48,171,056</b>	<b>\$ 98,171,056</b>

**Eastern Municipal Water District**  
**Notes to the Basic Financial Statements**

(continued)

**5. Noncurrent Liabilities (continued)**

**Certificates of Participation (continued)**

**2008G Certificates of Participation**

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

The 2008G Certificates include principal installments due in varying amounts from \$16,000,000 to \$17,290,000 annually on July 1 in the years 2036 to 2038; with interest payable monthly at a variable rate for a weekly period. The future interest amounts shown below are calculated using an average interest rate of 3.5%. The District may prepay all or part of the certificates at any time at par.

	<b>Beginning Balance June 30, 2009</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance June 30, 2010</b>	<b>Due Within One Year</b>
Certificates of participation	\$ 50,000,000	\$ -	\$ -	<b>\$ 50,000,000</b>	\$ -
COP discount	(68,019)	-	2,345	<b>(65,674)</b>	(2,346)
<b>Total</b>	<b>\$ 49,931,981</b>	<b>\$ -</b>	<b>\$ 2,345</b>	<b>\$ 49,934,326</b>	<b>\$ (2,346)</b>

<b>Year Ending June 30:</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2011	\$ -	\$ 1,750,000	\$ 1,750,000
2012	-	1,679,687	1,679,687
2013	-	1,750,000	1,750,000
2014	-	1,820,313	1,820,313
2015	-	1,750,000	1,750,000
2016-20	-	8,751,421	8,751,421
2021-25	-	8,750,000	8,750,000
2026-30	-	8,676,660	8,676,660
2031-35	-	8,678,097	8,678,097
2036-39	50,000,000	4,564,878	54,564,878
<b>Total</b>	<b>\$ 50,000,000</b>	<b>\$ 48,171,056</b>	<b>\$ 98,171,056</b>

**Eastern Municipal Water District**  
**Notes to the Basic Financial Statements**

(continued)

**5. Noncurrent Liabilities (continued)**

**Certificates of Participation (continued)**

**2008C Refunding Certificates of Participation**

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

The 2008C Certificates include principal installments due in varying amounts from \$330,000 to \$7,955,000 annually on July 1 in the years 2009 to 2021; with interest payable monthly at a variable rate for a weekly period. The District may prepay all or part of the certificates at any time at par.

	<b>Beginning Balance June 30, 2009</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance June 30, 2010</b>	<b>Due Within One Year</b>
Certificates of participation	\$ 54,400,000	\$ -	\$ (330,000)	<b>\$ 54,070,000</b>	\$ 345,000
Deferred refunding charges	(2,703,720)	-	225,310	<b>(2,478,410)</b>	(225,310)
COP discount	(127,054)	-	10,588	<b>(116,466)</b>	(10,588)
<b>Total</b>	<b>\$ 51,569,226</b>	<b>\$ -</b>	<b>\$ (94,102)</b>	<b>\$ 51,475,124</b>	<b>\$ 109,102</b>

The following table incorporates the net swap payments associated with the 2008C Certificates. Using a variable interest rate of 0.200% as of June 30, 2010, the debt service requirements of the 2008C Certificates and the associated swap payments, assuming current interest rates remain the same for their term, are as follows. As rates vary, the variable rate interest payments and net swap payments will vary. Refer to note 6 for additional information regarding the financial instrument associated with the 2008C Certificates.

<b>Year Ending June 30:</b>	<b>Principal</b>	<b>Interest</b>	<b>Net Payment to Counterparty</b>	<b>Total Debt Service</b>
2011	\$ 345,000	\$ 108,140	\$ 2,530,993	\$ 2,984,133
2012	370,000	107,450	2,518,846	2,996,296
2013	375,000	106,882	2,509,754	2,991,636
2014	5,435,000	105,789	2,487,826	8,028,615
2015	5,735,000	95,090	2,235,430	8,065,520
2016-20	33,855,000	290,120	6,811,576	40,956,696
2021	7,955,000	15,936	373,409	8,344,345
<b>Total</b>	<b>\$ 54,070,000</b>	<b>\$ 829,407</b>	<b>\$ 19,467,834</b>	<b>\$ 74,367,241</b>

**Eastern Municipal Water District**  
**Notes to the Basic Financial Statements**

(continued)

**5. Noncurrent Liabilities (continued)**

**Certificates of Participation (continued)**

**2008B Refunding Certificates of Participation**

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

The 2008B Certificates include principal installments due in varying amounts from \$3,805,000 to \$5,370,000 annually on July 1, in the years 2024 to 2035; with interest payable monthly at a variable rate for a weekly period. The future interest amounts shown below are calculated using an average interest rate of 3.5%.

	<b>Beginning Balance June 30, 2009</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance June 30, 2010</b>	<b>Due Within One Year</b>
Certificates of participation	\$ 54,575,000	\$ -	\$ -	<b>\$ 54,575,000</b>	\$ -
COP discount	(126,921)	-	4,882	<b>(122,039)</b>	(4,882)
<b>Total</b>	<b>\$ 54,448,079</b>	<b>\$ -</b>	<b>\$ 4,882</b>	<b>\$ 54,452,961</b>	<b>\$ (4,882)</b>

<b>Year Ending June 30:</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2011	\$ -	\$ 1,923,208	\$ 1,923,208
2012	-	1,903,991	1,903,991
2013	-	1,902,239	1,902,239
2014	-	1,903,140	1,903,140
2015	-	1,904,892	1,904,892
2016-20	-	9,555,036	9,555,036
2021-25	3,805,000	9,489,303	13,294,303
2026-30	20,935,000	7,108,224	28,043,224
2031-35	24,465,000	3,144,144	27,609,144
2036	5,370,000	94,490	5,464,490
<b>Total</b>	<b>\$ 54,575,000</b>	<b>\$ 38,928,667</b>	<b>\$ 93,503,667</b>

**Eastern Municipal Water District**  
**Notes to the Basic Financial Statements**

(continued)

**5. Noncurrent Liabilities (continued)**

**Certificates of Participation (continued)**

**2008A Refunding Certificates of Participation**

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

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

	<b>Beginning Balance June 30, 2009</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance June 30, 2010</b>	<b>Due Within One Year</b>
Certificates of participation	\$ 56,410,000	\$ -	\$ (255,000)	<b>\$ 56,155,000</b>	\$ 260,000
Deferred refunding charges	(4,848,147)	-	230,864	<b>(4,617,283)</b>	(230,864)
COP discount	(190,521)	-	9,072	<b>(181,449)</b>	(9,072)
<b>Total</b>	<b>\$ 51,371,332</b>	<b>\$ -</b>	<b>\$ (15,064)</b>	<b>\$ 51,356,268</b>	<b>\$ 20,064</b>

The following table incorporates the net swap payments associated with the 2008A Certificates. Using a variable interest rate of 0.170% as of June 30, 2010, the debt service requirements of the 2008A Certificates and the associated swap payments, assuming current interest rates remain the same for their term, are as follows. As rates vary, the variable rate interest payments and net swap payments will vary. Refer to note 6 for additional information regarding the financial instruments associated with the 2008A Certificates.

<b>Year Ending June 30:</b>	<b>Principal</b>	<b>Interest</b>	<b>Net Payment to Counterparty</b>	<b>Total Debt Service</b>
2011	\$ 260,000	\$ 95,464	\$ 1,611,665	\$ 1,967,129
2012	270,000	95,022	1,604,203	1,969,225
2013	275,000	94,715	1,599,229	1,968,944
2014	290,000	93,944	1,585,800	1,969,744
2015	295,000	93,602	1,580,238	1,968,840
2016-20	1,625,000	460,157	7,768,611	9,853,768
2021-25	8,200,000	445,566	7,522,503	16,168,069
2026-30	36,850,000	260,525	4,398,179	41,508,704
2031	8,090,000	13,753	232,185	8,335,938
<b>Total</b>	<b>\$ 56,155,000</b>	<b>\$ 1,652,748</b>	<b>\$ 27,902,613</b>	<b>\$ 85,710,361</b>

**Eastern Municipal Water District**  
**Notes to the Basic Financial Statements**

(continued)

**5. Noncurrent Liabilities (continued)**

**Certificates of Participation (continued)**

**2007A Refunding Certificates of Participation**

In May 2007, the Facilities Corporation issued \$20,710,000 in Water and Sewer Revenue Refunding Certificates of Participation, Series 2007A. The net proceeds of \$22,274,458 were used to currently refund the District's 1997A certificates for \$21,175,000, and to pay the municipal bond insurance policy premium and issuance costs.

The 2007A Certificates include principal installments due in varying amounts from \$75,000 to \$6,860,000 annually on July 1, in the years 2009 to 2023; with interest payable semiannually at rates ranging from 4.00% to 5.00%.

	<b>Beginning Balance June 30, 2009</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance June 30, 2010</b>	<b>Due Within One Year</b>
Certificates of participation	\$ 20,710,000	\$ -	\$ (75,000)	<b>\$ 20,635,000</b>	\$ 75,000
Deferred refunding charges	(1,735,305)	-	123,950	<b>(1,611,355)</b>	(123,950)
COP premium	1,163,131	-	(83,081)	<b>1,080,050</b>	83,081
<b>Total</b>	<b>\$ 20,137,826</b>	<b>\$ -</b>	<b>\$ (34,131)</b>	<b>\$ 20,103,695</b>	<b>\$ 34,131</b>

<b>Year Ending June 30:</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2011	\$ 75,000	\$ 1,020,000	\$ 1,095,000
2012	80,000	1,016,900	1,096,900
2013	80,000	1,013,700	1,093,700
2014	85,000	1,010,400	1,095,400
2015	90,000	1,006,900	1,096,900
2016-20	500,000	4,976,900	5,476,900
2021-24	19,725,000	2,485,550	22,210,550
<b>Total</b>	<b>\$ 20,635,000</b>	<b>\$ 12,530,350</b>	<b>\$ 33,165,350</b>



**Eastern Municipal Water District**  
**Notes to the Basic Financial Statements**

(continued)

**5. Noncurrent Liabilities (continued)**

**Certificates of Participation (continued)**

**2006A Certificates of Participation**

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

The 2006A Certificates include principal installments due in varying amounts from \$3,725,000 to \$4,990,000 annually on July 1, in the years 2012 to 2036, with interest payable semiannually beginning July 1, 2006, at rates per annum ranging from 3.75% to 5.00%.

