



EMWD

Comprehensive Annual Financial Report

For the fiscal year ended June 30, 2006

Headquartered in Perris, in California's Inland Empire, Eastern Municipal Water District is recognized nationally for streamlining its business processes. EMWD is a California Award for Performance Excellence (Silver) recipient by the California Council for Excellence.



Eastern Municipal Water District

Comprehensive Annual Financial Report

**FOR THE FISCAL YEAR ENDED
June 30, 2006**

Prepared by the Finance Department

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

Introductory Section



The Perris I Desalter is one of three EMWD facilities in operation or under design that will eventually generate up to 12,000 acre-feet per year of potable water. State bond funding of \$15 million was awarded for construction of the Perris I Desalter.



Eastern Municipal Water District

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2006

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Eastern Municipal Water District
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August 31, 2006

Board of Directors

President

Randy A. Record

Vice President

David J. Slawson

Treasurer

Joseph J. Kuebler, CPA

Rodger D. Siems
Ronald W. Sullivan

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

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

We are pleased to present the Eastern Municipal Water District's (District) Comprehensive Annual Financial Report for the fiscal year ended June 30, 2006.

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

The District's financial statements have been audited by Mayer Hoffman McCann, PC, 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, 2006, 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 fiscal year ended June 30, 2006, are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

Mailing Address: Post Office Box 8300 Perris, CA 92572-8300 *Telephone:* (951) 928-3777 *Fax:* (951) 928-6177
Location: 2270 Trumble Road Perris, CA 92570 *Internet:* www.emwd.org

The Comprehensive Annual Financial Report is presented in four main sections:

I. Introductory Section – provides an overview of the District, its background, organization, recent activities and accomplishments over the past fiscal year; local economic conditions and forecasts; service efforts and accomplishments; and future plans.

II. Financial Section – includes the independent auditor’s report, management’s discussion and analysis, all basic financial statements and notes to the basic financial statements.

III. Supplementary Information Section – includes the District’s actual versus budget information.

IV. Statistical Section – includes a number of unaudited tables and schedules that present information in the following categories: financial trends, revenue capacity, debt capacity, demographic and economic, and operating. This information is intended to assist users in understanding and assessing how the District’s financial position has changed over time, the factors affecting its ability to generate revenue and to issue additional debt, the socioeconomic environment within which it operates and its economic condition.

Reporting & Entity Profile

District's Service Area

The District’s service area lies within the westerly third of Riverside County, encompassing 352,000 acres (555 square miles). The map below indicates the location of the District’s service area in Riverside County. When the District was annexed to the Metropolitan Water District of Southern California (“MWD”) by the District’s voters in 1951, its service area consisted of 86 square miles. Growth has resulted from 70 annexations and 7 detachments of service areas ranging in area from 1 to 72,000 acres. The assessed valuation has grown from \$72 million when formed to over \$45.8 billion in this past fiscal year.

Riverside County’s population increased to a total of approximately 1.95 million as of January, 2006. Of this population, the District serves approximately 629,000 (32%).



District's Authority

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

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

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

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

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

Governance

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

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

Water Services

The District receives its water supply from two primary sources: (1) local groundwater and (2) water imported by the District. The sole source of the District's imported water is MWD.

Approximately 19% of the District's water supply comes from local groundwater sources with an additional 3% from desalination. Such sources are heavily dependent upon rainfall and other sources of recharge. The remaining 78% of the District's water supply comes through purchases

from MWD, which in turn obtains its water supply from two primary sources: the Colorado River via the Colorado River Aqueduct and the State Water Project via the Edmund G. Brown California Aqueduct.

Sewer Services

For the purposes of transmission, treatment and disposal of wastewater, the District is currently divided into five sewer service areas: Hemet-San Jacinto, Moreno Valley, Sun City, Temecula Valley, and Perris Valley. The Sun City plant has been deactivated as a cost reduction measure and all flows 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 56 MGD of wastewater and serve approximately 629,000 people. They are linked to a network of nearly 1,750 miles of pipeline and 48 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 amount of effluent is expected to grow to 52 MGD by the year 2013. Approximately 60%-70% of the effluent currently generated is the goal to be sold to agricultural and irrigation users. However, only 52% of the total recycled production was sold in FY 2005/06 due to a longer winter.

Economic Conditions & Outlook

Riverside County was rated as the second fastest growing county in the nation based on population growth. The average home price increased by 15% from June 2005 to June 2006 and is at \$452,000. Assessed valuations also increased by approximately 26% over 2005.

This past year, the District's service area was a major factor in the county and continued to experience significant growth. System hookups were at 16,989 for sewer and 12,611 for water. This will generate approximately 4.3 mgd of wastewater and require nearly 6,300 more AF of water. The current year is experiencing a slower pace and there is a reasonable expectation that this pace will continue to decline over the next five years to 50% of current. Due to the increase in available recycled water from this growth and the demand on potable water, the District is moving toward developing its recycled water system into a pressurized one. This will allow for an exchange by municipal customers who currently receive potable water for landscape, decorative ponds and other irrigation purposes to substitute recycled water at nearly half the price of potable water. This in turn will make available the potable water for the residential customers.

Major Initiatives

Long Range Financial Plan

The rapid growth over the past three 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 three years have been approximately \$68 million, \$139 million, and \$158 million, respectively.

In 2005, the District developed a comprehensive Capital Improvement Financial Plan covering the period from 2005 – 2009. This plan called for total expenditures of approximately \$711 million. The planned expenditures for 2006 were at \$169 million compared to the actual \$158 million. At this time the District is still on course with its expansion projects and is projecting to spend another \$155 million in fiscal year 2006/07.

Accomplishments

Operations

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

Water operations improvements included implementing an energy optimization software system which allows the District to reduce energy usage throughout the water distribution system. This is achieved by optimizing valve and pump schedules for operation during lower cost energy periods while satisfying storage and pressure requirements. The water operations department was also reorganized to create a work group dedicated solely to the operation of the recycled water distribution system, resulting in better customer service to recycled water customers.

Sewer operations improvements were accomplished through the completion of water reclamation plant upgrades. At the Moreno Valley Water Reclamation Facility (WRF), upgraded solids handling equipment was installed, including a new 70 foot diameter anaerobic digester. This unit was constructed with the latest technology and provides almost three times the capacity of each one of the older digesters, allowing for increased processing of waste material. Also, to increase recycled water availability, new cloth media filtration technology was installed at the San Jacinto Valley WRF on short notice to convert this facility to California Title 22 tertiary effluent quality water at a permitted rate of 12.45 mgd. Permanent tertiary-level effluent facilities are currently under design to compliment this cloth filtration technology.

Bond Credit Rating

The District was assigned an “AA” credit rating in December 2004 by Fitch Ratings. This is an improvement from the AA- assigned by Standard & Poors and the AA3 assigned by Moody’s Investor Service. Fitch cited “sound formal reserve policies and covenants ensure healthy liquidity levels”, and “the District has demonstrated the ability to manage growth pressures and achieve sound financial margins.” These ratings have remained stable and the District will be pursuing increasing its rating from Standard and Poors and Moody’s Investor Service in the coming year.

Technology

The District implemented customer service support enhancements this past year. One of these was a Direct Pay Program offering customers the ability to have their bill payments withdrawn directly from their bank account. So far, almost 5,000 customers are utilizing this new payment service. To respond to customer calls relating to system outages, after-hours support and leaks, the maintenance management system was upgraded with mapping software. This addition allows employees to quickly look up streets, addresses and facilities and more easily identify customers affected by system outages.

As part of the state’s Cooperative Inspection Program, the District is very proactive in its safety efforts and has been designated a Cal/OSHA VPP (voluntary protection program) site. This recognition requires that the District adhere to the highest safety standards. To comply with these standards, a Training Depot software application was implemented to provide employees with a user-friendly means of scheduling and tracking all safety training requirements and classes.

Financial Policies

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

Accounting System

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

Internal Controls

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

Budgetary Controls

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

Cash Management

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

Awards and Acknowledgments

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Eastern Municipal Water District for its comprehensive annual financial report for the fiscal year ended June 30, 2005. This is the third 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.

In addition, the District also received the California Society of Municipal Finance Officers (CSMFO) Certificate of Award for outstanding financial reporting. This certificate is issued in recognition of meeting professional standards and criteria in reporting which reflect a high level of quality in the annual financial statements and in the underlying accounting system from which the reports were prepared.

We would like to thank Lori Robinson, Controller, the Finance Department and the independent accounting firm of Mayer Hoffman McCann, PC 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, 2005

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.



Carla E. Perry

President

Jeffrey R. Emer

Executive Director

*California Society of
Municipal Finance Officers*

Certificate of Award

Outstanding Financial Reporting 2004-05

Presented to the

Eastern Municipal Water District

*This certificate is issued in recognition of meeting professional standards and criteria in reporting
which reflect a high level of quality in the annual financial statements
and in the underlying accounting system from which the reports were prepared.*