	<b>Beginning Balance June 30, 2009</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance June 30, 2010</b>	<b>Due Within One Year</b>
Certificates of participation	\$ 106,320,000	\$ -	\$ -	<b>\$ 106,320,000</b>	\$ -
COP premium	3,356,067	-	(125,853)	<b>3,230,214</b>	125,852
<b>Total</b>	<b>\$ 109,676,067</b>	<b>\$ -</b>	<b>\$ (125,853)</b>	<b>\$ 109,550,214</b>	<b>\$ 125,852</b>

<b>Year Ending June 30:</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2011	\$ -	\$ 5,119,444	\$ 5,119,444
2012	-	5,119,444	5,119,444
2013	3,725,000	5,030,850	8,755,850
2014	3,985,000	4,842,631	8,827,631
2015	4,180,000	4,638,506	8,818,506
2016-20	23,945,000	19,931,830	43,876,830
2021-25	26,610,000	13,621,659	40,231,659
2026-30	17,080,000	8,556,269	25,636,269
2031-35	21,805,000	3,763,663	25,568,663
2036	4,990,000	112,276	5,102,276
<b>Total</b>	<b>\$ 106,320,000</b>	<b>\$ 70,736,572</b>	<b>\$ 177,056,572</b>

**Eastern Municipal Water District**  
**Notes to the Basic Financial Statements**

(continued)

**5. Noncurrent Liabilities (continued)**

**Certificates of Participation (continued)**

**2001A, 2001C Refunding Certificates of Participation**

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

**2001A Refunding Certificates of Participation**

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

**2001C Refunding Certificates of Participation**

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

**2001A Refunding Certificates of Participation**

	<b>Beginning Balance June 30, 2009</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance June 30, 2010</b>	<b>Due Within One Year</b>
Certificates of participation	\$ 50,065,000	\$ -	\$ (3,165,000)	<b>\$ 46,900,000</b>	\$ 3,290,000
Deferred refunding charges	(3,943,389)	-	364,005	<b>(3,579,384)</b>	(364,005)
COP premium	1,335,245	-	(123,253)	<b>1,211,992</b>	123,253
<b>Total</b>	<b>\$ 47,456,856</b>	<b>\$ -</b>	<b>\$ (2,924,248)</b>	<b>\$ 44,532,608</b>	<b>\$ 3,049,248</b>

<b>Year Ending June 30:</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2011	\$ 3,290,000	\$ 2,322,563	\$ 5,612,563
2012	3,435,000	2,163,465	5,598,465
2013	3,610,000	1,978,538	5,588,538
2014	3,800,000	1,784,025	5,584,025
2015	4,000,000	1,581,650	5,581,650
2016-20	23,350,000	4,463,914	27,813,914
2021	5,415,000	135,375	5,550,375
<b>Total</b>	<b>\$ 46,900,000</b>	<b>\$ 14,429,530</b>	<b>\$ 61,329,530</b>

**Eastern Municipal Water District**  
**Notes to the Basic Financial Statements**

(continued)

**5. Noncurrent Liabilities (continued)**

**Certificates of Participation (continued)**

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

**2001C Refunding Certificates of Participation**

	<b>Beginning Balance June 30, 2009</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance June 30, 2010</b>	<b>Due Within One Year</b>
Certificates of participation	\$ 8,190,000	\$ -	\$ (1,515,000)	<b>\$ 6,675,000</b>	\$ 1,570,000
Deferred refunding charges	(419,671)	-	109,479	<b>(310,192)</b>	(109,479)
COP discount	(5,059)	-	1,320	<b>(3,739)</b>	(1,320)
Total	<b>\$ 7,765,270</b>	<b>\$ -</b>	<b>\$ (1,404,201)</b>	<b>\$ 6,361,069</b>	<b>\$ 1,459,201</b>

<b>Year Ending June 30:</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2011	\$ 1,570,000	\$ 244,275	\$ 1,814,275
2012	1,635,000	180,175	1,815,175
2013	1,700,000	111,350	1,811,350
2014	1,770,000	37,613	1,807,613
Total	<b>\$ 6,675,000</b>	<b>\$ 573,413</b>	<b>\$ 7,248,413</b>

**Eastern Municipal Water District**  
**Notes to the Basic Financial Statements**

(continued)

**5. Noncurrent Liabilities (continued)**

**Certificates of Participation (continued)**

**1991 Certificates of Participation**

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

The 1991 Certificates include \$26,815,000 of serial certificates maturing in varying amounts from \$1,440,000 to \$2,910,000 annually from July 1, 1993 to July 1, 2005, with interest payable semiannually at rates ranging from 5.1% to 7.5%. Also, in this issue are \$101,875,000 of term certificates due in varying amounts on July 1, 2008, 2012, 2020 and 2023, with interest payable semiannually at rates ranging from 6% to 6.75%. Certificates maturing prior to July 1, 2002 and on July 1, 2012 are not subject to prior redemption; Certificates maturing July 1, 2002 and after (except those maturing on July 1, 2012), may be called prior to maturity at par plus a premium of 2% in 2002, 1% in 2003, and 0% thereafter. The term certificates are subject to mandatory sinking fund requirements beginning July 1, 2006, in amounts varying from \$3,105,000 in 2006 to \$9,115,000 in 2023.

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

	<b>Beginning Balance June 30, 2009</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance June 30, 2010</b>	<b>Due Within One Year</b>
Certificates of participation	\$ 16,695,000	\$ -	\$ (3,775,000)	<b>\$ 12,920,000</b>	\$ 4,030,000
Total	<b>\$ 16,695,000</b>	<b>\$ -</b>	<b>\$ (3,775,000)</b>	<b>\$ 12,920,000</b>	<b>\$ 4,030,000</b>

<b>Year Ending June 30:</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2011	\$ 4,030,000	\$ 736,088	\$ 4,766,088
2012	4,300,000	454,950	4,754,950
2013	4,590,000	154,913	4,744,913
Total	<b>\$ 12,920,000</b>	<b>\$ 1,345,951</b>	<b>\$ 14,265,951</b>

**Eastern Municipal Water District**  
**Notes to the Basic Financial Statements**

(continued)

**5. Noncurrent Liabilities (continued)**

**General Obligation Bonds**

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

General obligation bonds consist of the following at June 30:

	<b>2010</b>	<b>2009</b>
2005 General obligation bonds: Interest rates of the various bond issues outstanding range from 3.0% to 5.0%. Bonds mature annually in varying amounts through 2035.	<b>\$ 15,550,000</b>	\$ 16,260,000
2009 General obligation bonds: Interest rates of the various bond issues outstanding range from 3.0% to 5.625%. Bonds mature annually in varying amounts through 2040.	<b>31,625,000</b>	-
Total	<b>47,175,000</b>	16,260,000
Less current portion	<b>2,125,000</b>	710,000
Total noncurrent general obligation bonds	<b>\$ 45,050,000</b>	\$ 15,550,000
Total current portion	<b>\$ 2,125,000</b>	\$ 710,000
Add net unamortized discount/premium	<b>65,890</b>	10,450
Total net current portion	<b>\$ 2,190,890</b>	\$ 720,450
Total noncurrent portion	<b>\$ 45,050,000</b>	\$ 15,550,000
Add net unamortized discount/premium	<b>431,394</b>	235,323
Total net noncurrent portion	<b>\$ 45,481,394</b>	\$ 15,785,323

At June 30, 2010, general obligation bonds authorized but not issued total \$547,650,000.

	<b>Beginning Balance June 30, 2009</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance June 30, 2010</b>	<b>Due Within One Year</b>
General obligation bonds	\$ 16,260,000	\$ 31,625,000	\$ (710,000)	<b>\$ 47,175,000</b>	\$ 2,125,000
Net bond premium/discount	245,773	312,781	(61,270)	<b>497,284</b>	65,890
Total	<b>\$ 16,505,773</b>	<b>\$ 31,937,781</b>	<b>\$ (771,270)</b>	<b>\$ 47,672,284</b>	<b>\$ 2,190,890</b>

---

**Eastern Municipal Water District**  
**Notes to the Basic Financial Statements**

(continued)

**5. Noncurrent Liabilities (continued)**

**General Obligation Bonds (continued)**

<u>Year Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 2,125,000	\$ 2,186,783	\$ 4,311,783
2012	2,270,000	2,115,807	4,385,807
2013	2,345,000	2,041,333	4,386,333
2014	2,420,000	1,954,407	4,374,407
2015	2,520,000	1,855,658	4,375,658
2016-20	5,210,000	8,465,105	13,675,105
2021-25	6,460,000	7,137,853	13,597,853
2026-30	7,025,000	5,475,191	12,500,191
2031-35	8,920,000	3,422,864	12,342,864
2036	7,880,000	1,058,062	8,938,062
Total	<u>\$ 47,175,000</u>	<u>\$ 35,713,063</u>	<u>\$ 82,888,063</u>

**Reimbursable Agreements**

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

**Debt Service Reserve Funds**

The District is required to maintain a Debt Service Reserve Fund to be used for the payment of principal and interest of its Certificates of Participation Bonds in the event that the District has not provided the Trustee with sufficient funds by the Installment Payment date to make the required Installment Sale Payments. The current required reserve amount as determined by the bond documents and the reserve balance at June 30, 2010 for each outstanding bond issue is:

**Eastern Municipal Water District**  
**Notes to the Basic Financial Statements**

(continued)

**5. Noncurrent Liabilities (continued)**

**Debt Service Reserve Funds (continued)**

Description	Required	Actual	Excess
1991 COP	\$ 4,902,100	\$ 4,910,003	\$ 7,903
2001A/2007A COP	7,203,000	7,421,865	218,865
2001C COP	667,500	813,176	145,676
2006A COP	8,635,399	8,843,105	207,706
2008A COP	5,651,000	5,663,822	12,822
2008B COP	4,253,624	4,365,771	112,147
2008C COP	5,440,000	5,448,487	8,487
2008D COP	5,476,000	5,488,549	12,549
2008E COP	5,102,395	5,112,964	10,569
2008F COP	5,000,000	5,120,275	120,275
2008G COP	5,000,000	5,120,275	120,275
2008H COP	14,003,500	14,086,941	83,441
Subtotal - COP	71,334,518	72,395,233	1,060,715
Prop. 82 loan - \$3.15M	212,533	212,533	-
Prop. 204 loan - \$2.00M	134,948	134,948	-
Prop. 204 loan - \$42.10M	438,671	438,671	-
Subtotal - Loans	786,152	786,152	-
Total	<u>\$ 72,120,670</u>	<u>\$ 73,181,385</u>	<u>\$ 1,060,715</u>

**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, 2010, the District's debt coverage ratio was 2.0 times.

2) Operating Reserve Fund

The District has covenanted that it will maintain a minimum of ¼ of its annual maintenance and operating costs as set forth in its operating budget in a separate reserve fund. This reserve amount was \$34,007,084 at June 30, 2010 and \$31,071,149 at June 30, 2009.

**Defeasance of Debt**

In January 2008, the District defeased Certificates of Participation series 2001B by placing the proceeds of the new debt in an irrevocable trust to provide for all future debt service payments on the defeased debt. Accordingly, the trust's assets and the liability for the defeased debt issue are not included on the District's statement of net assets. As of June 30, 2010 the outstanding balance of the 2001B COP was \$53,172,641.

**Eastern Municipal Water District**  
**Notes to the Basic Financial Statements**

(continued)

**6. Interest Rate Swap Contracts**

**Plan Description**

The fair value balances and notional amounts of financial instruments (instruments) outstanding subject to the requirements of Governmental Accounting Standards Board (GASB) Statement No. 53 at June 30, 2010, classified by type and the changes in fair value of such instruments for the year then ended are as follows:

	<u>Changes in Fair Value</u>		<u>Fair Value at June 30, 2010</u>		<u>Notional</u>
	<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>	
<u>Business-type activities</u>					
Cash flow hedges:					
(2008A COP) Pay-fixed interest rate swap					
	Deferred outflow	\$ (3,180,849)	Debt	\$ (6,523,071)	\$ 56,155,000
(2008C COP) Pay-fixed interest rate swap – cost of funds					
	Deferred outflow	\$ (1,955,308)	Debt	\$ (9,854,660)	\$ 51,640,000

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

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

**Objective and Terms of Financial Instruments**

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

The following table displays the objective and terms of the District's financial instruments outstanding at June 30, 2010, 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 2008A COP debt issue	\$ 56,155,000	1/18/2008	7/1/2030	Pay 3.1%; receive 66% of 1-month LIBOR from UBS	S&P: A+ Moody's: Aa3 Fitch: A+
Pay-fixed interest rate swap – cost of funds	Hedge of changes in cash flows on the 2008C COP debt issue	\$ 51,640,000	5/26/1993	7/1/2020	Pay 5.135%; receive the variable rate on the EMWD 2008C COPs from AIG	S&P: A- Moody's: A3 Fitch: Bbb+



---

## **Eastern Municipal Water District**

### **Notes to the Basic Financial Statements**

(continued)

#### **6. Interest Rate Swap Contracts (continued)**

##### **Credit Risk**

The counterparty credit ratings as of June 30, 2010 are shown in the table above. If the counterparty credit rating is lowered to or below BBB+ and Baa1 by Standard & Poor's (S&P) and Moody's Investors Service (Moody's), respectively, the financial instruments may be terminated.

##### **Interest Rate Risk**

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

##### **Basis Risk**

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

##### **Termination Risk**

The financial instruments may be terminated by the District or its counterparty if the other party fails to perform under the terms of the contract. In addition, the District has the option to terminate the financial instruments upon proper notification to the counterparties. If the financial instruments are terminated, the District would prospectively pay the variable rates on the 2008A and 2008C COPs rather than fixed rate payments under the financial instruments. The termination could therefore increase the District's total debt service. If, at the time of termination, the financial instrument is in a liability position, the District would be liable to the counterparty for a payment equal to the negative fair value. As of June 30, 2010 and June 30, 2009 the financial instruments had a combined negative fair value of \$16,377,731 and \$11,241,573, respectively.

##### **Collateral Requirements**

The District's financial instruments include provisions that require the District to post collateral in the event its credit rating falls below A- as issued by Fitch Ratings and Standard & Poor's, or A3 as issued by Moody's Investors Service. The collateral posted is required to be in the form of cash or U.S. Treasury securities in the amount of the fair value of the financial instrument, net of agreed upon adjustments. If the District does not post collateral, the financial instruments may be terminated by the counterparties. At June 30, 2010, the aggregate fair value of all financial instruments with these collateral posting provisions is a negative \$16,377,731. If the collateral posting requirements were triggered at June 30, 2010, the District would be required to post \$16,377,731 to its counterparties. The District's credit rating is AA/AA+/Aa2 from Standard & Poor's, Fitch Ratings and Moody's Investors Service respectively; therefore, no collateral has been posted at June 30, 2010.

---

# Eastern Municipal Water District

## Notes to the Basic Financial Statements

(continued)

### 7. Defined Benefit Pension Plan

#### Plan Description

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

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

#### Funding Policy

District employees are required to contribute 8% of their annual salary to PERS. Of this 8%, the District funds 7% as agreed to in negotiations with its union. The District is required to contribute the remaining amount necessary to fund the benefits of its members, using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the Board of Administration. For the year ended June 30, 2010, the amount contributed by the District on behalf of the employees is \$3,190,062 (7% of the employee's 8% required contribution). The required employer contribution rate for fiscal year ended June 30, 2010 is 11.514% as determined by the annual PERS valuation. However, In July 2009, the District prepaid the required contribution as a lump-sum discounted amount of \$5,181,022 which reduced the effective employer contribution rate to 0%.

#### Annual Pension Cost

Under GASB 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period July 1, 2009 to June 30, 2010 has been determined by an actuarial valuation of the plan as of June 30, 2007. The contribution rate for the indicated period is 11.514% of payroll for the Retirement Program. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2010, the contribution rate, as modified by any amendments for the year, is multiplied by the payroll of covered employees that were paid during the period from July 1, 2009 to June 30, 2010.

---

**Eastern Municipal Water District**  
**Notes to the Basic Financial Statements**

(continued)

**7. Defined Benefit Pension Plan (continued)**

**Annual Pension Cost (continued)**

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

Valuation date	June 30, 2007
Actuarial cost method	Entry age actuarial cost method
Amortization method	Level percent of payroll
Average remaining period	27 years as of the valuation date
Asset valuation method	15 year smoothed market
Actuarial assumptions:	
Investment rate of return	7.75% (net of administrative expenses)
Projected salary increases	3.25% to 14.45% depending on age, service, and type of employment
Inflation rate	3.00%
Payroll growth	3.25%
Individual salary growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%

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

The total employees' required contribution paid to the PERS for 2010 and 2009 was \$3,645,785 and \$3,754,451, respectively (8% of current covered payroll). In both 2010 and 2009, the District paid 7% and the employees paid 1%. In 2010, the District paid \$3,190,062 and employees paid \$455,723. In 2009, the District paid \$3,285,145 and the employees paid \$469,306. The total employer's required contribution paid to PERS for 2010 and 2009 was \$5,181,022 and \$4,147,361, respectively. The contributions were made in accordance with actuarially determined requirements computed through an actuarial valuation performed prior to the beginning of each fiscal year by the PERS Actuarial Division.

**Trend Information**

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

**Eastern Municipal Water District**  
**Notes to the Basic Financial Statements**

(continued)

**7. Defined Benefit Pension Plan (continued)**

**Trend Information (continued)**

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

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06/30/08	\$ 6.61	100%	\$ -
06/30/09	7.43	100%	-
06/30/10	8.37	100%	-

The following Schedule of Funding Progress for PERS (dollar amounts in millions) shows the recent history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded actuarial accrued liability to payroll. This schedule presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Valuation Date	(A) Entry Age Actuarial Accrued Liability (AAL)	(B) Actuarial Value of Assets	(C) Unfunded AAL (UAAL) (A)-(B)	Funded Ratio (B)/A	(D) Covered Payroll	UAAL as a Percentage of Covered Payroll (C)/(D)
06/30/06	\$ 170.08	\$ 153.22	\$ 16.86	90.1%	\$ 37.67	44.8%
06/30/07	194.72	168.00	26.72	86.3%	42.44	63.0%
06/30/08	208.53	181.96	26.57	87.3%	44.79	59.3%
06/30/09	(1)	(1)	(1)	(1)	46.93(2)	(1)

(1) Information not available.

(2) Actual PERS wages per District payroll records.

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

**8. Defined Contribution Plan**

The District has a 401(a) money purchase defined contribution plan (Plan) covering all employees of the District who have completed one year of service. The Plan was adopted in January 1978 and may be amended by the District provided the trustee joins in such amendment. The District is required to contribute 7.15% of each eligible employee's compensation up to a maximum annual compensation of \$16,500. The District's contributions to the Plan were \$780,660 and \$840,745 in 2010 and 2009, respectively.

---

# Eastern Municipal Water District

## Notes to the Basic Financial Statements

(continued)

### 9. Postemployment Benefits Other Than Pensions

#### Plan Description

##### Health Care Benefits

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

##### Life Insurance Benefits

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

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

#### Funding Policy and Annual OPEB Cost

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

**Eastern Municipal Water District**  
**Notes to the Basic Financial Statements**

(continued)

**9. Postemployment Benefits Other Than Pensions (continued)**

**Funding Policy and Annual OPEB Cost (continued)**

Contribution rates:	
District	100% of pay-as-you-go amounts for employee and elected official monthly health care and life premiums
Plan members	Retirees pay the portion of the premium not paid by the District; for example, if they elect a more expensive plan than Blue Shield HMO or PERS Kaiser
Annual required contribution (ARC)	\$ 11,087,000
Interest on net OPEB obligation (NOO)	590,000
Amortization on NOO	(540,000)
Annual OPEB cost	11,137,000
Contributions made	(2,005,343)
Increase in net OPEB obligation	9,131,657
Net OPEB obligation – beginning of year	13,284,421
Net OPEB obligation – end of year	\$ 22,416,078

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

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2008 through 2010 are shown in the following table. The District implemented GASB Statement No. 45 for the June 30, 2008 fiscal year end, so information is not available prior to 2008.

Plan	Year Ended	Annual OPEB Cost	Actual Contributions	Percentage of OPEB Cost Contributed	Net OPEB Obligation
Retired Employees/Elected	06/30/08	\$ 8,021,000	\$ 1,802,051	22.5%	\$ 6,218,949
Officials Healthcare and Life	06/30/09	8,940,000	1,874,528	21.0%	13,284,421
Insurance Plans	06/30/10	11,137,000	2,005,343	18.0%	22,416,078

**Funded Status and Funding Progress**

The funded status of the plans as of June 30, 2008, the plan's most recent actuarial valuation date, is shown in the following table (dollar amounts in thousands). Actuarially determined amounts were not calculated separately for each plan.

**Eastern Municipal Water District**  
**Notes to the Basic Financial Statements**

(continued)

**9. Postemployment Benefits Other Than Pensions (continued)**

**Funded Status and Funding Progress (continued)**

Actuarial accrued liability (a)	\$ 94,534
Actuarial value of plan assets (b)	-
Unfunded actuarial accrued liability (funding excess) (a) – (b)	\$ 94,534
Funded ratio (b)/(a)	N/A
Covered Payroll – active plan members (c)	\$ 46,673
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll $\frac{[(a)-(b)]}{(c)}$	202.5%

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

**Actuarial Methods and Assumptions**

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

Valuation date	June 30, 2008				
Actuarial cost method	Entry age normal				
Amortization method	Level percent of payroll				
Remaining amortization period	30 years as of the valuation date				
Asset valuation method	N/A – no assets				
Actuarial assumptions:					
Investment rate of return	4.50%				
General inflation rate	3.00%				
Payroll growth	3.25%				
Healthcare cost trend rate	( <u>% Increase Over Prior Year</u> )				
	<u>Year</u>	<u>Non-Medicare</u>		<u>Medicare</u>	
		<u>HMO</u>	<u>PPO</u>	<u>HMO</u>	<u>PPO</u>
	2010	9.05%	9.75%	9.40%	10.10%
	2011-2016	8.40%	9.00%	8.70%	8.30%
	2017+	4.50%	4.50%	4.50%	4.50%

Initial unfunded liabilities are amortized over a closed 30-year period. This period was restarted for the June 30, 2008 valuation. Subsequent plan assumptions and method changes are amortized over a closed 20-year period. Gains and losses are amortized over an open 15-year period.

**Eastern Municipal Water District**  
**Notes to the Basic Financial Statements**

(continued)

**9. Postemployment Benefits Other Than Pensions (continued)**

**Trend Information**

The Schedule of Funding Progress (dollar amounts in thousands) on the following page shows the recent history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded actuarial accrued liability to payroll. The District implemented GASB Statement No. 45 in 2008.

Fiscal Year Impacted	Actuarial Valuation Date	(A) Entry Age Actuarial Accrued Liability (AAL)	(B) Actuarial Value of Assets	(C) Unfunded AAL (UAAL) (A)-(B)	Funded Ratio (B)/A)	(D) Covered Payroll	UAAL as a Percentage of Covered Payroll (C)/(D)
06/30/08	06/30/06	\$ 83,666	\$ -	\$ 83,666	N/A	\$ 36,369	230.0%
06/30/09 & 06/30/10	06/30/08	94,534	-	94,534	N/A	46,673	202.5%

**10. Restricted and Unrestricted Net Assets**

**Restricted Net Assets**

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

**Unrestricted Net Assets**

As required by GASB Statement No. 34, net assets have been classified according to guidelines established for restricted assets. However, the unrestricted assets, although not legally restricted, have been established pursuant to Board Resolution No. 3359 and are primarily composed of reserves for various purposes. The unrestricted net assets at June 30, 2010 consist of:

Replacement and system betterment reserve	\$ 105,925,088
Operational debt service reserve	9,697,531
General liability and workers comp. reserve	4,092,553
Other reserves	9,514,468
Total unrestricted net assets	\$ 129,229,640



**Eastern Municipal Water District**  
**Notes to the Basic Financial Statements**

(continued)

**11. Commitments**

**Construction Contracts**

The District is committed to approximately \$60,182,585 million of open construction contracts as of June 30, 2010. The ten largest contracts outstanding include:

	<b>Contract Amount</b>	<b>Balance To Complete</b>
Moreno Valley RWRP APAD Project	\$ 29,919,421	\$ 22,385,529
Moreno Valley RWRP SCATT Project	28,696,077	17,406,903
Perris Valley RWRP Plant No. 3 Expansion	151,074,981	11,090,237
Gibbel Road Recycled Water Tank & Pipeline	5,335,645	3,799,945
San Jacinto Valley Recycled Water Pipeline	3,360,000	3,145,200
Temecula Valley RWRP Plant No. 1 Aeration Header	1,087,333	905,933
Menifee Lakes Recycled Water	1,227,400	901,778
Design/Build Del Rio Sewer	2,494,000	192,238
East Valley Pipeline Replacement	558,234	145,425
Oleander Transmission Pipeline	7,317,443	65,000
Total	<u>\$ 231,070,544</u>	<u>\$ 60,038,188</u>

**Soboba Settlement Act**

This Act was signed into Law by the President of the United States of America on July 31, 2008. This Act approved the Settlement Agreement between the Soboba Band of Luiseno Indians; the United States of America (as trustee for the Soboba Tribe); the Lake Hemet Municipal Water District (LHMWD); 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.