February 24, 2006

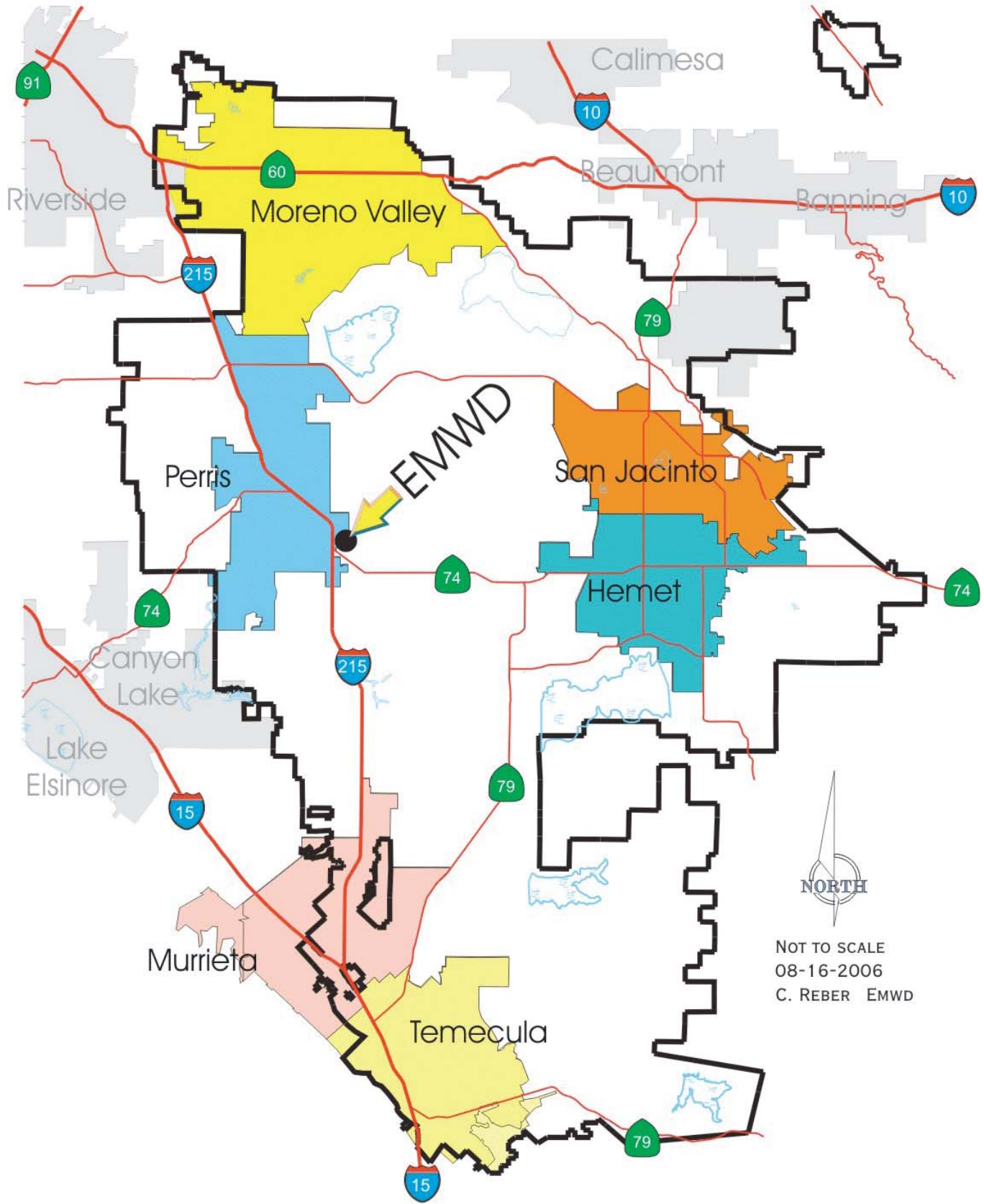


William A. Standel

Bill Thomas, Chair
Professional & Technical Standards Committee

Dedicated to Excellence in Municipal Financial Management

Eastern Municipal Water District Service Area Map and Incorporated Cities



Eastern Municipal Water District

District Officials

June 30, 2006

ELECTED BOARD OF DIRECTORS

Randy A. Record
PRESIDENT

Joseph J. Kuebler
TREASURER

Ronald W. Sullivan
DIRECTOR

David J. Slawson
VICE PRESIDENT

Rodger D. Siems
DIRECTOR

DISTRICT MANAGEMENT

Anthony J. Pack
GENERAL MANAGER

Michael W. Garner
**ASSISTANT GENERAL MANAGER
RESOURCE DEVELOPMENT**

Parameshwaran Ravishanker
DEPUTY GENERAL MANAGER

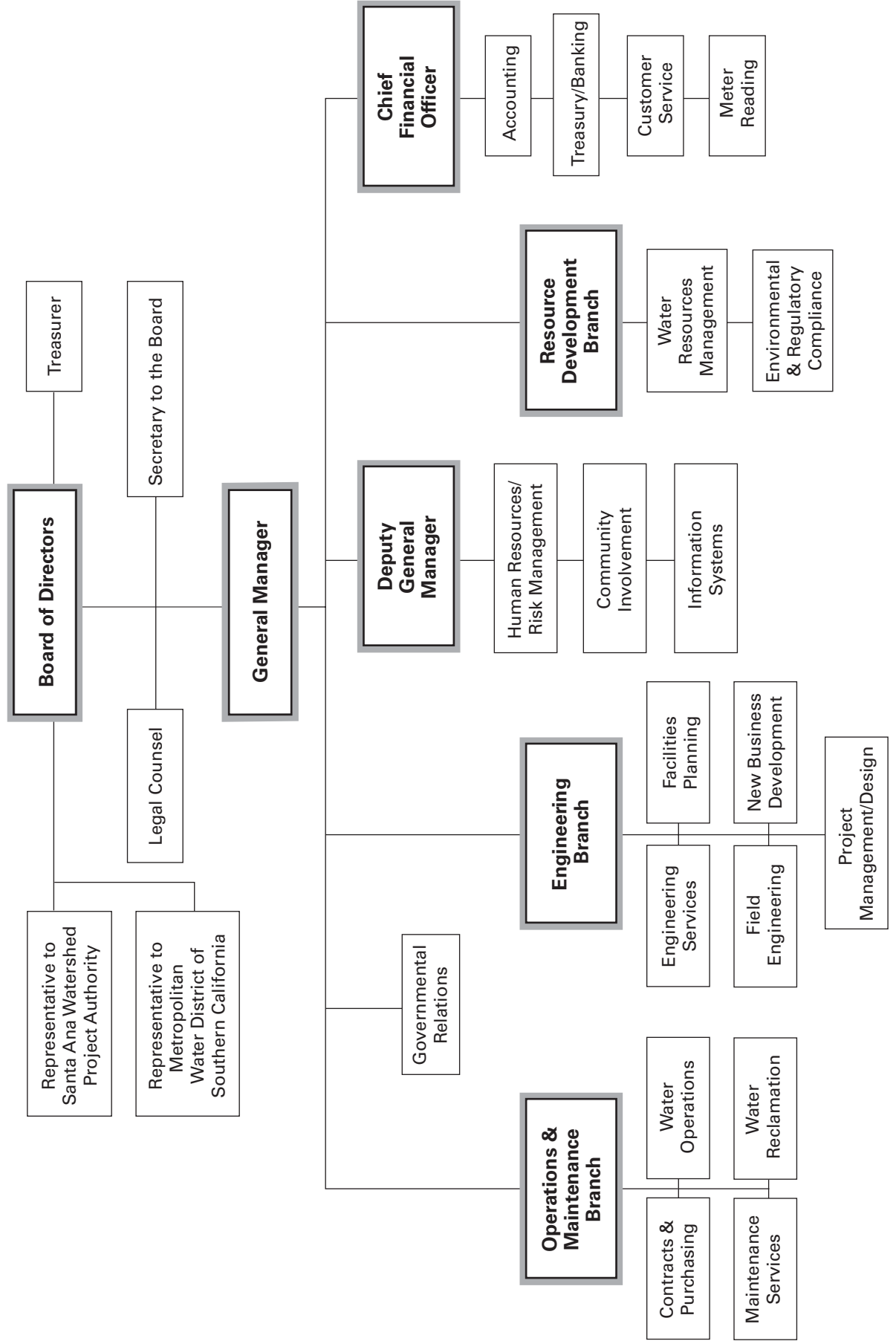
Charles J. Bachmann
**ASSISTANT GENERAL MANAGER
ENGINEERING**

Michael A. Luker
**ASSISTANT GENERAL MANAGER
OPERATIONS & MAINTENANCE**

Charles E. Rathbone, Jr.
CHIEF FINANCIAL OFFICER

Eastern Municipal Water District

Organizational Chart



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Financial Section



The Moreno Valley Regional Water Reclamation Facility is under expansion to increase its operating capacity from 14 to 16 million gallons per day by early 2009. Digester mixer upgrades, funded by California Energy Commission grant funds, help to reduce energy peak loading requirements. This plant employs the Bardenpho process, an advanced, five-step biological process that reduces nitrogen and phosphorus to acceptable levels.





Mayer Hoffman McCann P.C.
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Conrad Government Services Division

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Board of Directors
Eastern Municipal Water District
Perris, California

Independent Auditors' Report

We have audited the accompanying balance sheet of Eastern Municipal Water District ("the District") as of June 30, 2006, and the related statement of revenues, 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 basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. 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, 2006, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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



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Board of Directors
Eastern Municipal Water District
Page Two

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

In accordance with *Government Auditing Standards*, we have also issued our report as of and for the year ended June 30, 2006 dated August 12, 2006, on our consideration of Eastern Municipal Water District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Mayer Hoffman McCann P.C.

August 12, 2006

MANAGEMENT'S DISCUSSION & ANALYSIS

The intent of the management's discussion and analysis is to provide highlights of the Eastern Municipal Water District's financial activities for the fiscal year ended June 30, 2006. Readers are encouraged to read this section in conjunction with the accompanying financial statements.

The District's Operations — an Overview

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

Basic Financial Statements

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

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

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

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

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

FINANCIAL HIGHLIGHTS

Balance Sheets

June 30, 2006 and 2005

	2005/06	2004/05	Increase/(Decrease)	
			Amount	% Change
Assets				
Current assets	\$ 187,141,389	\$ 174,074,440	\$ 13,066,949	7.5%
Restricted assets	417,089,117	272,628,419	144,460,698	53.0%
Capital assets	1,233,234,796	1,088,523,463	144,711,333	13.3%
Other assets	13,684,501	13,281,089	403,412	3.0%
Total assets	1,851,149,803	1,548,507,411	302,642,392	19.5%
Liabilities				
Current liabilities	93,516,402	94,248,875	(732,473)	-0.8%
Other liabilities	40,844,108	15,287,777	25,556,331	167.2%
Long-term debt outstanding	513,600,000	364,320,000	149,280,000	41.0%
Total liabilities	647,960,510	473,856,652	174,103,858	36.7%
Net Assets				
Invested in capital assets, net of related debt	864,024,679	747,790,921	116,233,758	15.5%
Restricted for debt service/covenants	58,964,117	50,932,809	8,031,308	15.8%
Restricted for construction	193,659,075	179,216,380	14,442,695	8.1%
Unrestricted	86,541,422	96,710,649	(10,169,227)	-10.5%
Total net assets	\$ 1,203,189,293	\$1,074,650,759	\$128,538,534	12.0%

Changes in Financial Condition of the District

Overall, the financial position of the District has improved for the fiscal year ended June 30, 2006.

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

- Current assets increased by \$13.1 million primarily due to an increase in cash of \$8.5 million.
- Restricted assets increased by \$144.5 million primarily due to an increase in construction cash of \$122.2 million, and by an increase in debt service cash of \$21.1 million. These increases mainly relate to the District's 2006 A and B Certificates of Participation (COP) totaling \$160.3 million.
- Capital assets increased by \$144.7 million primarily due to an increase of operating assets being added to the system totaling \$101.7 million; an increase to construction in progress of \$82.0 million; and an offset by depreciation expense totaling \$39.7 million.
- Other assets increased by \$0.4 million due to an increase in unamortized debt issuance costs of \$0.9 million relating primarily to the 2006 A and B COPs and a decrease in the prepaid PERS liability of \$0.5 million.
- Current liabilities decreased by \$0.7 million primarily due to increases in accounts payable of \$5.9 million, accrued interest payable of \$2.2 million, customer deposits of \$1.6 million and other current liabilities totaling \$2.3 million. These were offset by a decrease of \$12.7 million in advances from developers.
- Other liabilities increased by \$25.6 million primarily due to an increase in advances for construction, notes and assessments payable.
- Long-term debt outstanding increased by a net of \$149.3 million primarily due to an issuance of \$160.3 million of Certificates of Participation offset by \$10.0 million of COP and GO Bond payments that are due in the 2006/2007 year. Also see Note 5 to the basic financial statements regarding debt issuances and outstanding balances.
- The District's net assets increased \$128.5 million, or 12.0% over the prior year. This can be attributed to a net non-operating income of \$120.0 million offset by a net operating loss of \$39.8 million plus contributed capital from developers totaling \$48.3 million for the year. Further information regarding restrictions and commitments associated with net assets can be identified in Notes 9 and 11 to the basic financial statements.

**Revenues, Expenses and Changes in Net Assets
For the Fiscal Years Ended June 30, 2006 and 2005**

	2005/06		2004/05		Increase/(Decrease)	
	Amount	% of total	Amount	% of total	Amount	% Change
Operating revenues:						
Water Sales– domestic	\$ 76,543,807	61.2%	\$ 64,092,906	59.6%	\$ 12,450,901	19.4%
Water sales – irrigation	1,067,667	0.9%	2,165,315	2.0%	(1,097,648)	-50.7%
Sewer service charges	45,462,646	36.4%	39,739,370	37.0%	5,723,276	14.4%
Recycled water	1,944,434	1.6%	1,498,687	1.4%	445,747	29.7%
Total operating revenues	125,018,554	100.0%	107,496,278	100.0%	17,522,276	16.3%
Non-operating revenues:						
Property taxes – general levy	11,213,568	7.8%	8,707,881	7.9%	2,505,687	28.8%
Property taxes – bond levy	3,534,021	2.5%	2,809,967	2.6%	724,054	25.8%
Standby charges	4,518,411	3.2%	4,354,591	4.0%	163,820	3.8%
Water and sewer connection fees	99,485,272	69.4%	72,445,434	66.1%	27,039,838	37.3%
Interest – operations and restricted funds	16,668,255	11.6%	13,237,576	12.1%	3,430,679	25.9%
Interest – bond funds	258,463	0.2%	222,486	0.2%	35,977	16.2%
Gain on disposal of fixed assets	69,052	0.0%	-	0.0%	69,052	N/A
Net increase (decrease) in fair value of investments	(3,122,272)	-2.2%	116,687	0.1%	(3,238,959)	-2775.8%
Other revenues	10,738,994	7.5%	7,693,026	7.0%	3,045,968	39.6%
Total non-operating revenues	143,363,764	100.0%	109,587,648	100.0%	33,776,116	30.8%
Total Revenues	268,382,318		217,083,926		51,298,392	23.6%
Operating expenses:						
Purchased water	36,817,458	22.3%	32,380,524	22.5%	4,436,934	13.7%
Water operations	29,030,238	17.6%	25,111,134	17.4%	3,919,104	15.6%
Sewer operations	33,061,321	20.1%	27,194,672	18.8%	5,866,649	21.6%
Recycled water operations	4,289,919	2.6%	3,789,915	2.6%	500,004	13.2%
General and administrative	21,520,070	13.1%	18,418,043	12.7%	3,102,027	16.8%
Depreciation and amortization	40,091,319	24.3%	37,572,961	26.0%	2,518,358	6.7%
Total operating expenses	164,810,325	100.0%	144,467,249	100.0%	20,343,076	14.1%
Non-operating expenses:						
Interest – certificates of participation	18,404,817	78.9%	15,358,957	75.3%	3,045,860	19.8%
Interest – bond	1,118,876	4.8%	340,068	1.7%	778,808	229.0%
Interest – other	687,105	2.9%	653,006	3.2%	34,099	5.2%
Bond service fees	90,764	0.4%	77,710	0.4%	13,054	16.8%
Loss on disposal of fixed assets	-	0.0%	1,049,925	5.1%	(1,049,925)	-100.0%
Other expenses	3,032,317	13.0%	2,912,907	14.3%	119,410	4.1%
Total non-operating expenses	23,333,879	100.0%	20,392,573	100.0%	2,941,306	14.4%
Total Expenses	188,144,204		164,859,822		23,284,382	14.1%
Income before contributions	80,238,114		52,224,104		28,014,010	53.7%
Capital contributions	48,300,420		30,613,539		17,686,881	57.8%
Change in net assets	128,538,534		82,837,643		45,700,891	55.2%
Total net assets at beginning of year	1,074,650,759		991,813,116		82,837,643	8.4%
Total net assets at end of year	\$ 1,203,189,293		\$ 1,074,650,759		\$ 128,538,534	12.0%

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

Revenues

Combined revenues for the fiscal year totaled \$268,382,318 compared to a prior year of \$217,083,926. This is an increase of approximately 23.6%. The table on page 6 presents a comparison of revenues by major source for the two fiscal years 2005/06 and 2004/05.