The Settlement Agreement provides that:

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

**Eastern Municipal Water District**  
**Notes to the Basic Financial Statements**

(continued)

**11. Commitments (continued)**

**Soboba Settlement Act (continued)**

The District's share for the construction of the facilities and use of Tribe's water is estimated to be \$8,416,800. This amount is calculated as:

<u>Amount</u>	<u>Description of costs</u>
\$ 17,000,000	Soboba settlement cost for unused water
23,200,000	Estimated construction costs for facilities
(10,000,000)	Federal contribution to the construction of facilities
<u>(5,000,000)</u>	State grant approved for the construction of facilities
<u>\$ 25,200,000</u>	Total
33.4%	Liability percentage
<u>\$ 8,416,800</u>	District's expected share of costs

The District has opened escrow on the land and the designated funds deposit will occur when the agreement is enforceable, which is expected to be sometime early in 2011.

**Claims and Judgments**

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

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

Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. The liability for claims and judgments is included in other accrued expenses. The District did not have any nonincremental claims adjustment expenses that needed to be included as part of the unpaid claims liability. No structured settlements were entered into for the years ended June 30, 2010 and 2009. Changes in claims payable for the years ended June 30 are as follows:

	<u>2010</u>	<u>2009</u>
Unpaid claims, beginning	<b>\$ 1,686,386</b>	\$ 1,198,225
Incurred claims and changes in estimates	<b>4,361,365</b>	1,495,774
Claim payments	<b>(1,395,356)</b>	(1,007,613)
Unpaid claims, ending	<b><u>\$ 4,652,395</u></b>	<u>\$ 1,686,386</u>

There was no significant reduction in insurance coverage by major categories of risk from fiscal year 2008/09 to fiscal year 2009/10. Furthermore, there has been no settlement which exceeded insurance coverage for the past three fiscal years.

---

# **Eastern Municipal Water District**

## **Notes to the Basic Financial Statements**

(continued)

### **11. Commitments (continued)**

#### **Special Funding District Bonds**

These bonds are not direct liabilities of the District, and their payment is secured by valid liens on certain lands. Reserves have been established from the bond proceeds to meet delinquencies, should they occur. Neither the faith and credit nor the taxing power of the District is pledged to the payment of the bonds. If delinquencies occur beyond the amounts held in those reserves, the District has no duty to pay those delinquencies out of any other available funds. The District acts solely as an agent for those paying assessments or special taxes and the bond holders. The Special Funding District Bonds outstanding at June 30, 2010 and 2009, were \$216,189,033 and \$219,041,057 respectively, and are not included in the District's financial statements.

### **12. Contingencies**

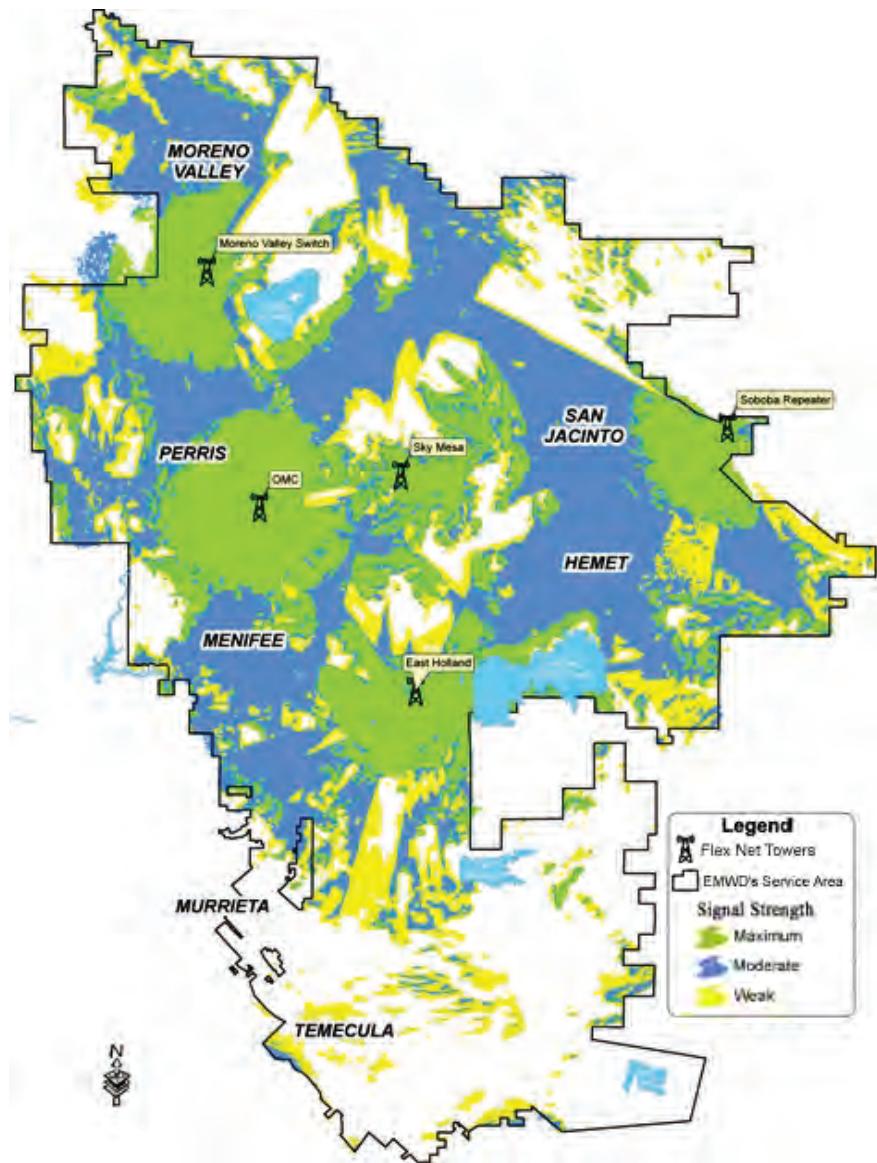
The District is a defendant in various legal actions. Management believes that the ultimate resolution of these actions will not have a significant effect on the District's financial position or results of operations.

### **13. Santa Ana Watershed Project Authority**

The Santa Ana Watershed Project Authority (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. The District became a member of SAWPA in September 1984. An independent audit report is prepared annually and is available for public inspection at the offices of the Authority.

### **14. Advances from Developers**

The District receives deposits from developers in advance to cover various costs for both sewer and water related projects. At June 30, 2010 and 2009, the amount of refundable deposits were \$22,338,776 and \$29,850,836, respectively. However, when a project is closed, the developer is refunded only the amount remaining after offsetting all accumulated work in process costs. If costs exceed the deposit amount during the project, the developer is billed for additional deposits.



## FLEX NET TECHNOLOGY FIVE TOWERS THROUGHOUT THE DISTRICT'S SERVICE AREA

### *REDUCES METER READ TIME*

Flex Net is a fixed based meter reading technology that reads meters automatically on an hourly basis. This technology uses strategically located towers, which transmit a signal to preprogrammed meters. Flex Net reduces manual meter read time by approximately 83%, reduces associated vehicle, labor, and fuel expenses, and provides a higher level of meter reading accuracy. Coupled with the District's current water budget rate structure, this technology will provide customers a tool to monitor daily consumption and manage their water budget allocation.

---

## **Eastern Municipal Water District**

### **Statistical Section**

This part of the District's comprehensive annual financial report presents detailed information as a context for understanding what the information in the accompanying financial statements, notes to the basic financial statements, and required supplementary information says about the District's overall financial health.

#### **Contents**

##### **Financial Trends**

These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.

##### **Revenue Capacity**

These schedules contain information to help the reader assess the factors affecting the District's ability to generate revenues.

##### **Debt Capacity**

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

##### **Demographic and Economic Information**

These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place and to help make comparisons over time and with other agencies.

##### **Operating Information**

These schedules contain information about the District's operations and resources to help the reader understand how the District's financial information relates to the services the District provides and the activities it performs.

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. *The District implemented GASB Statement No. 34 in 2002.*

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

<u>Fiscal Year</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Invested in capital assets, net of related debt	\$ 564,160,887	\$ 615,364,770	\$ 670,647,558	\$ 747,790,921	\$ 864,024,679	\$ 963,472,752	\$ 1,097,667,937	\$ 1,084,747,657	\$ 1,120,121,593
Restricted for debt service/covenants	45,553,269	45,912,373	49,428,231	50,932,809	58,964,117	57,377,104	56,443,385	58,248,958	65,090,658
Restricted for construction	106,195,442	140,113,828	186,769,808	179,216,380	193,659,075	238,268,776	133,617,326	169,061,541	150,977,362
Unrestricted	130,885,167	90,953,153	84,967,519	96,710,649	86,541,422	62,672,401	101,896,457	120,482,286	129,229,640
<b>Total net assets</b>	<b>\$ 846,794,765</b>	<b>\$ 892,344,124</b>	<b>\$ 991,813,116</b>	<b>\$ 1,074,650,759</b>	<b>\$ 1,203,189,293</b>	<b>\$ 1,321,791,033</b>	<b>\$ 1,389,625,105</b>	<b>\$ 1,432,540,442</b>	<b>\$ 1,465,419,253</b>
% Increase		5.4%	11.1%	8.4%	12.0%	9.9%	5.1%	3.1%	2.3%

Note: The information shown is retroactive to implementation of GASB Statement No. 34.

Source: Eastern Municipal Water District

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

Fiscal Year	Operating Revenues		Operating Expenses <sup>2</sup>		Operating Loss	Total Nonoperating Revenues/ (Expenses)	Income Before Capital Contributions	Capital Contributions <sup>1</sup>	Change in Net Assets
	Water <sup>3</sup>	Wastewater	Water	Wastewater					
2002	\$ 58,355,346	\$ 29,008,146	\$ 69,924,459	\$ 44,954,646	\$ (27,515,613)	\$ 42,575,251	\$ 15,059,638	\$ 11,251,237	\$ 26,310,875
2003	60,565,819	31,382,908	75,448,383	48,285,185	(31,784,841)	61,427,456	29,642,615	15,906,744	45,549,359
2004	64,796,401	35,565,428	76,225,644	52,199,401	(28,063,216)	94,022,649	65,959,433	33,509,559	99,468,992
2005	66,258,221	41,238,057	85,135,040	59,332,209	(36,970,971)	89,195,075	52,224,104	30,613,539	82,837,643
2006	77,611,474	47,407,080	96,891,371	67,918,954	(39,791,771)	120,029,885	80,238,114	48,300,420	128,538,534
2007	92,679,789	53,066,742	113,677,146	77,853,830	(45,784,445)	106,629,828	60,845,383	57,756,357	118,601,740
2008	94,135,642	56,972,828	122,519,535	90,017,563	(61,428,628)	90,911,996	29,483,368	38,350,704	67,834,072
2009	103,013,429	62,611,918	122,515,771	94,629,395	(51,519,819)	59,613,648	8,093,829	34,821,508	42,915,337
2010	102,747,031	65,937,963	134,191,352	95,978,925	(61,485,283)	50,659,783	(10,825,500)	43,704,311	32,878,811

Notes:

The information shown is retroactive to implementation of GASB Statement No. 34.

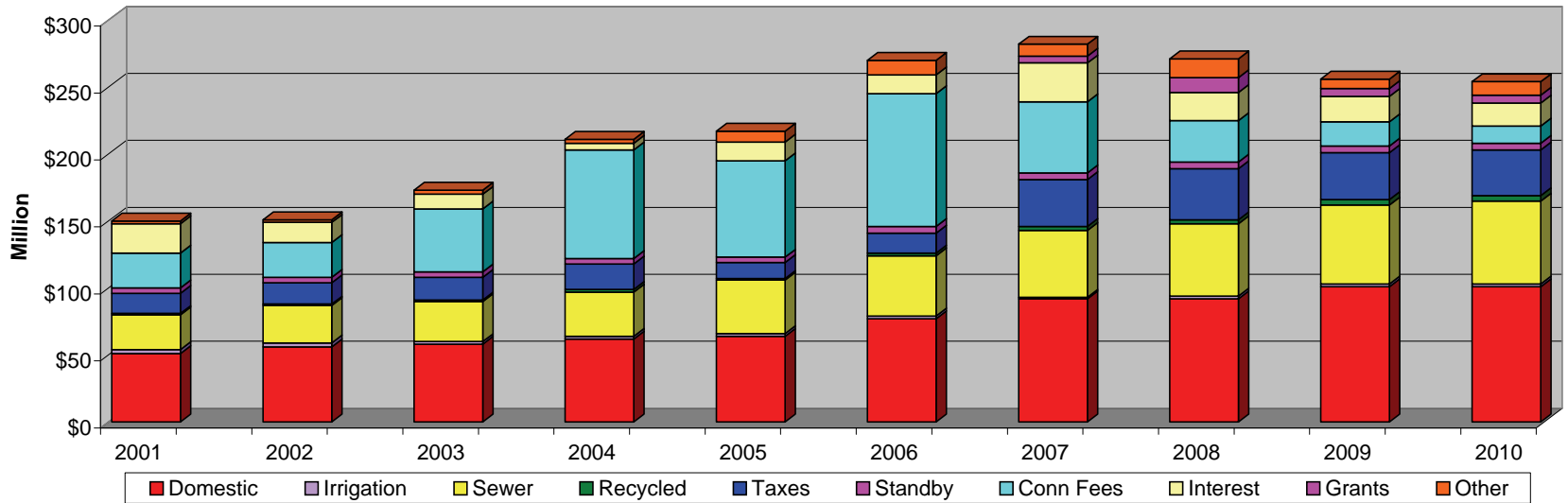
1. Increased construction activity relating to growth and market conditions accounts for the increases in contributed infrastructure from 2004-2007. This amount decreased for 2008 and 2009 due to lower construction activity, and increased in 2010 due to District-wide efforts to close out construction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

Source: Eastern Municipal Water District

## REVENUES BY SOURCE LAST TEN FISCAL YEARS

Fiscal Year	Domestic Water Sales	% of Total	Ag & Irrig Water Sales	% of Total	Sewer Service Charges	% of Total	Recycled Water Sales	% of Total	Taxes & Assmnts <sup>1</sup>	% of Total	Standby Charges	% of Total	Connect Fees <sup>2</sup>	% of Total	Interest Income <sup>3</sup>	% of Total	Grants <sup>4</sup>	% of Total	Other	% of Total	Total Revenues
2001	\$51,360,308	34.1%	\$2,859,387	1.9%	\$26,123,677	17.3%	\$1,364,456	0.9%	\$15,164,499	10.0%	\$3,858,132	2.6%	\$25,949,508	17.2%	\$22,194,517	14.7%	\$ -	0.0%	\$1,901,955	1.3%	\$150,776,439
2002	55,736,727	37.1%	2,618,619	1.7%	27,825,278	18.5%	1,182,868	0.8%	15,744,074	10.5%	3,929,860	2.6%	25,740,750	17.1%	15,407,309	10.2%	-	0.0%	2,283,437	1.5%	150,468,922
2003	58,351,059	33.6%	2,214,760	1.3%	29,973,084	17.2%	1,409,824	0.8%	16,914,346	9.7%	4,006,786	2.3%	46,960,911	27.0%	11,219,083	6.5%	-	0.0%	2,712,153	1.6%	173,762,006
2004	62,824,662	29.6%	1,971,739	0.9%	33,496,234	15.8%	2,069,194	1.0%	18,698,381	8.8%	4,172,104	2.0%	80,804,323	38.0%	5,186,086	2.4%	-	0.0%	3,183,193	1.5%	212,405,916
2005	64,092,906	29.5%	2,165,315	1.0%	39,739,370	18.3%	1,498,687	0.7%	11,517,848	5.3%	4,354,591	2.0%	72,445,434	33.4%	13,576,749	6.3%	-	0.0%	7,693,026	3.5%	217,083,926
2006	76,543,807	28.5%	1,067,667	0.4%	45,462,646	16.9%	1,944,434	0.7%	14,747,589	5.5%	4,518,411	1.7%	99,485,272	37.1%	13,804,446	5.2%	-	0.0%	10,808,046	4.0%	268,382,318
2007	91,596,156	32.5%	1,083,633	0.4%	50,318,414	17.9%	2,748,328	1.0%	34,849,428	12.4%	4,667,297	1.7%	52,894,363	18.8%	29,287,538	10.4%	4,598,769	1.6%	9,321,989	3.3%	281,365,915
2008	91,864,344	34.0%	2,271,298	0.8%	54,408,172	20.1%	2,564,656	0.9%	37,648,103	13.9%	4,868,154	1.8%	30,706,687	11.4%	20,579,581	7.7%	11,261,996	4.2%	13,867,981	5.2%	270,040,972
2009	100,967,796	38.9%	2,045,633	0.8%	58,889,788	22.7%	3,722,130	1.4%	35,102,975	13.5%	5,015,076	1.9%	17,789,045	6.9%	19,093,011	7.4%	6,466,818	2.5%	10,224,676	4.0%	259,316,948
2010	100,699,778	39.7%	2,047,253	0.8%	61,885,298	24.4%	4,052,665	1.6%	33,559,211	13.2%	5,246,008	2.1%	13,010,929	5.1%	16,764,213	6.6%	6,063,577	2.4%	10,510,099	4.1%	253,839,031

99



Notes:

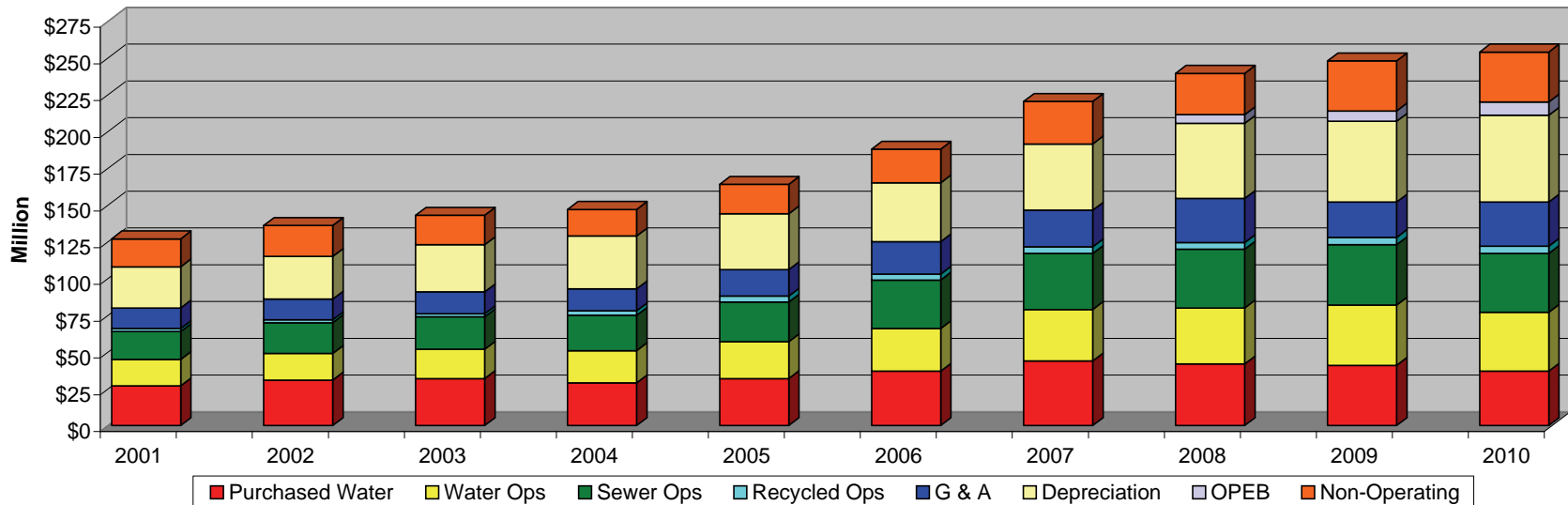
- In 2007, the District received its full share of property taxes, which were lower for the prior two years due to the state mandated property tax shift from local governments. The increase is also due to a 20% increase in assessed valuations and growth in customer base.
- The decrease in connection fees is due to lower construction activity in 2007-2010 relating to the nationwide financial recession.
- Increased interest income for 2007 and 2008 is due to a higher average portfolio balance and higher average yields. For 2008-2010, the higher amount relates to invested COP and GO bond issuance funds.
- Grants revenue was separately stated beginning 2007. Previously, these amounts were shown as capital contributions or other revenue.



## 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 <sup>1</sup>	% of Total	Depr. & Amort	% of Total	Net OPEB <sup>2</sup>	% of Total	Total Non-Operating Expenses	% of Total	Total Expenses
2001	\$26,985,006	21.2%	\$17,606,824	13.8%	\$19,313,651	15.2%	\$1,922,568	1.5%	\$14,463,535	11.4%	\$27,887,507	21.9%	\$ -	0.0%	\$19,062,414	15.0%	\$127,241,505
2002	30,632,930	22.6%	17,886,826	13.2%	20,540,533	15.2%	1,988,321	1.5%	14,395,481	10.6%	29,435,014	21.7%	-	0.0%	20,530,179	15.2%	135,409,284
2003	32,307,403	22.4%	19,534,843	13.6%	22,151,919	15.4%	2,410,213	1.7%	15,317,533	10.6%	31,911,657	22.2%	-	0.0%	20,385,823	14.1%	144,019,391
2004	29,104,840	19.9%	21,777,484	14.9%	23,789,668	16.2%	2,992,339	2.0%	15,186,601	10.4%	35,574,113	24.3%	-	0.0%	18,021,438	12.3%	146,446,483
2005	32,380,524	19.6%	25,111,134	15.2%	27,194,672	16.5%	3,789,915	2.3%	18,418,043	11.2%	37,572,961	22.8%	-	0.0%	20,392,573	12.4%	164,859,822
2006	36,817,458	19.6%	29,030,238	15.4%	33,061,321	17.6%	4,289,919	2.3%	21,520,070	11.4%	40,091,319	21.3%	-	0.0%	23,333,879	12.4%	188,144,204
2007	43,866,732	19.9%	35,332,561	16.0%	37,404,662	17.0%	4,379,135	2.0%	25,292,047	11.5%	45,255,839	20.5%	-	0.0%	28,989,556	13.1%	220,520,532
2008	41,653,430	17.3%	38,447,533	16.0%	39,976,740	16.6%	5,071,116	2.1%	30,138,792	12.5%	51,030,538	21.3%	6,218,949	2.6%	28,020,506	11.6%	240,557,604
2009	41,318,803	16.4%	40,834,689	16.3%	41,160,507	16.4%	4,749,447	1.9%	27,471,196	10.9%	54,545,053	21.7%	7,065,471	2.8%	34,077,953	13.6%	251,223,119
2010	46,936,179	17.7%	39,967,447	15.1%	39,657,747	15.0%	5,466,039	2.1%	30,256,670	11.4%	58,754,538	22.2%	9,131,657	3.5%	34,494,254	13.0%	264,664,531

67



**Notes:**

1. The increase in general and administrative charges in 2008 primarily relates to increased legal expense for a lawsuit the District is involved in - United States of America v. EMWD. The decrease in 2009 primarily relates to settlement of the lawsuit and department-wide cost-containment efforts. This amount was offset by a reclassification of net internal service funds which were reclassified to other nonoperating revenues beginning in 2009. The increase in 2010 primarily relates to recording a \$3.0 million increase in worker's compensation liability reserve.