Expenses

Combined expenses for the fiscal year totaled \$188,144,204 compared to a prior year of \$164,859,822. This is an increase of approximately 14.1%. The table on page 6 presents a comparison of expenses by category for the two fiscal years 2005/06 and 2004/05.

Water Sales

Sales increased approximately \$11.4 million (17.1%) over the previous year's total to end at \$77.6 million. This is primarily attributed to a volume increase in retail sales of 13.5% from the previous year and a 5.6% average increase in water rates that was implemented January 1, 2006. (See water purchases.)

Sewer Service

Wastewater service charges increased by \$5.7 million (14.4%) over the previous year's total to end at \$45.5 million. This is primarily attributed to an increase in customer hook ups, approximately 9.0% above the previous year, coupled with a monthly sewer rate increase of approximately 5.8% on average, effective January 1, 2006.

Property Taxes

Assessed valuations increased by nearly 26% over the prior year, and the District's property tax revenue increased by \$2.5 million (28.8%) in line with this change.

Connection Fees

These revenues increased over the prior year due to an increase in the housing development market. Sewer hookups were at 16,989 compared to a prior year of 13,989 representing an increase of 21% and water hookups were at 12,611 compared to a prior year of 9,748 representing an increase of 29%. This resulted in revenue of \$27.0 million (37.3%) higher than the previous year.

Interest Earnings

The current year's interest earnings were negatively impacted by a book adjustment charge of \$3.1 million per GASB 31. Excluding this adjustment, the current fiscal year's interest earnings was a favorable \$3.4 million (26%) over the prior years due to improved yields on investments of 3.29% for the year compared to 3.01% last fiscal year, and a higher average portfolio balance.

Water Purchases

Water sales volume increased by 7,715 acre feet (AF) of water, but purchased water from our wholesale provider, the Metropolitan Water District (MWD), increased by only 3,944. This additional water purchased plus an increase in the cost of water of \$25/AF were the primary factors for the increase.

Water Operations

Water sales were higher than the previous year, which resulted in more energy being required (\$1.2 million) as well as an increase in labor and support costs of \$2.5 million for total deliveries.

Sewer Operations

The increase in flows that needed to be treated due to growth increased from 43.3 mgd in 2004/05 to nearly 45.5 mgd in 2005/06. This increase coupled with higher wages, benefits, materials, and services resulted in the \$5.9 million increase.

Recycled Water

The inability to sell the recycled water that was generated from the increased sewer flows required the District to discharge into its offal line resulting in major pumping costs. This discharge was for nearly six months due to the weather and lack of sales.

General and Administrative

Due to the significant growth, the District authorized an additional 28 employees. Additionally, higher medical and retirement benefit expense has been absorbed by the District.

Depreciation Expense

The District capitalized nearly \$105 million in new assets over the course of the year which will add approximately \$2.5 million per year in additional depreciation expense.

Interest Expense – COP

The District issued \$160.3 million in revenue bonds in February 2006 which resulted in the higher interest expense.

Capital Contributions

Facilities built by developers and turned over to the District to operate and maintain increased to \$48.3 million compared to \$30.6 million in the previous year.

Net Assets

The financial condition of the District has improved from the previous year. The District's net assets increased by \$128,538,534 to \$1,203,189,293. This is a 12.0% increase over the prior year and can be illustrated from the table on page 4 that compares the various categories of assets, liabilities and net assets for the two fiscal years 2005/06 and 2004/05.

Capital Expenditures

During the year, expenditures in capital projects totaled \$157.6 million. Some of the major projects currently underway and where expenditures in the current fiscal year exceeded \$3.0 million include: the Hemet Water Filtration Plant (\$30.3 million); Perris Water Filtration Plant Phase II (\$11.7 million); North San Jacinto Regional Sewer Phase I (\$9.7 million); Perris Valley Regional Water Reclamation Facility Tertiary Expansion to 22 MGD (\$9.4 million); Temecula Valley Regional Water Reclamation Facility Expansion to 18 MGD (\$9.3 million); San Jacinto Valley Regional Water Reclamation Facility Emergency Filter Installation (\$7.5 million); Perris Desalter Transmission Pipeline Phase II (\$6.9 million); San Jacinto Valley Regional Water Reclamation Facility Expansion to 14 MGD (\$3.3 million); fifteen water and sewer projects between \$1,000,000 - \$3,000,000 (\$25.6 million); fifteen water and sewer projects between \$500,000 - \$1,000,000 (\$10.5 million); and fifty-two water and sewer projects between \$100,000 - \$500,000 (\$11.0 million). The remaining \$22.4 million was for various water and sewer projects with expenditures less than \$100,000 in the current fiscal year.

Long-Term Debt

At June 30, 2006, the District had a net \$572.4 million in long-term debt outstanding, a net increase of \$176.7 million or 44.7 percent from the prior year. The long-term debt consists of advances for construction, notes and assessments payable, COPs, GO bonds, reimbursable agreements, compensated absences and unamortized deferred amounts for premiums/discounts and refundings. The amount of debt due within in year totaled \$18.0 million. The majority of the increase in long-term debt is due to the issuance of COPs in the amount of \$160.3 million and an added advance for construction of \$25.6 million. These additions were offset by principal reductions of \$13.2 million. The District had an obligation for reimbursable agreements of \$0.4 million at fiscal year end, a decrease of \$0.7 million from the prior year. Additionally, the District had an obligation for compensated absences of \$8.5 million at fiscal year end, an increase of \$0.3 million from the prior year with an amount due within one year of \$4.5 million. Deferred amounts were (\$9.2) million at fiscal year end, a reduction of \$4.3 million from the prior year with an amortized amount of (\$0.8) million within one year. The District has been assigned an AA, AA- and AA3 rating from Fitch Ratings, Standard & Poors and Moody's Investor Service, respectively. More detailed information about the District's long-term debt is presented in Note 5 to the basic financial statements.

Capital Assets

Net of accumulated depreciation, the District reported capital assets of \$1,233,234,796 in fiscal year 2005/06 compared to \$1,088,523,463 in fiscal year 2004/05. A comparison of the change is provided below by major category. Also, see Note 3 to the basic financial statements for further information regarding capital assets.

Capital Assets ***For the Fiscal Years Ended June 30, 2006 and 2005***

	2005/06	2004/05	Increase/Decrease	
			Amount	% Change
Land	\$ 34,046,122	\$ 33,412,860	\$ 633,262	1.9%
Water plant, lines & equip	517,614,969	463,192,929	54,422,041	11.7%
Water capacity rights	17,950,601	17,950,601	-	0.0%
Sewer plant, lines & equip	765,808,187	722,353,340	43,454,846	6.0%
Equipment & general facilities	84,571,979	80,722,176	3,849,803	4.8%
Construction in progress	244,139,021	162,119,160	82,019,861	50.6%
Total capital assets	1,664,130,879	1,479,751,066	184,379,813	12.5%
Less accumulated depreciation	430,896,083	391,227,603	39,668,480	10.1%
Net capital assets	\$ 1,233,234,796	\$ 1,088,523,463	\$ 144,711,333	13.3%

Significant additions to capital assets include \$48.3 million in contributed capital from developers in the area. The bulk of the contributed assets were water and sewer lines needed to keep up with the increased development in the area.

The three largest District projects that were closed as of June 30, 2006 include the Perris Desalination Facility (\$17.3 million), the Moreno Valley Regional Water Reclamation Facility (MVRWRF) Bardenpho Modifications (\$12.6 million), and the Palomar Recycled Water Booster Station (\$7.3 million).

The Perris Desalination Facility project includes the design and construction of a 4.5 million gallons per day desalination plant. As part of the District's salinity management program, this plant will enhance the District's supply of potable water by treating poor quality groundwater in the Perris basin. This project was substantially complete at June 30, 2006 at a cost of \$17.3 million. Final work on this project will be completed in December 2006.

The MVRWRF Bardenpho Modification project includes modifications to the Bardenpho ditch in plant two. These modifications provided four compartments for increased maintainability and retrofit aeration to the fine bubble diffusion for increased capacity of solids treatment and handling facilities. This project was substantially complete at June 30, 2006 at a cost of \$12.6 million. Final work on this project will be completed in August 2006.

The Palomar Recycled Water Booster Station project included the construction of a 36 million gallons per day recycled water booster station located within the unincorporated area of Wildomar. This project was substantially complete at June 30, 2006 at a cost of \$7.3 million. Final work on this project will be completed in August 2006.

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
Balance Sheet
June 30, 2006
(with prior year data for comparison purposes only)

Assets	June 30	
	2006	2005
Current assets:		
Cash and investments (Note 2)	\$ 153,633,053	\$ 145,100,271
Utility accounts receivable, net of allowances	17,293,378	14,619,767
Property taxes receivable	5,753,667	6,771,528
Accrued interest receivable	4,178,147	2,719,997
Other receivables	2,740,356	948,283
Prepaid expenses	1,178,603	1,856,890
Materials and supplies inventory	2,319,153	2,018,433
Deposits	45,032	39,271
Total current assets	187,141,389	174,074,440
Noncurrent assets:		
Restricted assets:		
Debt service/covenants cash and investments (Note 2)	102,196,065	81,121,600
Property taxes receivable	1,259,397	1,120,893
Construction cash and investments (Note 2)	311,974,269	189,796,643
Notes receivable	1,659,386	589,283
Total restricted assets	417,089,117	272,628,419
Capital assets: (Note 3)		
Land	34,046,122	33,412,860
Structures, improvements and water rights	1,301,373,757	1,203,496,870
Equipment and general facilities	84,571,979	80,722,176
Construction in progress	244,139,021	162,119,160
Total capital assets	1,664,130,879	1,479,751,066
Less accumulated depreciation	(430,896,083)	(391,227,603)
Net capital assets	1,233,234,796	1,088,523,463
Other assets:		
Prepaid PERS contribution (Note 4)	7,745,815	8,276,763
Unamortized debt issuance costs (Note 5)	4,187,786	3,253,426
Tunnel water seepage agreement (Note 10)	1,750,900	1,750,900
Total other assets	13,684,501	13,281,089
Total noncurrent assets	1,664,008,414	1,374,432,971
Total assets	\$ 1,851,149,803	\$ 1,548,507,411

	June 30	
	2006	2005
Liabilities and net assets		
Liabilities:		
Current liabilities:		
Accounts payable	\$ 29,446,532	\$ 23,556,849
Accrued salaries and benefits	1,380,294	1,053,684
Other accrued expenses	992,759	1,008,750
Customer deposits	4,609,004	3,001,868
Current portion of compensated absences (Note 5)	4,495,589	3,904,834
Accrued interest payable	8,073,569	5,833,303
Other payables	2,611,015	2,502,072
Advances from developers (Note 14)	28,411,588	41,197,549
Current portion of advances for construction, notes and assessments payable (Note 5)	3,216,166	3,099,436
Current portion of certificates of participation (Note 5)	9,335,000	8,970,000
Current portion of bonds payable (Note 5)	1,730,000	1,020,000
Less unamortized premium/discount and deferred charges (Note 5)	(785,114)	(899,470)
Total current liabilities	93,516,402	94,248,875
Noncurrent liabilities: (Note 5)		
Advances for construction, notes and assessments payable	44,887,307	22,605,733
Certificates of participation payable	493,655,000	342,645,000
General obligation bonds	19,945,000	21,675,000
Reimbursable agreements	390,313	1,060,557
Compensated absences	4,013,385	4,246,053
Less unamortized premium/discount and deferred charges	(8,446,897)	(12,624,566)
Net noncurrent liabilities	554,444,108	379,607,777
Total liabilities	647,960,510	473,856,652
Net assets:		
Invested in capital assets, net of related debt	864,024,679	747,790,921
Restricted for debt service/covenants	58,964,117	50,932,809
Restricted for construction	193,659,075	179,216,380
Unrestricted	86,541,422	96,710,649
Total net assets	1,203,189,293	1,074,650,759
Total liabilities and net assets	\$1,851,149,803	\$1,548,507,411

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, 2006
(with prior year data for comparison purposes only)

	Fiscal Year ended June 30	
	2006	2005
Operating revenues:		
Water sales – domestic	\$ 76,543,807	\$ 64,092,906
Water sales – irrigation	1,067,667	2,165,315
Sewer service charges	45,462,646	39,739,370
Recycled water	1,944,434	1,498,687
Total operating revenues	125,018,554	107,496,278
Operating expenses:		
Purchased water	36,817,458	32,380,524
Water operations	29,030,238	25,111,134
Sewer operations	33,061,321	27,194,672
Recycled water operations	4,289,919	3,789,915
General and administrative	21,520,070	18,418,043
Depreciation and amortization	40,091,319	37,572,961
Total operating expenses	164,810,325	144,467,249
Loss from operations	(39,791,771)	(36,970,971)
Nonoperating revenues (expenses):		
Property taxes – general levy	11,213,568	8,707,881
Property taxes – bond levy	3,534,021	2,809,967
Standby charges	4,518,411	4,354,591
Water and sewer connection fees	99,485,272	72,445,434
Interest – operations and restricted funds	16,668,255	13,237,576
Interest – bond funds	258,463	222,486
Other revenues	10,738,994	7,693,026
Net increase/(decrease) in fair value of investments	(3,122,272)	116,687
Interest – certificates of participation	(18,404,817)	(15,358,957)
Interest – bond	(1,118,876)	(340,068)
Interest – other	(687,105)	(653,006)
Bond service fees	(90,764)	(77,710)
Gain/(loss) on disposal of capital assets	69,052	(1,049,925)
Other expenses	(3,032,317)	(2,912,907)
Total non-operating revenues	120,029,885	89,195,075
Income before contributions	80,238,114	52,224,104
Capital contributions	48,300,420	30,613,539
Change in net assets	128,538,534	82,837,643
Total net assets at beginning of year	1,074,650,759	991,813,116
Total net assets at end of year	\$ 1,203,189,293	\$ 1,074,650,759

See accompanying notes to the basic financial statements.

Eastern Municipal Water District
Statement of Cash Flows
For the Fiscal Year ended June 30, 2006
(with prior year data for comparison purposes only)

	Fiscal Year ended June 30	
	2006	2005
Cash flows from operating activities		
Cash received from customers	\$ 127,692,165	\$ 107,831,526
Cash payments for water	(39,817,458)	(32,380,524)
Cash payments to employees for services	(44,171,680)	(37,589,413)
Cash payments to suppliers for goods and services	(33,075,824)	(36,567,894)
Cash payments for energy and utilities	(13,697,002)	(11,322,225)
Proceeds from standby charges and other revenues	15,269,126	12,066,775
Other operating revenues	2,073,502	5,483,656
Net cash provided by operating activities	14,272,829	7,521,901
Cash flows from noncapital financing activities		
Proceeds from property taxes, general levy	12,219,708	7,467,878
Net cash provided by noncapital financing activities	12,219,708	7,467,878
Cash flows from capital and related financing activities		
Acquisitions and construction of capital assets	(142,009,226)	(138,561,658)
Repayment of bonds and certificates of participation	(11,065,000)	(10,770,000)
Interest paid	(14,703,631)	(15,156,217)
Proceeds from water and sewer connection fees	99,485,272	72,445,434
Proceeds from long-term debt issuance	185,929,117	18,255,000
Proceeds from notes payable and reimbursements	1,303,707	2,181,028
Repayments of notes payable and reimbursements	(4,084,764)	(5,823,336)
Proceeds from sale of capital assets	2,543,729	2,640,063
Proceeds from property taxes, bond levy	3,395,517	3,095,672
Receipts (payments) of customer deposits and developer advances	(7,848,681)	16,422,651
Net cash provided by (used for) capital and related financing activities	112,946,040	(55,271,363)
Cash flows from investing activities		
Purchases of investment securities	(247,467,517)	(88,375,751)
Proceeds from sales and maturities of investment securities	113,009,280	53,497,837
Proceeds from earnings on investments	15,468,568	13,677,835
Net cash used for investing activities	(118,989,669)	(21,200,079)
Total increase (decrease) in cash and cash equivalents	20,448,908	(61,406,251)
Cash and cash equivalents at beginning of year	40,682,922	102,089,173
Cash and cash equivalents at end of year (Note 2)	\$ 61,131,830	\$ 40,682,922

(Continued on next page)

Eastern Municipal Water District
Statement of Cash Flows
(continued)

For the Fiscal Year ended June 30, 2006
(with prior year data for comparison purposes only)

	Fiscal Year ended June 30	
	2006	2005
Reconciliation of loss from operations to net cash provided by operating activities:		
Loss from operations	\$ (39,791,771)	\$ (36,970,971)
Adjustments to reconcile loss from operations to net cash provided by operating activities:		
Operating activities:		
Depreciation and amortization	40,091,319	37,572,961
Standby charges and other revenues	15,269,126	12,066,775
Changes in assets and liabilities:		
Decrease (increase) in utility accounts receivable	(2,673,611)	(335,248)
Decrease (increase) in other receivables	(1,792,073)	259,505
Decrease (increase) in prepaid expenses	678,287	(341,144)
Decrease (increase) in materials and supplies inventory	(300,720)	(326,889)
Decrease (increase) in deposits	(5,761)	7,175
Decrease (increase) in notes receivable	(1,070,103)	176,901
Decrease (increase) in other assets	530,948	(5,148,114)
Increase (decrease) in accounts payable and other payables	5,889,683	541,489
Increase (decrease) in accrued expenses	310,619	(696,607)
Increase (decrease) in customer deposits	(3,221,201)	127,856
Increase (decrease) in compensated absences	358,087	588,212
Net cash provided by operating activities	\$ 14,272,829	\$ 7,521,901
Reconciliation of cash and cash equivalents to balance sheet:		
Current cash and investments	\$ 153,633,053	\$ 145,100,271
Restricted cash and investments:		
Debt service/covenants	102,196,065	81,121,600
Construction	311,974,269	189,796,643
Total cash and investments	567,803,387	416,018,514
Less investments	506,671,557	375,335,592
Cash and cash equivalents (Note 2)	\$ 61,131,830	\$ 40,682,922
Noncash capital, financing, and investing activities		
Contributions of capital assets from developers and others	\$ 48,300,420	\$ 30,613,539
Increase (decrease) in fair value of investments	\$ (3,122,272)	\$ 116,687

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, 2006

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 352,000 acres (555 square miles), encompassing the westerly third of Riverside County. The District is operated under the direction of a five-member Board of Directors (Board) elected for four-year terms. The District presently imports 78% of its water supply from the Metropolitan Water District of Southern California (MWD) and derives the remaining 22% 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 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.

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

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

Reporting Entity (continued)

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

Basis of Accounting and Measurement Focus

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

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

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.

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

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

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, irrigation and recycled water sales, as well as sewer service charges, while operating expenses pertain to the furnishing of those services.

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

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. water and sewer pipelines) are defined by the District as assets with an initial cost of more than \$1,500 and an estimated useful life in excess of two years. Assets are recorded at cost. Contributed capital assets are recorded at fair market value at the time they are received. The contributed assets consist primarily of distribution lines and connections constructed and donated by developers.

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

Property, plant, and equipment of the District is depreciated using the straight line method over the estimated useful lives as shown on the following page.

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 (continued)

Assets	Years	Assets	Years
Storage Tanks	50	Sewer Treatment Plants	40
Wells	40	Sewer Lift Station	40
Pipelines	40	Disposal Plants	40
Water Pumping Plants	40	Recycled Reservoirs	50
Water Treatment Plant	40	Recycled Water Pipelines	50
Water Filtration Plant	35	Recycled Water Facilities	40
Desalination Facilities	30	Recycled Water Pump Stations	40
Gas Engines	25	Recycled Filtration	30
Pumps, Electrical Motors	20	Buildings, Office and Warehouse	40
Meters & Service Connections	20	Furniture and Equipment	10
Chlorination Equipment	15	Shop and Yard Equipment	10
Electric Controls	10	Laboratory Equipment	10
Telemetry	10	Computer Equipment	5
Water Capacity Rights	40	Meter Shop Equipment	5
Collection System	50	Automotive Pool	5
Transmission System	50		

Allowance for Doubtful Accounts

An allowance for doubtful accounts has been established for utility accounts receivables that are 60+ days delinquent at year-end. This allowance amounts to \$187,390 and \$91,578 at June 30, 2006 and 2005, respectively.

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

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

Inventories

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

Restricted Assets

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

Restricted assets include water and sewer connection fees. The resolution establishing the authority for water and sewer connection fees restricts the use of these fees to the construction, acquisition, or financing of capital assets. The water and sewer connection fees are exchange transactions (nonoperating 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 \$4,982,787 and \$5,038,304 at June 30, 2006 and 2005, respectively.

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

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

Property Taxes

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

The property tax calendar is as follows:

Lien date:	January 1
Levy date:	July 1
Due date:	First installment – November 1 Second installment – February 1
Delinquent date:	First installment – December 12 Second installment – April 10

Debt Issuance Costs

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

Compensated Absences

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

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

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

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.

Comparative Data

Prior year data has been included where practical for comparison purposes only. The prior year data does not represent a complete presentation in accordance with generally accepted accounting principles.

Certain minor reclassifications of prior year data have been made in order to enhance their comparability with current year figures.