2. The District implemented GASB Statement No. 45 for 2008.

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

Fiscal Year	← Gallons Produced <sup>1</sup> →				Water →					Gallons of Wastewater Treated	← Total Direct Rate Water →		
	Purchased	Wells	Desalters <sup>2</sup>	Total	Domestic	Ag & Irrig	Total	Unbilled Total	Avg %		Base Rate <sup>3,6</sup>	Usage Rate <sup>4,6</sup>	Sewer <sup>5</sup>
2001	22,128	6,596	-	28,724	24,590	2,893	27,483	1,241	4.3%	11,695	\$ 6.02	\$ 29.46	\$ 14.68
2002	25,096	6,032	-	31,128	26,748	2,656	29,404	1,724	5.5%	11,508	6.02	29.46	14.84
2003	26,056	5,925	95	32,076	28,315	2,135	30,450	1,626	5.1%	12,417	7.27	29.50	15.18
2004	24,722	5,763	536	31,021	27,092	1,689	28,781	2,240	7.2%	13,963	7.45	30.10	16.17
2005	24,532	5,352	217	30,101	26,247	1,698	27,945	2,156	7.2%	15,805	7.70	31.04	17.40
2006	25,818	6,353	944	33,115	29,688	771	30,459	2,656	8.0%	16,352	8.15	32.36	18.86
2007	29,866	6,071	1,613	37,550	33,883	1,263	35,146	2,404	6.4%	16,786	8.43	34.40	19.64
2008	28,254	6,591	982	35,827	32,284	1,537	33,821	2,006	5.6%	16,906	10.04	36.38	20.58
2009	25,390	6,332	1,455	33,177	30,721	1,225	31,946	1,232	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

Notes:

The information shown does not include recycled water.

1. Gallons are presented in millions.

2. No desalter facilities existed prior to 2003.

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

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

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

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

Source: Eastern Municipal Water District

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

Fiscal Year	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009<sup>3</sup></u>	<u>2010</u>
<b>Water Rates</b>										
<b>Monthly base rate (meter size)</b>										
<=1"	\$ 6.02	\$ 6.02	\$ 7.27	\$ 7.45	\$ 7.70	\$ 8.15	\$ 8.43	\$ 10.04	\$ 10.52	\$ 10.52
1 1/2"	9.03	9.03	10.90	11.19	11.56	12.23	12.65	15.06	27.68	27.68
2"	12.05	12.05	14.54	14.90	15.39	16.30	16.85	20.08	51.40	51.40
3"	24.09	24.09	29.08	29.81	30.78	32.61	33.70	40.15	171.25	171.25
4"	30.11	30.11	36.35	37.26	38.48	40.76	42.16	50.19	270.40	270.40
6"	42.16	42.16	50.89	52.16	53.87	57.06	59.01	70.26	505.53	505.53
8"	48.18	48.18	58.16	59.62	61.56	65.21	67.40	80.30	633.28	633.28
<b>Usage rate (per billing unit)<sup>1</sup></b>	\$ 29.46	\$ 29.46	\$ 29.50	\$ 30.10	\$ 31.04	\$ 32.36	\$ 34.40	\$ 36.38	\$ 41.52	\$ 46.32
<b>Sewer Rates (avg per month)<sup>2</sup></b>	\$ 14.68	\$ 14.84	\$ 15.18	\$ 16.17	\$ 17.40	\$ 18.86	\$ 19.64	\$ 20.58	\$ 21.88	\$ 22.73

Notes:

The information shown does not include recycled water.

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

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

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

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

Source: Eastern Municipal Water District

**LARGEST DOMESTIC WATER CUSTOMERS  
AS OF JUNE 30, 2010**

<u>Customer Name</u>	<u>Sales in Acre Feet</u>	<u>Annual Revenues</u>	<u>Percentage</u>
1 City of Perris <sup>1</sup>	1,843	\$ 1,594,810	19.5%
2 Western Municipal Water District <sup>1,2</sup>	1,511	1,179,192	14.3%
3 Moreno Valley School District	967	1,075,792	13.0%
4 Valley-Wide Recreation Park	927	1,030,191	12.5%
5 Nuevo Mutual Water Company <sup>1</sup>	871	695,737	8.4%
6 City of Moreno Valley	767	818,017	9.9%
7 Val Verde Unified School District	551	588,704	7.1%
8 Shadow Mountain Comm. Assoc.	411	464,164	5.5%
9 City of Murrieta	394	444,345	5.4%
10 City of Hemet	293	365,277	4.3%
<b>Total</b>	<b><u>8,535</u></b>	<b><u>\$ 8,256,228</u></b>	
Total domestic water sales	82,864	\$ 100,699,778	
Percentage of total	10.3%	8.2%	

Notes:

For compliance with GASB Statement No. 34, data for fiscal year ended June 30, 2001 is not available.

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

1. Wholesale customer.

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

Source: Eastern Municipal Water District

**LARGEST AGRICULTURAL & IRRIGATION WATER CUSTOMERS  
AS OF JUNE 30, 2010**

<u>Customer Name</u>	<u>Annual Water Sales in Acre Feet</u>	<u>Annual Revenues</u>	<u>Percentage</u>
1 C and R Farms	454	\$ 252,590	28.8%
2 Mc Anally Egg Enterprises	141	130,164	14.9%
3 Kevin and Pauline Doan	129	101,479	11.6%
4 Abacherli Dairy	103	84,529	9.6%
5 Metropolitan Water District	66	58,844	6.7%
6 Valley Wide Recreation & Park	78	58,542	6.7%
7 H P Mobile Estates	69	51,650	5.9%
8 Demler Egg Ranch	96	51,269	5.9%
9 Pastime Lakes Dairy	102	45,312	5.2%
10 MCM Poultry	45	41,994	4.8%
<b>Total</b>	<b><u>1,282</u></b>	<b><u>\$ 876,373</u></b>	
Total ag. & irrigation water sales	3,426	\$ 2,047,253	
Percentage of total	37.4%	42.8%	

Notes:

For compliance with GASB Statement No. 34, data for fiscal year ended June 30, 2001 is not available.

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

Source: Eastern Municipal Water District

**LARGEST RECYCLED WATER CUSTOMERS  
AS OF JUNE 30, 2010**

<u>Customer Name</u>	<u>Annual Water Sales in Acre Feet</u>	<u>Annual Revenues</u>	<u>Percentage</u>
1 Inland Empire Energy Center LLC	2,194	\$ 635,324	36.2%
2 Agri Empire	3,311	219,574	12.5%
3 SCGA Members Club	555	160,877	9.2%
4 Hemet Golf Club Landmark	346	137,665	7.9%
5 Rancho Casa Loma	2,699	121,347	6.9%
6 A G Sod Farms	1,822	121,104	6.9%
7 City of Moreno Valley	336	97,212	5.5%
8 SJ Wildlife Dept. of Fish and Game	2,519	89,466	5.1%
9 Sun City Golf Course LLC	309	89,259	5.1%
10 Bai Jianhua	351	81,112	4.6%
<b>Total</b>	<b><u>14,441</u></b>	<b><u>\$ 1,752,939</u></b>	
Total recycled water sales	28,272	\$ 4,052,665	
Percentage of total	51.1%	43.3%	

Notes:

For compliance with GASB Statement No. 34, data for fiscal year ended June 30, 2001 is not available.

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

Source: Eastern Municipal Water District

**LARGEST SEWER CUSTOMERS  
AS OF JUNE 30, 2010**

<u>Customer Name</u>	<u>Annual Revenues</u>	<u>Percentage</u>
1 Pechanga Resort and Casino	\$ 460,748	26.9%
2 Broadstone Vista Apartments	245,915	14.3%
3 Murrieta Valley Unified School District	145,103	8.5%
4 Western States Mobile Home Park	141,400	8.2%
5 Westwind Enterprises	132,263	7.7%
6 Silverado Apartment Homes	128,351	7.5%
7 United Dominion Realty Trust	122,487	7.1%
8 Hemet Unified School District	121,056	7.1%
9 Sienna Point Apartments LP	109,476	6.4%
10 Rancho Las Brisas Apartments	108,950	6.3%
<b>Total</b>	<b><u>\$ 1,715,748</u></b>	
Total sewer revenue	\$61,885,298	
Percentage of total revenue	2.8%	

Note:

For compliance with GASB Statement No. 34, data for fiscal year ended June 30, 2001 is not available.

Source: Eastern Municipal Water District

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

Rates Effective Beginning January <sup>1</sup>	Full Service Domestic		Interim Agricultural Program		Shift Seasonal Storage		Recycled	Long Term Seasonal Storage	
	Treated	Untreated	Treated	Untreated	Treated	Untreated		Treated	Untreated
<b>2001</b>	\$ 431	\$ 349	\$ 294	\$ 236	\$ 334	\$ 277	\$ 113	\$ 290	\$ 233
<b>2002</b>	431	349	294	236	345	288	113	290	233
<b>2003</b> Tier 1	408	326	294	236	-	-	-	290	233
Tier 2	489	407	n/a	n/a	-	-	-	n/a	n/a
<b>2004</b> Tier 1	418	326	304	236	-	-	-	300	233
Tier 2	499	407	n/a	n/a	-	-	-	n/a	n/a
<b>2005</b> Tier 1	443	331	329	241	-	-	-	325	238
Tier 2	524	412	n/a	n/a	-	-	-	n/a	n/a
<b>2006</b> Tier 1	453	331	339	241	-	-	-	335	238
Tier 2	549	427	n/a	n/a	-	-	-	n/a	n/a
<b>2007</b> Tier 1	478	331	364	241	-	-	-	360	238
Tier 2	574	427	n/a	n/a	-	-	-	n/a	n/a
<b>2008</b> Tier 1	508	351	394	261	-	-	-	390	258
Tier 2	606	449	n/a	n/a	-	-	-	n/a	n/a
<b>2009</b> Tier 1	579	412	465	322	-	-	-	436	294
Tier 2	695	528	n/a	n/a	-	-	-	n/a	n/a
<b>2010</b> Tier 1	701	484	615	416	-	-	-	558	366
Tier 2	811	594	n/a	n/a	-	-	-	n/a	n/a

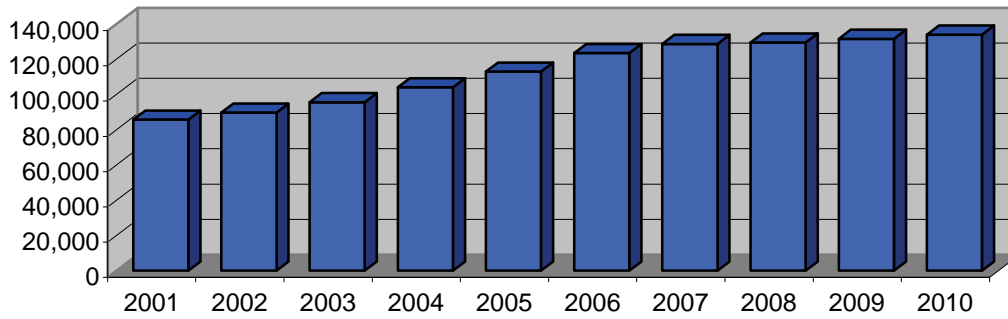
Note: 1. MWD implemented a new two-tiered commodity rate structure effective January 1, 2003.