2. Cash and Investments

Cash and investments are classified in the accompanying balance sheet at June 30 as follows:

	<u>2006</u>	<u>2005</u>
Current assets	\$ 153,633,053	\$ 145,100,271
Restricted assets:		
Debt service/covenants	102,196,065	81,121,600
Construction	311,974,269	189,796,643
Totals	<u>\$ 567,803,387</u>	<u>\$ 416,018,514</u>

Cash and investments at June 30 consisted of the following:

	<u>2006</u>	<u>2005</u>
Cash on hand	\$ 3,600	\$ 3,600
Deposits with financial institutions	(1,613,417)	(4,032,053)
Investments	569,413,204	420,046,967
Total cash and investments	<u>\$ 567,803,387</u>	<u>\$ 416,018,514</u>

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

	<u>2006</u>	<u>2005</u>
Demand accounts and on hand	\$ (1,609,817)	\$ (4,028,453)
Money market funds	22,274,651	15,036,638
Sweep account (FHLB security)	539,563	2,815,629
California Local Agency Investment Fund	39,927,433	26,859,108
Total cash and cash equivalents	<u>\$ 61,131,830</u>	<u>\$ 40,682,922</u>

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

2. Cash and Investments (continued)

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

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

Investment Types Authorized by State Law	Authorized by Investment Policy	* Maximum Maturity	* Maximum Percentage of Portfolio	* Maximum Investment in One Issuer
U.S. Treasury Obligations	Yes	5 Years	None	None
U.S. Agency Securities	Yes	5 Years	None	None
Bankers' Acceptances	Yes	180 Days	40%	25%
Negotiable Certificates of Deposit	Yes	1 Year	30%	25%
Commercial Paper	Yes	180 Days	25%	10%
Repurchase Agreements	Yes	1 Year	50%	None
Reverse Repurchase Agreements	Yes	92 Days	20%	None
Medium-Term Notes	Yes	5 Years	30%	25%
Mortgage Pass – Through Securities	Yes	5 Years	20%	20%
Local Agency Investment Fund (LAIF)	Yes	None	None	\$40,000,000
Local Agency Bonds	No	5 Years	None	None
Mutual Funds	No	N/A	20%	10%
Money Market Mutual Funds	No	N/A	20%	10%
County Pooled Investment Funds	No	N/A	None	None
JPA Pools (other investment pools)	Yes	N/A	None	None

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

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

2. Cash and Investments (continued)

Investments Authorized by Debt Agreements:

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

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

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 table on the following page that shows the distribution of the District's investment by maturity:

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

2. Cash and Investments (continued)

Disclosures relating to Interest Rate Risk (continued)

Investment Type	Total Amount	12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
U.S. Agency Securities:					
Federal Farm Credit Bank (FFCB)	\$ 14,457,813	\$ -	\$ 14,457,813	\$ -	\$ -
Federal Home Loan Bank (FHLB)	201,007,834	73,571,751	104,223,271	23,212,812	-
Federal Home Loan Mortgage Corp. (FHLMC)	43,984,013	29,606,488	4,843,150	9,534,375	-
Federal National Mortgage Ass. (FNMA)	90,279,687	36,662,499	24,565,625	29,051,563	-
Local Agency Investment Fund (LAIF)	39,927,433	39,927,433	-	-	-
Held by Bond Trustee:					
Guaranteed Investment Contracts	153,127,659	-	-	119,974,580	33,153,079
California Municipal Bonds	4,354,114	-	-	-	4,354,114
Money Market Mutual Funds	22,274,651	22,274,651	-	-	-
Total Investments	\$ 569,413,204	\$ 202,042,822	\$ 148,089,859	\$ 181,773,330	\$ 37,507,193

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations:

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

Disclosures Relating to Credit Risk:

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

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

2. Cash and Investments (continued)

Disclosures Relating to Credit Risk (continued)

Investment Type	Total Amount	Minimum Legal Rating	Not Required to be Rated	Rating at End of Year AAA	Unrated
U.S. Agency Securities:					
Federal Farm Credit Bank (FFCB)	\$ 14,457,813	N/A	\$ -	\$ 14,457,813	\$ -
Federal Home Loan Bank (FHLB)	201,007,834	N/A	-	210,007,834	-
Federal Home Loan Mortgage Corp. (FHLMC)	43,984,013	N/A	-	43,984,013	-
Federal National Mortgage Ass. (FNMA)	90,279,687	N/A	-	90,279,687	-
Local Agency Investment Fund (LAIF)	39,927,433	N/A	-	-	39,927,433
Held by Bond Trustee:					
Guaranteed Investment Contracts	153,127,659	N/A	-	-	153,127,659
California Municipal Bonds	4,354,114	N/A	-	4,354,114	-
Money Market Mutual Funds	22,274,651	N/A	-	22,274,651	-
Total Investments	\$ 569,413,204		\$ -	\$ 376,358,112	\$ 193,055,092

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 other than US Agency Securities, mutual funds, and external investment pools that represents 5% or more of total District's investments are as shown on the following page:

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

2. Cash and Investments (continued)

Concentration of Credit Risk (continued)

Issuer	Investment Type	Reported Amount
Federal Home Loan Bank (FHLB)	U.S. Agency Securities	\$ 201,007,834
Federal Home Loan Mortgage Corp. (FHLMC)	U.S. Agency Securities	43,984,013
Federal National Mortgage Ass. (FNMA)	U.S. Agency Securities	90,279,687
Wells Fargo Bank	Guaranteed Investment Contract	77,180,621
MBIA Inc.	Guaranteed Investment Contract	42,793,959
AIG Matched Funding	Guaranteed Investment Contract	12,794,537
FSA Capital Markets	Guaranteed Investment Contract	8,379,797
AMBAC Capital Funding	Guaranteed Investment Contract	6,880,211
Transamerica DTD	Guaranteed Investment Contract	5,098,534

Custodial Credit Risk:

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of a failure of the counter party (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investment, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% if the secured public deposits.

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

2. Cash and Investments (continued)

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.

3. Capital Assets

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

	Beginning Balance* June 30, 2005	Additions	Reductions	Ending Balance June 30, 2006
Capital assets, not being depreciated:				
Land	\$ 33,412,860	\$ 633,362	\$ (100)	\$ 34,046,122
Construction in progress	162,119,160	157,553,720	(75,533,859)	244,139,021
Total capital assets, not being depreciated	195,532,020	158,187,082	(75,533,959)	278,185,143
Capital assets, being depreciated:				
Water plant, lines and equipment	463,192,929	54,449,952	(27,912)	517,614,969
Water capacity rights	17,950,601	-	-	17,950,601
Sewer plant, lines and equipment	722,353,340	43,534,505	(79,658)	765,808,187
Equipment and general facilities	80,722,176	6,639,649	(2,789,846)	84,571,979
Total capital assets, being depreciated	1,284,219,046	104,624,106	(2,897,416)	1,385,945,736
Less accumulated depreciation for:				
Water plant, lines and equipment	146,625,053	14,462,911	(12,380)	161,075,584
Water capacity rights	2,162,814	448,765	-	2,611,579
Sewer plant, lines and equipment *	202,610,248	20,103,909	(22,684)	222,691,473
Equipment and general facilities *	39,829,488	5,075,734	(387,775)	44,517,447
Total accumulated depreciation	391,227,603	40,091,319	(422,839)	430,896,083
Total capital assets, being depreciated, net	892,991,443	64,532,787	(2,474,577)	955,049,653
Capital assets, net	\$ 1,088,523,463	\$ 222,719,869	\$ (78,008,536)	\$ 1,233,234,796

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

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

3. Capital Assets (continued)

Depreciation breakdown at June 30, 2006:

Water	\$ 14,172,648
Sewer	17,509,481
Recycled	3,010,143
Admin/Other	5,399,047
Total	<u>\$ 40,091,319</u>

4. PERS Prepaid Unfunded Liability

The District amended its PERS contract on January 4, 1998 to implement a 2% at 55 retirement program. The actuarial division of PERS determined that the present value impact on the District was an unfunded liability of \$4,939,895. This would result in an employer rate increase of 1.495% of eligible payroll over the next 20 years. However, the District opted to pay this liability in advance and is amortizing this prepaid amount over the next 20 years. The current portion is \$246,995, and future deferred expense is \$2,634,659 at June 30, 2006.

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 \$5,111,156 at June 30, 2006.

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

5. Long-Term Debt

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

	Beginning Balance June 30, 2005	Additions	Reductions	Ending Balance June 30, 2006	Due Within One Year
Advances for construction, notes and assessments payable	\$ 25,705,169	\$ 25,584,117	\$ (3,185,813)	\$ 48,103,473	\$ 3,216,166
Certificates of participation	351,615,000	160,345,000	(8,970,000)	502,990,000	9,335,000
General obligation bonds	22,695,000	-	(1,020,000)	21,675,000	1,730,000
Sub-total	400,015,169	185,929,117	(13,175,813)	572,768,473	14,281,166
Reimbursable agreements	1,060,557	1,286,471	(1,956,715)	390,313	-
Compensated absences	8,150,887	6,253,889	(5,895,802)	8,508,974	4,495,589
Sub-total	409,226,613	193,469,477	(21,028,330)	581,667,760	18,776,755
Less: Deferred amounts for unamortized premium/ discount and on refundings	(13,524,036)	-	-	(9,232,011)	(785,114)
Total Long-Term Debt	\$ 395,702,577	\$ -	\$ -	\$ 572,435,749	\$ 17,991,641

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

5. Long-Term Debt (continued)

The future maturities of long-term debt excluding reimbursable agreements and compensated absences as of June 30, 2006 are as follows:

Year ending June 30:	Principal	Interest	Total
2007	\$ 14,281,166	\$ 22,688,716	\$ 36,969,882
2008	14,873,613	23,984,302	38,857,915
2009	15,633,544	23,215,233	38,848,777
2010	15,150,541	22,368,607	37,519,148
2011	14,747,580	21,631,570	36,379,150
2012-16	87,423,106	96,274,120	183,697,226
2017-21	112,010,023	73,186,439	185,196,462
2022-26	115,097,032	45,420,648	160,517,680
2027-31	95,830,000	23,882,061	119,712,061
2032-36	62,135,000	6,603,700	68,738,700
* Future commitments	25,586,868	-	25,586,868
Sub-total	572,768,473	359,255,396	932,023,869
Less: Unamortized debt issuance costs	(4,187,786)	-	(4,187,786)
Less: Unamortized premium/discount and deferred charges	(9,232,011)	-	(9,232,011)
Total	\$ 559,348,676	\$ 359,255,396	\$ 918,604,072

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

Advances for Construction, Notes and Assessments Payable

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

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

5. Long-Term Debt (continued)

Advances for Construction, Notes and Assessments Payable (continued)

Safe, Clean, Reliable Water Supply Act

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

The future loan to the District is anticipated to be \$42,098,388 of which \$31,983,636 was received through June 30, 2006. The loan contract requires that the District make certain payments to the State in order to receive loan advances. The District's recorded liability for this obligation has been presented net of these required payments which amounted to \$6,396,768 through June 30, 2006. The loan contract carries no stated interest. Debt service requirements to maturity have not been presented for this obligation, because it has not yet been determined by the lending party. A schedule of payments will be determined upon the completion of the funding of the loan.

On May 25, 2000, the District executed a loan contract with the State (California) Department of Water Resources to provide financing under the Safe, Clean, Reliable Water Supply Act (Proposition 204) for the Sun City Area Pipeline Replacement Projects. The loan to the District is \$2,000,000 repayable in varying semiannual payments including principal and interest ranging from \$65,449 to \$65,456. Semiannual payments began October 1, 2003 with the final payment scheduled for April 1, 2023 at an interest rate of 2.8%. The balance outstanding as of June 30, 2006 is \$1,761,126.

Year ending June 30:	Principal	Interest	Total
2007	\$ 82,171	\$ 48,743	\$ 130,914
2008	84,394	46,520	130,914
2009	86,960	43,954	130,914
2010	89,319	41,595	130,914
2011	91,838	39,076	130,914
2012-16	499,466	155,103	654,569
2017-21	574,069	80,500	654,569
2022-23	252,909	8,919	261,828
Total	\$ 1,761,126	\$ 464,410	\$ 2,225,536

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

5. Long-Term Debt (continued)

Advances for Construction, Notes and Assessments Payable (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%. The balance outstanding as of June 30, 2006 is \$2,779,279.

Year ending June 30:	Principal	Interest	Total
2007	\$ 129,675	\$ 76,924	\$ 206,599
2008	133,184	73,415	206,599
2009	137,233	69,366	206,599
2010	140,957	65,642	206,599
2011	144,932	61,667	206,599
2012-16	788,221	244,772	1,032,993
2017-21	905,954	127,039	1,032,993
2022-23	399,123	14,074	413,197
Total	\$ 2,779,279	\$ 732,899	\$ 3,512,178

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 \$25,850 through July 15, 2011. Balance outstanding as of June 30, 2006 is \$120,631.

Year ending June 30:	Principal	Interest	Total
2007	\$ 23,129	\$ 3,913	\$ 27,042
2008	23,582	3,334	26,916
2009	23,582	2,627	26,209
2010	24,489	1,860	26,349
2011	25,849	1,034	26,883
Total	\$ 120,631	\$ 12,768	\$ 133,399

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

5. Long-Term Debt (continued)

Advances for Construction, Notes and Assessments Payable (continued)

Santa Ana Watershed Project Authority

Santa Ana Watershed Project Authority (SAWPA) agreement for purchase of capacity rights in the Santa Ana Regional Interceptor (SARI) pipeline; interest rate of 6%; annual payment including principal and interest of \$365,000 through June 30, 2012. Balance outstanding as of June 30, 2006 is \$1,794,824.

Year ending June 30:	Principal	Interest	Total
2007	\$ 257,311	\$ 107,689	\$ 365,000
2008	272,749	92,251	365,000
2009	289,114	75,886	365,000
2010	306,461	58,539	365,000
2011	324,849	40,151	365,000
2012	344,340	20,660	365,000
Total	<u>\$ 1,794,824</u>	<u>\$ 395,176</u>	<u>\$ 2,190,000</u>

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 \$831,937 scheduled for November 17, 2012 at an interest rate of 3.1%. Balance outstanding as of June 30, 2006 is \$6,318,097.