Source: Metropolitan Water District of Southern California (MWD)

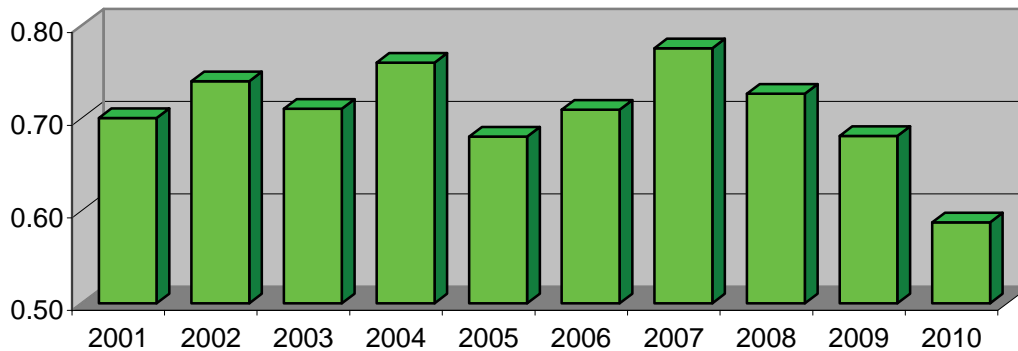
## ANNUAL DOMESTIC CONSUMPTION (AF) LAST TEN FISCAL YEARS

Fiscal Year	Usage (AF)	Active Accounts	Average AF per Account
<b>2001</b>	60,231	85,638	0.70
<b>2002</b>	66,293	89,569	0.74
<b>2003</b>	67,345	95,449	0.71
<b>2004</b>	79,006	103,919	0.76
<b>2005</b>	77,066	112,845	0.68
<b>2006</b>	87,488	123,384	0.71
<b>2007</b>	99,658	128,506	0.78
<b>2008</b>	93,956	129,344	0.73
<b>2009</b>	89,448	131,392	0.68
<b>2010</b>	78,621	133,810	0.59

**Number of Accounts**



**Average AF/Account**



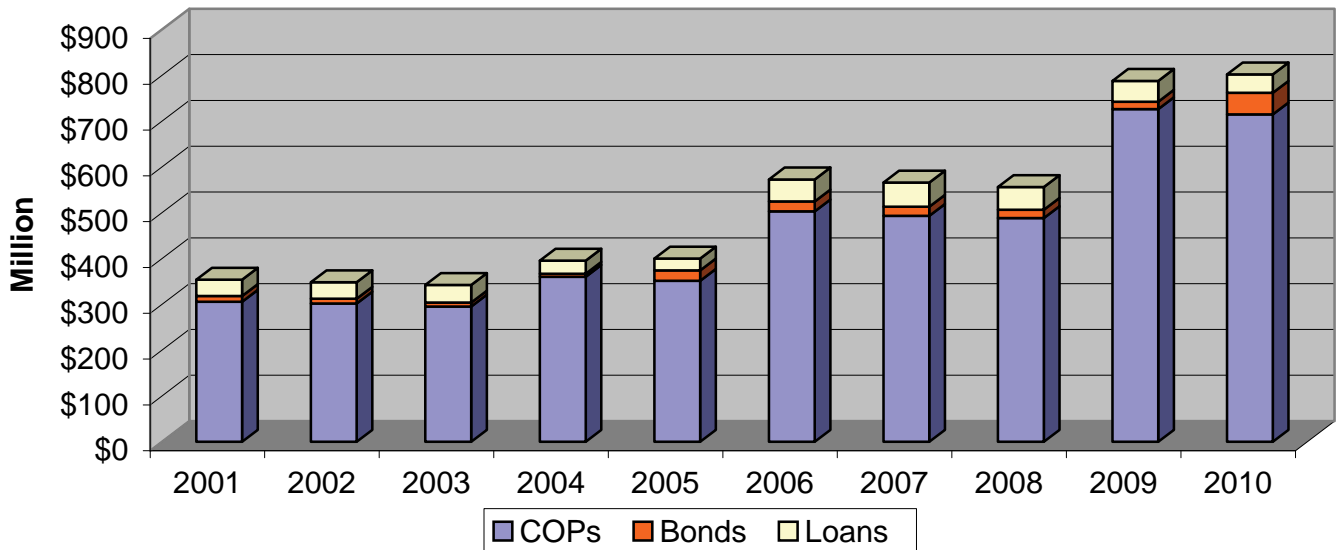
Notes: Amounts exclude wholesale accounts.

Usage per account decreased in 2008-2010 due to conservation efforts and implementation of the water budget-based tiered rate structure in April 2009.

Source: Eastern Municipal Water District

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

<b>Fiscal Year</b>	<b>Certificates of Participation<sup>1</sup></b>	<b>General Obligation Bonds<sup>2</sup></b>	<b>Loans</b>	<b>Total</b>	<b>Percentage of Personal Income<sup>3</sup></b>	<b>Debt per Capita<sup>4</sup></b>
<b>2001</b>	\$ 305,615,000	\$ 12,675,000	\$ 35,588,494	\$ 353,878,494	1.00%	\$ 786
<b>2002</b>	301,880,000	10,515,000	36,124,905	348,519,905	0.91%	726
<b>2003</b>	295,475,000	8,450,000	38,556,914	342,481,914	0.83%	684
<b>2004</b>	360,370,000	6,455,000	28,603,485	395,428,485	0.91%	760
<b>2005</b>	351,615,000	22,695,000	25,705,169	400,015,169	0.85%	723
<b>2006</b>	502,990,000	21,675,000	48,103,473	572,768,473	1.13%	961
<b>2007</b>	493,190,000	19,945,000	52,874,716	566,009,716	1.03%	900
<b>2008</b>	488,460,000	18,140,000	49,630,496	556,230,496	0.92%	824
<b>2009</b>	726,270,000	16,260,000	45,407,198	787,937,198	1.24%	1,147
<b>2010</b>	714,725,000	47,175,000	40,279,228	802,179,228	1.24%	1,148



**Notes:**

- Details regarding the District's outstanding debt can be found in the notes to the basic financial statements.
- See the schedule of Demographic and Economic Statistics for personal income and population data.
- 1. The District issued over \$160 million of new COPs in 2006 and another \$240 million in 2009.
- 2. The District issued \$32 million of new GO bonds in 2009.
- 3. Based upon Riverside County personal income amounts. The District is located in the County of Riverside.
- 4. Based upon approximate population of District service area.

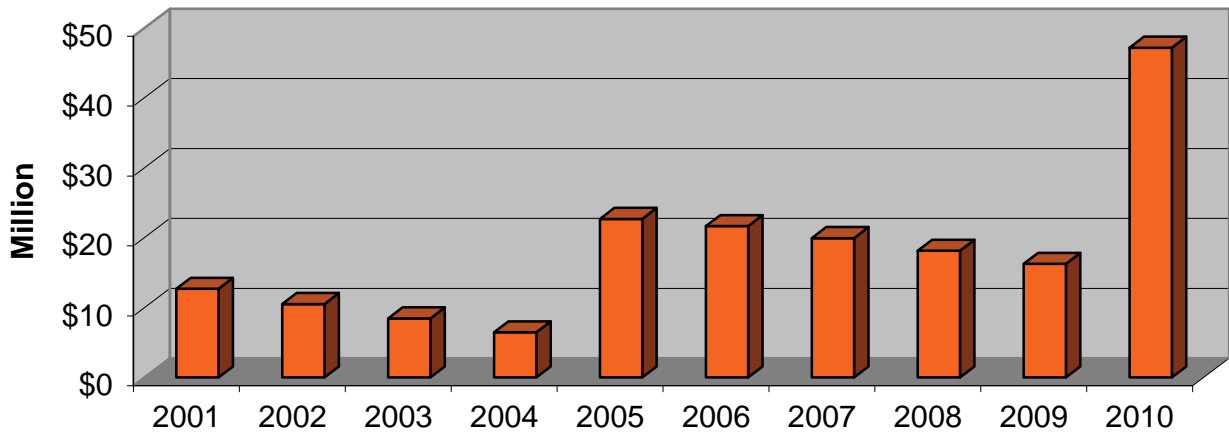
Source: Eastern Municipal Water District



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

<b>Fiscal Year</b>	<b>General Obligation Bonds<sup>1</sup></b>	<b>Assessed Value<sup>2</sup></b>	<b>Percentage of Assessed Value</b>	<b>Debt per Capita<sup>3</sup></b>
<b>2001</b>	\$ 12,675,000	\$ 21,395,783,158	0.06%	\$ 28
<b>2002</b>	10,515,000	23,662,143,296	0.04%	22
<b>2003</b>	8,450,000	26,541,419,602	0.03%	17
<b>2004</b>	6,455,000	30,196,349,883	0.02%	12
<b>2005</b>	22,695,000	36,317,993,384	0.06%	41
<b>2006</b>	21,675,000	45,799,534,361	0.05%	36
<b>2007</b>	19,945,000	57,857,155,353	0.03%	32
<b>2008</b>	18,140,000	68,127,605,656	0.03%	27
<b>2009</b>	16,260,000	67,617,348,347	0.02%	24
<b>2010</b>	47,175,000	56,743,387,948	0.08%	67

**Total Bonds Outstanding**



**Notes:**

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

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

1. The District issued \$32 million of new GO bonds in 2009.

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

3. Based upon approximate population of the District's entire service area.

Source: Eastern Municipal Water District

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

	2001	2002	2003	2004	2005	2006	2007	2008	2009 <sup>1</sup>	2010
<b>OPERATING REVENUES:</b>										
Water sales	\$ 54,219,695	\$ 58,355,346	\$ 60,565,819	\$ 64,796,401	\$ 66,258,221	\$ 77,611,474	\$ 92,679,789	\$ 94,135,642	\$ 103,013,429	\$ 102,747,031
Sewer service sales	26,123,677	27,825,278	29,973,084	33,496,234	39,739,370	45,462,646	50,318,414	54,408,172	58,889,788	61,885,298
Recycled water	1,364,456	1,182,868	1,409,824	2,069,194	1,498,687	1,944,434	2,748,328	2,564,656	3,722,130	4,052,665
<b>Total operating revenues</b>	<b>81,707,828</b>	<b>87,363,492</b>	<b>91,948,727</b>	<b>100,361,829</b>	<b>107,496,278</b>	<b>125,018,554</b>	<b>145,746,531</b>	<b>151,108,470</b>	<b>165,625,347</b>	<b>168,684,994</b>
<b>OPERATING EXPENSES:</b>										
Water purchases	26,985,006	30,632,930	32,307,403	29,104,840	32,380,524	36,817,458	43,866,732	41,653,430	41,318,803	46,936,179
Water operations	17,606,824	17,886,826	19,634,843	21,777,484	25,111,134	29,030,238	35,332,561	38,447,533	40,834,689	39,967,447
Sewer operations	21,236,219	22,528,854	24,562,132	26,782,007	30,984,587	37,351,240	41,783,797	45,047,856	45,909,954	45,123,786
General & administrative	14,463,535	14,395,481	15,317,533	15,186,601	18,418,043	21,520,070	25,292,047	30,138,792	27,471,196	30,256,670
<b>Total operating expenses</b>	<b>80,291,584</b>	<b>85,444,091</b>	<b>91,821,911</b>	<b>92,850,932</b>	<b>106,894,288</b>	<b>124,719,006</b>	<b>146,275,137</b>	<b>155,287,611</b>	<b>155,534,642</b>	<b>162,284,082</b>
<b>OPERATING INCOME (LOSS)</b>	<b>1,416,244</b>	<b>1,919,401</b>	<b>126,816</b>	<b>7,510,897</b>	<b>601,990</b>	<b>299,548</b>	<b>(528,606)</b>	<b>(4,179,141)</b>	<b>10,090,705</b>	<b>6,400,912</b>
<b>NON-OPERATING REVENUES:</b>										
Property taxes - general purpose	11,753,408	12,887,334	14,477,271	16,531,907	8,707,881	11,213,568	31,293,863	34,528,767	33,149,232	29,474,227
Standby charges	3,858,132	3,929,860	4,006,786	4,172,104	4,354,591	4,518,411	4,667,297	4,868,154	5,015,076	5,246,008
Water and sewer connection fees	25,949,508	25,740,750	46,960,911	80,804,323	72,445,434	99,485,272	52,894,363	30,706,687	17,789,045	13,010,929
Interest income	21,827,134	15,105,192	10,986,525	4,987,397	13,354,263	13,545,983	28,899,522	20,128,848	18,706,820	16,681,744
Grant revenues	-	-	-	-	-	-	-	11,261,996	6,466,818	6,063,577
Other income/(expense)	(2,107,544)	(1,637,861)	(1,564,986)	780,603	3,077,188	7,088,624	4,093,851	8,812,367	1,767,759	487,672
<b>Total non-operating revenues</b>	<b>61,280,638</b>	<b>56,025,275</b>	<b>74,866,507</b>	<b>107,276,334</b>	<b>101,939,357</b>	<b>135,851,858</b>	<b>121,848,896</b>	<b>110,306,819</b>	<b>82,894,750</b>	<b>70,964,157</b>
<b>NON-OPERATING EXPENSES:</b>										
Parity debt service interest payments (DWR/BO)	-	-	-	-	-	-	-	-	1,163,677	1,003,731
Debt service interest payments (COP)	14,033,057	15,736,862	15,427,928	15,042,051	15,358,957	18,404,817	22,670,400	21,953,962	23,564,234	21,413,765
<b>Total non-operating expenses</b>	<b>14,033,057</b>	<b>15,736,862</b>	<b>15,427,928</b>	<b>15,042,051</b>	<b>15,358,957</b>	<b>18,404,817</b>	<b>22,670,400</b>	<b>21,953,962</b>	<b>24,727,911</b>	<b>22,417,496</b>
<b>EXCESS OF REVENUE OVER EXPENSES BEFORE EXTRAORDINARY ITEM</b>	<b>48,663,825</b>	<b>42,207,814</b>	<b>59,565,395</b>	<b>99,745,180</b>	<b>87,182,390</b>	<b>117,746,589</b>	<b>98,649,890</b>	<b>84,173,716</b>	<b>68,257,544</b>	<b>54,947,573</b>
Add back for parity debt	14,033,057	15,736,862	15,427,928	15,042,051	15,358,957	18,404,817	22,670,400	21,953,962	24,727,911	22,417,496
<b>Net revenues for debt coverage</b>	<b>62,696,882</b>	<b>57,944,676</b>	<b>74,993,323</b>	<b>114,787,231</b>	<b>102,541,347</b>	<b>136,151,406</b>	<b>121,320,290</b>	<b>106,127,678</b>	<b>92,985,455</b>	<b>77,365,069</b>
Parity debt: COP & Loan principal and interest	19,233,057	19,471,862	21,832,928	21,737,051	24,113,957	27,374,817	32,005,400	28,708,962	39,853,513	38,759,515
<b>PARITY DEBT SERVICE COVERAGE RATIO</b>	<b>3.3</b>	<b>3.0</b>	<b>3.4</b>	<b>5.3</b>	<b>4.3</b>	<b>5.0</b>	<b>3.8</b>	<b>3.7</b>	<b>2.3</b>	<b>2.0</b>