Year ending June 30:	Principal	Interest	Total
2007	\$ 849,180	\$ 195,861	\$1,045,041
2008	875,504	169,537	1,045,041
2009	902,255	142,786	1,045,041
2010	930,615	114,426	1,045,041
2011	959,464	85,577	1,045,041
2012-13	1,801,079	75,899	1,876,978
Total	<u>\$ 6,318,097</u>	<u>\$ 784,086</u>	<u>\$7,102,183</u>

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

5. Long-Term Debt (continued)

Advances for Construction, Notes and Assessments Payable (continued)

1991 Federal Reclamation Facilities Project Loan

In October 1991, the District entered into a contract with the federal government under the provisions of Public Law 984 to provide funding for a portion of the District's Phase I – Reclamation Facilities Project. 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 are available under the Act.

A summary of the total federal government funding available under the contract at project completion (providing that the entire funding is utilized) is as follows:

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

The net loan proceeds are repayable in 15 annual installments varying from \$552,900 to \$2,650,300 plus interest at rates varying from 0% to 9% (7.875% at June 30, 2003) on the fish and wildlife component and a portion of the water supply component. In the event the total repayment obligation is less than \$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. Repayment of the loan started on May 1, 1999.

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

5. Long-Term Debt (continued)

Advances for Construction, Notes and Assessments Payable (continued)

1991 Federal Reclamation Facilities Project Loan (continued)

As of June 30, 2006, the District had received \$31,095,440 on this contract of which the grant portion amounts to \$6,624,268 and the loan portion amounts to \$24,471,172. On October 6, 2003, the District elected to pay off the Fish and Wildlife component of the loan. This amounted to a principal payment of \$4,180,139. The balance outstanding as of June 30, 2006 is \$9,742,648. This project was completed in 2001.

Year ending June 30:	Principal	Interest	Total
2007	\$ 1,874,700	\$ 674,784	\$ 2,549,484
2008	1,959,200	542,288	2,501,488
2009	2,114,400	364,228	2,478,628
2010	2,273,700	167,485	2,441,185
2011	1,520,648	-	1,520,648
Total	<u>\$ 9,742,648</u>	<u>\$ 1,748,785</u>	<u>\$ 11,491,433</u>

Certificates of Participation Payable

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

	2006	2005
2006 A certificates of participation	\$ 106,320,000	\$ -
2006 B certificates of participation	54,025,000	-
2003 A refunding certificates of participation	24,640,000	24,760,000
2003 B certificates of participation	67,545,000	69,030,000
2001 A refunding certificates of participation	58,720,000	61,400,000
2001 C refunding certificates of participation	12,380,000	13,670,000
2001 B certificates of participation	51,370,000	51,370,000
1998 A refunding certificates of participation	27,490,000	30,515,000
1997 A refunding certificates of participation	21,320,000	21,390,000
1993 B refunding certificates of participation	62,485,000	62,785,000
1991 certificates of participation	16,695,000	16,695,000
Total	<u>502,990,000</u>	<u>351,615,000</u>
Less current portion	9,335,000	8,970,000
Total long-term certificates of participation payable	<u>\$ 493,655,000</u>	<u>\$ 342,645,000</u>

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

5. Long-Term Debt (continued)

Certificates of Participation Payable (continued)

2006A Certificates of Participation

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

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

	Beginning Balance June 20, 2005	Additions	Reductions	Ending Balance June 30, 2006	Due within 1 year
Certificates of participation	\$ -	\$ 106,320,000	\$ -	\$ 106,320,000	\$ -
Certificate costs:	-	(715,778)	7,953	(707,825)	23,859
Deferred amounts:					
COP premium	-	3,775,575	(41,951)	3,733,624	(125,852)
	\$ -	\$ 109,379,797	\$ (33,998)	\$ 109,345,799	\$ (101,993)

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

5. Long-Term Debt (continued)

Certificates of Participation Payable (continued)

2006A Certificates of Participation (continued)

Year ending June 30:	Principal	Interest	Total
2007	\$ -	\$ 4,379,969	\$ 4,379,969
2008	-	5,119,444	5,119,444
2009	-	5,119,444	5,119,444
2010	-	5,119,444	5,119,444
2011	-	5,119,444	5,119,444
2012-16	16,140,000	24,062,938	40,202,938
2017-21	25,220,000	18,781,153	44,001,153
2022-26	24,170,000	12,381,975	36,551,975
2027-31	17,945,000	7,684,500	25,629,500
2032-36	22,845,000	2,706,563	25,551,563
Total	\$106,320,000	\$90,474,874	\$196,794,874

2006B Certificates of Participation

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

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

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

5. Long-Term Debt (continued)

Certificates of Participation Payable (continued)

2006B Certificates of Participation (continued)

	Beginning Balance June 20, 2005	Additions	Reductions	Ending Balance June 30, 2006	Due within 1 year
Certificates of participation	\$ -	\$ 54,025,000	\$ -	\$ 54,025,000	\$ -
Certificate costs:	-	(426,474)	4,739	(421,735)	14,216
Deferred amounts:					
COP discount	-	(344,901)	3,832	(341,069)	11,497
	\$ -	\$ 53,253,625	\$ 8,571	\$ 53,262,196	\$ 25,713

Year ending June 30:	Principal	Interest	Total
2007	\$ -	\$ 652,740	\$ 652,740
2008	-	1,885,695	1,885,695
2009	-	1,884,010	1,884,010
2010	-	1,882,227	1,882,227
2011	-	1,921,958	1,921,958
2012-16	-	9,423,223	9,423,223
2017-21	-	9,457,901	9,457,901
2022-26	7,550,000	9,330,372	16,880,372
2027-31	21,250,000	6,710,140	27,960,140
2032-36	25,225,000	2,720,737	27,945,737
Total	\$ 54,025,000	\$45,869,003	\$ 99,894,003

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

5. Long-Term Debt (continued)

Certificates of Participation Payable (continued)

2003A Refunding Certificates of Participation

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

	Beginning Balance June 20, 2005	Additions	Reductions	Ending Balance June 30, 2006	Due within 1 year
Certificates of participation	\$ 24,760,000	\$ -	\$ (120,000)	\$ 24,640,000	\$ 125,000
Certificate costs:	(225,367)	-	12,520	(212,847)	12,520
Deferred amounts:					
Deferred expenses	(1,463,791)	-	84,631	(1,379,160)	84,631
COP discount	(98,837)	-	5,491	(93,346)	5,491
	<u>\$ 22,972,005</u>	<u>\$ -</u>	<u>\$ (17,358)</u>	<u>\$ (22,954,647)</u>	<u>\$ 227,642</u>

Year ending June 30:	Principal	Interest	Total
2007	\$ 125,000	\$ 790,019	\$ 915,019
2008	125,000	786,013	911,013
2009	130,000	783,452	913,452
2010	135,000	776,439	911,439
2011	140,000	773,550	913,550
2012-16	4,580,000	3,747,176	8,327,176
2017-21	11,550,000	2,421,472	13,971,472
2022-24	7,855,000	527,645	8,382,645
Total	<u>\$ 24,640,000</u>	<u>\$10,605,766</u>	<u>\$ 35,245,766</u>

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

5. Long-Term Debt (continued)

Certificates of Participation Payable (continued)

2003B Certificates of Participation

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

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

	Beginning Balance June 20, 2005	Additions	Reductions	Ending Balance June 30, 2006	Due within 1 year
Certificates of participation	\$ 69,030,000	\$ -	\$ (1,485,000)	\$ 67,545,000	\$ 1,530,000
Certificate costs:	(612,779)	-	21,885	(590,894)	21,885
Deferred amounts:					
COP discount	(271,583)	-	9,700	(261,883)	9,700
	<u>\$ 68,145,638</u>	<u>\$ -</u>	<u>\$ (1,453,415)</u>	<u>\$ 66,692,223</u>	<u>\$ 1,561,585</u>

Year ending June 30:	Principal	Interest	Total
2007	\$ 1,530,000	\$ 2,168,579	\$ 3,698,579
2008	1,575,000	2,119,653	3,694,653
2009	1,625,000	2,073,074	3,698,074
2010	1,680,000	2,013,659	3,693,659
2011	1,735,000	1,963,642	3,698,642
2012-16	9,530,000	8,950,894	18,480,894
2017-21	11,150,000	7,329,309	18,479,309
2022-26	13,055,000	5,424,457	18,479,457
2027-31	15,275,000	3,202,171	18,477,171
2032-34	10,390,000	698,775	11,088,775
Total	<u>\$ 67,545,000</u>	<u>\$ 35,944,213</u>	<u>\$103,489,213</u>

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

5. Long-Term Debt (continued)

Certificates of Participation Payable (continued)

2001A, 2001C Refunding Certificates of Participation

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

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

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

2001A Refunding Certificates of Participation

	Beginning Balance June 20, 2005	Additions	Reductions	Ending Balance June 30, 2006	Due within 1 year
Certificates of participation	\$ 61,400,000	\$ -	\$ (2,680,000)	\$ 58,720,000	\$ 2,770,000
Certificate costs:	(339,283)	-	22,209	(317,074)	22,209
Deferred amounts:					
Deferred expenses	(5,399,409)		364,005	(5,035,404)	364,005
COP premium	1,828,259	-	(123,253)	1,705,006	(123,253)
	<u>\$ 57,489,567</u>	<u>\$ -</u>	<u>\$ (2,417,039)</u>	<u>\$ 55,072,528</u>	<u>\$ 3,232,961</u>

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

5. Long-Term Debt (continued)

Certificates of Participation Payable (continued)

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

Year ending June 30:	Principal	Interest	Total
2007	\$ 2,770,000	\$ 2,867,975	\$ 5,637,975
2008	2,865,000	2,744,294	5,609,294
2009	3,020,000	2,593,588	5,613,588
2010	3,165,000	2,454,788	5,619,788
2011	3,290,000	2,322,563	5,612,563
2012-16	19,050,000	8,878,219	27,928,219
2017-21	24,560,000	3,228,750	27,788,750
Total	\$ 58,720,000	\$ 25,090,177	\$ 83,810,177

2001C Refunding Certificates of Participation

	Beginning Balance June 20, 2005	Additions	Reductions	Ending Balance June 30, 2006	Due within 1 year
Certificates of participation	\$ 13,670,000	\$ -	\$ (1,290,000)	\$ 12,380,000	\$ 1,340,000
Certificate costs:	(58,577)	-	7,071	(51,506)	7,071
Deferred amounts:					
Deferred expenses	(857,588)		109,479	(748,109)	109,479
COP discount	(10,338)	-	1,320	(9,018)	1,320
	\$ 12,743,497	\$ -	\$ (1,172,130)	\$ 11,571,367	\$ 1,457,870

Year ending June 30:	Principal	Interest	Total
2007	\$ 1,340,000	\$ 477,075	\$ 1,817,075
2008	1,395,000	422,375	1,817,375
2009	1,455,000	365,375	1,820,375
2010	1,515,000	305,975	1,820,975
2011	1,570,000	244,275	1,814,275
2012-14	5,105,000	329,138	5,434,138
Total	\$ 12,380,000	\$ 2,144,213	\$ 14,524,213

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

5. Long-Term Debt (continued)

Certificates of Participation Payable (continued)

2001B Certificates of Participation

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

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

	Beginning Balance June 20, 2005	Additions	Reductions	Ending Balance June 30, 2006	Due within 1 year
Certificates of participation	\$ 51,370,000	\$ -	\$ -	\$ 51,370,000	\$ -
Certificate costs:	(274,440)	-	10,875	(263,565)	10,875
Deferred amounts:					
COP discount	(815,676)	-	32,846	(782,830)	32,846
	<u>\$ 50,279,884</u>	<u>\$ -</u>	<u>\$ 43,721</u>	<u>\$ 50,323,605</u>	<u>\$ 43,721</u>

Year ending June 30:	Principal	Interest	Total
2007	\$ -	\$ 2,568,500	\$ 2,568,500
2008	-	2,568,500	2,568,500
2009	-	2,568,500	2,568,500
2010	-	2,568,500	2,568,500
2011	-	2,568,500	2,568,500
2012-16	-	12,842,500	12,842,500
2017-21	-	12,842,500	12,842,500
2022-26	12,935,000	12,203,625	25,138,625
2027-31	38,435,000	4,991,625	43,426,625
Total	<u>\$ 51,370,000</u>	<u>\$ 55,722,750</u>	<u>\$ 107,092,750</u>