Source: Eastern Municipal Water District

Note 1: 2009 amounts are restated for net internal service funds included in other non-operating income rather than general and administrative expense.

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

Calendar Year	Population <sup>1</sup>	Personal Income <sup>2</sup> (thousands of \$)	Per Capita Personal Income <sup>2</sup>	Unemployment Rate <sup>2</sup>
<b>2000</b>	450,000	\$ 35,237,015	\$ 23,368	5.4%
<b>2001</b>	480,000	38,238,713	24,526	5.5%
<b>2002</b>	501,000	41,362,569	25,616	6.5%
<b>2003</b>	520,300	43,619,437	25,922	6.5%
<b>2004</b>	553,000	46,998,756	26,647	6.0%
<b>2005</b>	596,000	50,899,067	27,578	5.4%
<b>2006</b>	629,000	55,177,442	28,777	5.0%
<b>2007</b>	675,000	60,450,585	30,303	6.0%
<b>2008</b>	687,000	63,491,937	30,882	8.5%
<b>2009</b>	699,000	64,503,728	30,894	13.6%

Notes: 1. Data is for the District's service area.

2. Data is for the County of Riverside. The District is located within the County.  
Amounts for prior years are restated for most recent available information.

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

**PRINCIPAL EMPLOYERS  
FISCAL YEAR ENDED JUNE 30, 2010**

Employer	No. of Employees	Percentage of Total Labor Force
County of Riverside	18,456	2.4%
March Air Reserve Base	8,600	1.1%
University of California Riverside	7,321	0.9%
Stater Brothers Markets	6,900	0.9%
Wal-Mart	6,550	0.8%
Riverside Unified School District	5,099	0.7%
Abbott Vascular	4,500	0.6%
Pechanga Resort and Casino	4,000	0.5%
Kaiser Permanente Medical Center	3,600	0.5%
Temecula Valley Unified School District	2,752	0.4%
Total	<u>67,778</u>	<u>8.7%</u>
Total Labor Force		<u>781,500</u>

Notes: For compliance with GASB Statement No. 34, data for fiscal year ended June 30, 2001 is not available.

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

Sources: The Business Press' 2010 Book of Lists  
State of California Employment Development Department

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

<b><u>Water Operations</u></b>	<b><u>2006</u></b>	<b><u>2007</u></b>	<b><u>2008</u></b>	<b><u>2009</u></b>	<b><u>2010</u></b>
Water Resources Development and Management <sup>2</sup>	12	13	17	19	19
Water Quality	17	18	15	15	14
Water Operations and Distribution	60	57	66	63	63
<b><u>Wastewater Operations</u></b>					
Wastewater Collection	13	15	15	14	15
Source Control	12	10	10	10	8
Water Reclamation Plant	75	76	82	82	87
<b><u>Maintenance Services</u></b>					
Maintenance	19	20	20	22	17
Auto and Fabrication	14	14	14	13	14
Mechanical	26	27	27	27	30
Electrical and Controls	20	20	21	22	21
Field and Grounds	36	37	37	37	35
<b><u>Engineering Services</u></b>					
General Engineering <sup>1</sup>	61	52	56	57	55
Inspections and Construction Management	36	44	39	40	38
New Business Development <sup>1</sup>	20	34	28	25	25
<b><u>Administration</u></b>					
Environmental and Regulatory Compliance	8	9	7	8	8
Executive and Administration	8	8	10	10	10
Billing/Customer Service	41	47	49	49	60
Meter Reading	24	25	25	25	24
Finance and Accounting	18	18	20	21	21
Human Resources	12	12	13	13	13
Legislative Affairs	3	3	3	2	3
Information Systems	37	35	33	33	34
Purchasing, Warehouse and Records Management	28	28	28	29	26
Community Involvement <sup>2</sup>	10	13	9	9	9
<b>Total Filled Positions</b>	<b><u>610</u></b>	<b><u>635</u></b>	<b><u>644</u></b>	<b><u>645</u></b>	<b><u>649</u></b>
Number of Vacant Positions as of June 30	Not Available	Not Available	<u>26</u>	<u>22</u>	<u>27</u>
<b>Total Authorized Positions for the Year</b>			<b><u>670</u></b>	<b><u>667</u></b>	<b><u>676</u></b>
Vacancy Rate as of June 30			3.9%	3.3%	4.0%

Notes: All directors and managers are included with their divisions.  
Temporary, contract and summer help employees are not included.  
Data is not readily available for fiscal years prior to 2006.  
1. The General Engineering and New Business Development departments were reorganized in 2007.  
2. The Conservation work group was moved from Community Involvement to Water Resources Development and Management in 2008.

Source: Eastern Municipal Water District

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

	Fiscal Year Ended							
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
<b><u>POTABLE WATER SYSTEM</u></b>								
Miles of pipeline:								
transmission and distribution: <sup>3</sup>	1,528	1,867	2,051	2,345	2,442	2,437	2,444	2,421
as built	Not Available	1,681	1,747	1,817	1,944	2,038	2,157	2,254
construction in progress	Not Available	186	304	528	498	399	287	167
Number of storage tanks <sup>1</sup>	76	78	77	78	79	78	77	77
Maximum storage capacity (million gallons)	178	188	188	193	193	193	193	193
Number of active pumping plants	79	80	80	82	83	81	84	84
Number of active wells:								
domestic	17	18	18	18	18	18	18	18
desalter	2	2	2	9	7	5	5	7
Domestic well production capacity:								
gallons per minute	18,179	17,953	19,000	19,747	22,076	21,597	21,806	20,361
million gallons per day	26.2	25.9	27.4	28.4	31.8	31.1	31.4	29.3
acre feet per year	29,310	28,959	30,407	31,852	35,609	34,836	35,173	32,843
Number of water treatment plants:								
desalter	1	1	1	2	2	2	2	2
filtration	1	1	1	1	2	2	2	2
Treatment plant capacity (million gallons per day):								
desalter plants	3.0	3.0	3.0	8.0	8.0	8.0	8.0	8.0
filtration plants	11.4	11.4	11.4	11.4	21.4	32.0	32.0	32.0
Number of service connections:								
active domestic accounts	95,449	103,919	112,845	123,384	128,506	129,344	131,392	133,810
active agriculture and irrigation accounts	167	153	139	130	129	140	143	146
<b><u>SEWER SYSTEM</u></b>								
Miles of sewer lines: <sup>2,3</sup>	1,200	1,400	1,500	1,750	1,857	1,721	1,729	1,727
as built	1,045	1,097	1,156	1,218	1,335	1,407	1,539	1,604
construction in progress	155	303	344	532	522	314	190	123
Number of treatment plants	4	4	4	4	4	4	4	4
Treatment plant capacity (million gallons per day)	50	50	50	56	56	56	60	60
Average million gallons per day treated	34.0	38.2	43.3	44.8	46.0	46.2	45.2	45.0
Percentage of capacity utilized	68%	76%	87%	80%	82%	82%	75%	75%
Number of active lift stations	35	40	43	46	46	46	46	46
<b><u>RECYCLED WATER SYSTEM</u></b>								
Miles of pipeline:								
transmission and distribution: <sup>3</sup>	123	139	159	174	192	201	202	199
as built	Not Available	131	135	149	156	165	172	178
construction in progress	Not Available	8	24	25	36	36	30	21
Number of active pumping facilities	14	14	15	17	17	17	18	18
Maximum storage capacity (acre feet) <sup>4</sup>	6,669	6,653	6,670	6,571	6,694	6,764	5,776	5,714
<b><u>GENERAL INFORMATION</u></b>								
Service area (annexed property):								
acres	345,903	346,125	346,148	346,337	346,425	346,449	346,691	346,732
square miles	540.5	540.8	540.9	541.2	541.3	541.3	541.7	541.8
Gross service area (square miles)	555	555	555	555	555	555	555	555
Average years of service of employees	10.86	10.90	10.63	9.80	9.98	10.05	10.20	10.47

Notes: Data is not readily available for fiscal years prior to 2003.

- Potable water storage tanks and capacity decreased in 2008 and 2009 due to conversion to recycled water.
- Miles of sewer lines decreased in 2008 because the District transferred sewer lines to the City of San Jacinto. Decrease is reflected in each as built amount.
- 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.
- Recycled storage decreased in 2009 due to a change in the reporting method to show only tertiary-treated water dedicated to distribution. Prior years included capacity for secondary-treated storage. Decrease in 2010 relates to lower capacity for Winchester ponds due to operational assessments.

Source: Eastern Municipal Water District

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

<b>Fiscal Year</b>	<b>Retail Sales</b>	<b>Write Offs</b>	<b>% of Sales</b>
<b>2001</b>	\$ 63,691,389	\$ 244,161	0.4%
<b>2002</b>	68,291,381	236,168	0.3%
<b>2003</b>	70,041,876	301,164	0.4%
<b>2004</b>	83,551,697	255,260	0.3%
<b>2005</b>	88,297,280	259,410	0.3%
<b>2006</b>	103,371,554	384,329	0.4%
<b>2007</b>	121,769,923	724,045	0.6%
<b>2008</b>	126,144,814	1,155,769	0.9%
<b>2009</b>	139,863,262	1,386,075	1.0%
<b>2010</b>	142,354,003	1,035,076	0.7%
<b>Total</b>	<b>\$ 1,007,377,179</b>	<b>\$ 5,981,457</b>	<b>0.6%</b>

Note: Excludes sales collected by other agencies.

Source: Eastern Municipal Water District

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

<b>Fiscal Year</b>	<b>Year End A/R Balance</b>	<b>Reserves</b>	<b>% of A/R</b>
<b>2001</b>	\$ 5,070,308	\$ 56,097	1.1%
<b>2002</b>	5,477,258	69,363	1.3%
<b>2003</b>	5,499,953	56,569	1.0%
<b>2004</b>	5,707,462	89,413	1.6%
<b>2005</b>	5,973,588	91,578	1.5%
<b>2006</b>	7,350,203	187,390	2.5%
<b>2007</b>	9,278,477	368,961	4.0%
<b>2008</b>	9,375,405	690,461	7.4%
<b>2009</b>	10,377,183	838,543	8.1%
<b>2010</b>	9,603,615	678,848	7.1%

Note: Reserves equal accounts over 60 days.

Source: Eastern Municipal Water District