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

5. Long-Term Debt (continued)

Certificates of Participation Payable (continued)

1998A Refunding Certificates of Participation

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

	Beginning Balance June 20, 2005	Additions	Reductions	Ending Balance June 30, 2006	Due within 1 year
Certificates of participation	\$ 30,515,000	\$ -	\$ (3,025,000)	\$ 27,490,000	\$ 70,000
Certificate costs:	(244,589)	-	13,045	(231,544)	13,045
Deferred amounts:					
Deferred expenses	(1,608,339)	-	86,161	(1,522,178)	86,161
COP discount	(601,809)	-	32,240	(569,569)	32,240
	<u>\$ 28,060,263</u>	<u>\$ -</u>	<u>\$ (2,893,554)</u>	<u>\$ 25,166,709</u>	<u>\$ 201,446</u>

Year ending June 30:	Principal	Interest	Total
2007	\$ 70,000	\$ 1,323,981	\$ 1,393,981
2008	75,000	1,320,936	1,395,936
2009	80,000	1,317,661	1,397,661
2010	80,000	1,314,241	1,394,241
2011	85,000	1,310,651	1,395,651
2012-16	485,000	6,489,447	6,974,447
2017-21	615,000	6,357,638	6,972,638
2022-24	26,000,000	1,902,006	27,902,006
Total	<u>\$ 27,490,000</u>	<u>\$ 21,336,561</u>	<u>\$ 48,826,561</u>

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

5. Long-Term Debt (continued)

Certificates of Participation Payable (continued)

1997A Refunding Certificates of Participation

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

	Beginning Balance June 20, 2005	Additions	Reductions	Ending Balance June 30, 2006	Due within 1 year
Certificates of participation	\$ 21,390,000	\$ -	\$ (70,000)	\$ 21,320,000	\$ 70,000
Certificate costs:	(207,022)	-	11,392	(195,630)	11,392
Deferred amounts:					
Deferred expenses	(728,368)	-	40,465	(687,903)	40,465
COP discount	(585,549)	-	32,530	(553,019)	32,530
	<u>\$ 19,869,061</u>	<u>\$ -</u>	<u>\$ 14,387</u>	<u>\$ 19,883,448</u>	<u>\$ 154,387</u>

Year ending June 30:	Principal	Interest	Total
2007	\$ 70,000	\$ 1,115,716	\$ 1,185,716
2008	75,000	1,112,326	1,187,326
2009	80,000	1,108,644	1,188,644
2010	85,000	1,104,641	1,189,641
2011	85,000	1,100,434	1,185,434
2012-16	500,000	5,429,567	5,929,567
2017-21	655,000	5,278,744	5,933,744
2022-24	19,770,000	1,592,325	21,362,325
Total	<u>\$ 21,320,000</u>	<u>\$ 17,842,397</u>	<u>\$ 39,162,397</u>

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

5. Long-Term Debt (continued)

Certificates of Participation Payable (continued)

1993B Refunding Certificates of Participation

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

The certificates of participation are subject to mandatory repayment in varying amounts from \$165,000 to \$7,570,000 annually from July 1, 1993 to July 1, 2020, with interest payable semiannually at the weekly interest rate (as determined by the Remarketing Agent) unless converted to a fixed interest rate at the District's option. The District has entered into a Swap Agreement with AIG Financial Products Corporation (AIG-FP) for the purpose of hedging against interest rate fluctuations arising from the issuance of the 1993B Certificates as variable rate obligations. The Swap Agreement provides for the District to make payments to AIG-FP on a fixed-rate basis on notional amounts totaling \$64,070,000 and for AIG-FP to make reciprocal payments based on a variable-rate basis which results in a fixed annual rate of interest to the District of 5.135% on the certificates. The District may prepay all or part of the certificates at any time at par while the certificates remain as variable interest rate securities. If, however, the District elects to convert the certificates to a fixed interest rate, the certificates are subject to prepayment at par plus a premium ranging from 2% to 0% (declining by .5% every two years) depending on the years remaining to maturity as of the fixed interest rate conversion date.

	Beginning Balance June 20, 2005	Additions	Reductions	Ending Balance June 30, 2006	Due within 1 year
Certificates of participation	\$ 62,785,000	\$ -	\$ (300,000)	\$ 62,485,000	\$ 3,430,000
Certificate costs:	(874,876)	-	51,899	(822,977)	51,899
Deferred amounts:					
COP discount	(2,936,943)	-	164,025	(2,772,918)	164,025
	\$ 58,973,181	\$ -	\$ (84,076)	\$ 58,889,105	\$ 3,645,924

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

5. Long-Term Debt (continued)

Certificates of Participation Payable (continued)

1993B Refunding Certificates of Participation (continued)

Year ending June 30:	Principal	Interest	Total
2007	\$ 3,430,000	\$ 3,120,540	\$ 6,550,540
2008	3,610,000	2,939,788	6,549,788
2009	3,810,000	2,749,279	6,559,279
2010	240,000	2,645,295	2,885,295
2011	250,000	2,632,715	2,882,715
2012-16	17,045,000	11,778,021	28,823,021
2017-21	34,100,000	4,565,785	38,665,785
Total	\$ 62,485,000	\$ 30,431,423	\$ 92,916,423

1991 Certificates of Participation

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

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

	Beginning Balance June 20, 2005	Additions	Reductions	Ending Balance June 30, 2006	Due within 1 year
Certificates of Participation	\$ 16,695,000	\$ -	\$ -	\$ 16,695,000	\$ -

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

5. Long-Term Debt (continued)

Certificates of Participation Payable (continued)

1991 Certificates of Participation (continued)

Year ending June 30:	Principal	Interest	Total
2007	\$ -	\$ 1,126,913	\$ 1,126,913
2008	-	1,126,913	1,126,913
2009	-	1,126,913	1,126,913
2010	3,775,000	999,506	4,774,506
2011	4,030,000	736,088	4,766,088
2012-13	8,890,000	609,863	9,499,863
Total	<u>\$ 16,695,000</u>	<u>\$ 5,726,196</u>	<u>\$ 22,421,196</u>

Bonds Payable

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

Bonds payable consist of the following at June 30:

	2006	2005
1995 General obligation refunding bonds:		
Interest rates of the various bond issues outstanding range from 3.9% to 5.5%. Bonds mature annually in varying amounts through 2009.	\$ 3,420,000	\$ 4,440,000
2005 General obligation bonds:		
Interest rates of the various bond issues outstanding range from 3.0% to 5.0%. Bonds mature annually in varying amounts through 2035.	18,255,000	18,255,000
Total	21,675,000	22,695,000
Less current portion	1,730,000	1,020,000
Total long-term bonds payable	<u>\$ 19,945,000</u>	<u>\$ 21,675,000</u>

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

5. Long-Term Debt (continued)

Bonds Payable (continued)

At June 30, 2006, general obligation bonds authorized but not issued total \$579,275,000.

	Beginning Balance June 20, 2005	Additions	Reductions	Ending Balance June 30, 2006	Due within 1 year
General obligation bonds	\$ 22,695,000	\$ -	\$ (1,020,000)	\$ 21,675,000	\$ 1,730,000
Less:					
Bond insurance costs	(43,089)	-	11,488	(31,601)	11,488
Bond issuance costs	(373,405)	-	32,817	(340,588)	32,817
Less:					
Deferred amounts:					
Net bond premium/discount	(137,160)	-	(30,171)	(167,331)	(30,171)
Deferred expense	(111,225)	-	29,659	(81,566)	29,659
Total bond payable	\$ 22,030,121	\$ -	\$ (976,207)	\$ 21,053,914	\$ 1,773,793

Year ending June 30:	Principal	Interest	Total
2007	\$ 1,730,000	\$ 988,795	\$ 2,718,795
2008	1,805,000	911,020	2,716,020
2009	1,880,000	826,445	2,706,445
2010	710,000	734,345	1,444,345
2011	495,000	710,245	1,205,245
2012-16	2,665,000	3,236,700	5,901,700
2017-21	2,680,000	2,715,648	5,395,648
2022-26	3,110,000	2,035,250	5,145,250
2027-31	2,925,000	1,293,625	4,218,625
2032-36	3,675,000	477,625	4,152,625
Total	\$ 21,675,000	\$ 13,929,698	\$ 35,604,698

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.

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

5. Long-Term Debt (continued)

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, 2006 for each outstanding bond issue is:

	Required	Actual	Excess
1991/1998A COP	\$ 5,500,000	\$ 5,692,866	\$ 192,866
1997A/2001A COP	7,294,538	7,922,612	628,075
2001C/2001A COP	3,140,605	3,342,646	202,041
1993B COP	6,579,500	6,698,419	118,919
2001B COP	5,098,535	5,098,535	-
2003B COP	4,399,066	4,578,526	179,460
2006A COP	8,379,798	8,526,173	146,375
2006B COP	4,253,624	4,300,876	47,252

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, 2006, the District's debt coverage ratio was 5.0 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 was \$28,034,296 at June 30, 2006 and \$24,615,975 at June 30, 2005.

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

5. Long-Term Debt (continued)

Defeasance of Debt

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

	2006	2005
1988 Certificates of participation	\$ 10,410,000	\$ 13,380,000
1989 Certificates of participation	26,115,000	29,510,000
1991 Certificates of participation	85,180,000	85,180,000
1991A refunding certificates of participation	77,685,000	79,965,000
1993A certificates of participation	11,985,000	13,165,000
1989 general obligation bonds	3,835,000	4,930,000
	\$ 215,210,000	\$ 226,130,000
Total	\$ 215,210,000	\$ 226,130,000

6. Defined Benefit Pension Plan

Plan Description

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

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

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

6. Defined Benefit Pension Plan (continued)

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, 2006, the amount contributed by the District on behalf of the employees is \$2,492,160. The required employer contribution rate for fiscal year ended June 30, 2006 is 6.741% as determined by the annual PERS valuation. However, the District's effective employer contribution rate is 0% due to prepayment.

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, 2005 to June 30, 2006 has been determined by an actuarial valuation of the plan as of June 30, 2003. The contribution rate for the indicated period is 6.741% 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, 2006, this contribution rate, as modified by any amendments for the year, would be multiplied by the payroll of covered employees that was actually paid during the period July 1, 2005 to June 30, 2006.

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

Valuation Date	June 30, 2003
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	13 Years as of the Valuation Date
Asset Valuation Method	3 Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	7.75% (net of administrative expenses)
Projected Salary Increases	3.25% to 14.45% depending on Age, Service, and type of employment
Inflation	3.00%
Payroll Growth	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%

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

6. Defined Benefit Pension Plan (continued)

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into PERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of 10% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30 year amortization period.

The total contribution paid to the PERS for 2006 and 2005 was \$2,894,362 and \$2,265,758, respectively. In 2006, the District paid \$2,492,160 and the employees paid \$315,899. In 2005, the District paid \$2,265,758 and the employees paid \$0. The contributions were made in accordance with actuarially determined requirements computed through an actuarial valuation performed prior to the beginning of each fiscal year by the PERS Actuarial Division. The combined employer and employee contribution consisted of 8.0% of current covered payroll.

Trend Information

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

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

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06/30/04	\$ 2.03	100%	\$ -
06/30/05	2.27	100%	-
06/30/06	2.89	100%	-

The Schedule of Funding Progress for PERS (dollar amounts in millions) 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.

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

6. Defined Benefit Pension Plan (continued)

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 or Covered Payroll (C)/(D)
06/30/03	\$ 119.54	\$ 117.34	\$ 2.20	98.2%	\$ 27.88	7.9%
06/30/04	133.81	121.93	11.88	91.1%	30.01	39.6%
06/30/05	149.00	137.93	11.07	92.6%	34.17	32.4%
06/30/06	(1)	(1)	(1)	(1)	35.60(2)	(1)

(1) Information not available.

(2) Actual PERS wages per District payroll records.

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

7. Defined Contribution Plan

The District has a 401(a) money purchase defined contribution plan (Plan) covering all employees of the District who have completed one year of service. The Plan was adopted in January 1978 and may be amended by the District provided the trustee joins in such amendment. The District is required to contribute 7.15% of each eligible employee's compensation up to a maximum annual compensation of \$16,500. The District's contributions to the Plan were \$743,317 and \$671,534 in 2006 and 2005, respectively.

8. Post-Employment Benefits

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

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

8. Post-Employment Benefits (continued)

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

The District finances the plan on a pay-as-you-go basis. In 2006 and 2005, the District paid \$1,219,874 and \$1,107,044 respectively, in post-employment health care benefits, net of retiree contributions, and had 215 and 182 retired eligible employees, respectively.

9. Restricted and Unrestricted Net Assets

Unrestricted Net Assets

As required by GASB No. 34, net assets have been classified according to guidelines established for restricted assets. However, the unrestricted assets, although not legally restricted, have been established pursuant to Board Resolution No. 3359 and are primarily composed of reserves for various purposes. The unrestricted net assets at June 30, 2006 consist of:

Replacement and System Betterment Reserve	\$ 72,329,430
Operational Debt Service Reserve	7,708,692
General Liability and Workers Comp Reserve	1,074,096
Other Reserves and General Fund	5,429,204
Total Unrestricted Net Assets	\$ 86,541,422

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.

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

10. Tunnel Water Seepage Agreement

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

11. Commitments

Construction Contracts

The District is committed to approximately \$58,649,001 of open construction contracts as of June 30, 2006. The ten largest contracts outstanding include:

	Contract Amount	Balance To Complete
PVRWRF Tertiary Expansion - 2005	\$ 26,486,221	\$ 20,385,094
French Valley SWR Imp. Phases I & II	11,150,000	10,900,000
Perris Water Filtration Plant Phase 2	18,356,968	6,188,329
MV, SJV, TVRWRF Centrifuge Project	3,725,560	3,387,039
SJV, MV, TVRWRF Digester Gas Repl.	3,710,547	3,027,312
Perris Desalter Trans. Pipeline Phase II	9,178,016	2,691,026
Hemet Water Filtration Plant	37,012,224	2,481,893
AD #19 Rancho Glen Oaks	3,362,326	2,431,740
Sanderson Ave 30" Interceptor Sewer	3,557,050	2,263,456
Clark St / Old Elsinore Rd. Phase 2	3,759,926	1,385,104

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

11. Commitments (continued)

Claims and Judgments

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

The District retains risk per occurrence of \$300,000 for loss sustained by the employer (District), because of liability imposed on the employer (District) by the Workers' Compensation Act, with unlimited excess insurance above the self-insured retention (SIR) of \$300,000. For general liability, the District maintains excess insurance coverage of \$10 million per occurrence with a \$1,000,000 SIR.

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

	2006	2005
Unpaid claims, beginning	\$ 982,100	\$ 765,833
Incurred claims and changes in estimates	1,150,915	1,108,139
Claim payments	(1,150,011)	(891,872)
Unpaid claims, ending	\$ 983,004	\$ 982,100

There was no significant reduction in insurance coverage by major categories of risk from fiscal year 2004/05 to fiscal year 2005/06. 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, 2006 and 2005, were \$160,601,912 and \$112,134,657 respectively, and are not included in the District's financial statements.

12. Contingencies

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

13. Santa Ana Watershed Project Authority

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

14. Advances from Developers

The District receives deposits from developers in advance to cover various costs for both sewer and water related projects. At June 30, 2006 and 2005, the amount of refundable deposits was \$28,411,588 and \$41,197,549, respectively.

Supplementary Section



Up to 36 million gallons per day of recycled water produced in Temecula gets a lift from the Palomar Booster Plant in Wildomar to either the Lake Elsinore or Winchester areas. The \$34 million recycled water facility project was funded by municipal bonds and state grant receipts.

School grounds, as well as parks, median strips and other large irrigation projects benefit financially from using recycled water. EMWD is one of the largest recycled water producers and users in California.



Eastern Municipal Water District
Schedule of Revenues, Expenses and Changes in Net Assets - Actual and Budget
For the Fiscal Year Ended June 30, 2006

District Actual vs Budget

The table below compares revenues and expenses of the District compared to budgeted and/or projected figures used by the District to monitor performance during the year. The overall change to net assets was budgeted at a positive \$75.6 million vs. an actual of \$128.5 million. The favorable variance of \$56.0 million is attributed to a favorable income before capital contributions of \$37.7 million plus favorable capital contributions of \$18.3 million.

	2005-06 Actual	2005-06 Budget	Variance with Budget Positive (Negative)	%
REVENUES				
Water Sales	\$ 77,611,474	\$ 75,883,045	\$ 1,728,429	2.2%
Sewer Service	45,462,646	41,792,264	3,670,382	8.1%
Recycled Water	1,944,434	2,500,000	(555,566)	-28.6%
Connection Fees	99,485,272	67,917,049	31,568,223	31.7%
Interest	13,804,446	12,250,000	1,554,446	11.3%
Property Taxes – General Levy	11,213,568	10,426,206	787,362	7.0%
Property Taxes – Bond Levy	3,534,021	2,618,807	915,214	25.9%
Standby Charges	4,518,411	4,364,700	153,711	3.4%
Other Non-Operating Revenues	10,808,046	6,480,000	4,328,046	40.0%
Total Revenues	268,382,318	224,232,071	44,150,247	16.5%
EXPENSES				
Purchased Water	36,817,458	37,027,853	210,395	-0.6%
Water Operations	29,030,238	28,423,007	(607,231)	2.1%
Sewer Operations	33,061,321	29,620,540	(3,440,781)	10.4%
Recycled Water Operations	4,289,919	4,131,079	(158,840)	3.7%
General and Administrative	21,520,070	21,729,117	209,047	-1.0%
Depreciation and Amortization	40,091,319	40,000,000	(91,319)	0.2%
Interest Expense – COP	18,404,817	16,000,000	(2,404,817)	13.1%
Interest Expense – Other	1,805,981	1,467,000	(338,981)	18.8%
Other Expenses	3,123,081	3,275,000	151,919	-4.9%
Total Expenses	188,144,204	181,673,596	(6,470,608)	3.4%
Income before contributions	80,238,114	42,558,475	37,679,639	47.0%
Capital Contributions	48,300,420	30,000,000	18,300,420	37.9%
Changes in Net Assets	\$ 128,538,534	\$ 75,558,475	\$ 55,980,059	43.6%

Eastern Municipal Water District
Notes to the Supplementary Schedule
Year ended June 30, 2006

Major Budget Variances

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

- Water sales exceeded the budgeted amount primarily due to the actual water rate increase exceeding the budgeted increase by 2.2%.
- Sewer service charges were primarily higher due to revenue from greater than expected growth in the District's service area and to the actual sewer rate increase exceeding the budgeted increase by 8.1%.
- Recycled water sales were down by 6,345 AF (28.6%) due to inclement weather.
- Connection fees were budgeted at 11,600 sewer hook ups and 9,123 water hook ups. Actual connections were 16,989 and 12,611, or 46% and 38% greater than expected, respectively.
- Interest income was modestly higher due to a larger District portfolio balance, invested construction funds relating to the 2006 A and B COPs and an increased yield on investments. These increases were offset by a reduction in market value of approximately \$3.1 million.
- The modest increase in property taxes was primarily due to an actual assessed valuation increase of 26%, while the budgeted increase was 20%.
- General obligation bond revenues increased due to a higher assessed valuation tax base than what was assumed for the budget.
- Other non-operating revenue variances were due to greater than expected growth and were primarily generated from water supply development fees of \$1.6 million, excavation revenues from dirt sales of \$1.3 million, customer fees and charges of \$1.0 million and assessment District administrative charges of \$0.3 million.
- Water operating costs were slightly higher due to higher costs of operations including higher labor and material costs.

Eastern Municipal Water District
Notes to the Supplementary Schedule
(continued)

- Sewer operating costs were higher for collection, transmission and treatment due to a greater than expected number of connections and lost efficiencies due to ongoing plant expansions and retrofits at the various treatment plants.
- Recycled water expenses were higher due to the increased pumping costs associated with the discharge of the recycled water that could not be sold due to the inclement weather.
- COP interest expense was greater this year by \$2.4 million primarily due to higher interest rates on the variable rate debt and bond sales of \$160.3 million rather than the \$100 million budgeted.
- Capital contributions were greater this year by \$37.7 million due to continued growth which was stronger than anticipated.

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Statistical Section



EMWD has been adding new water connections at the rate of more than 1,000 a month for the past few years. Following the policy that “growth pays for growth,” the financing for new water and wastewater facilities is the responsibility of the new, rather than existing customers.



Final connections are underway at the Perris I Desalter. Desalination prevents salinity intrusion into good quality groundwater basins and will remove 50,000 tons of salt per year from EMWD’s eventual system of three plants.



Statistical Section

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

Contents

Financial Trends

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

Revenue Capacity

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

Debt Capacity

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

Demographic and Economic Information

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

Operating Information

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

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

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

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

Note:

The information shown is retroactive to implementation of Statement 34.

Source: Eastern Municipal Water District

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

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

Notes:

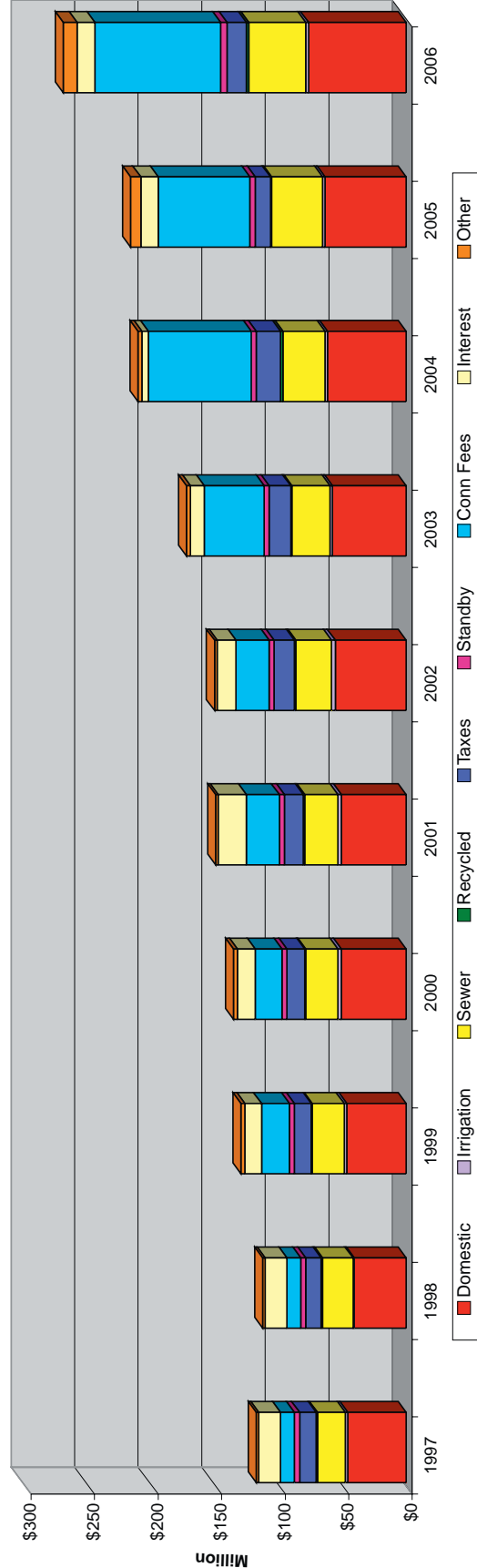
The information shown is retroactive to implementation of Statement 34.

1. Rapid growth in construction activity accounts for the increases in contributed infrastructure in the last three years.

Source: Eastern Municipal Water District

REVENUES BY SOURCE LAST TEN FISCAL YEARS

Fiscal Year	Domestic Sales	% of Total	Irrigation Sales	% of Total	Sewer Service Charges	% of Total	Recycled Water	% of Total	Taxes & Assessments ¹	% of Total	Standby Charges	% of Total	Connection Fees ²	% of Total	Interest Income	% of Total	Other ³	% of Total	Total Revenues
1997	\$ 45,841,247	39.2%	\$ 1,838,789	1.6%	\$ 22,615,071	19.4%	\$ 764,848	0.6%	\$ 12,745,561	10.9%	\$ 3,758,737	3.2%	\$ 10,705,384	9.2%	\$ 16,578,272	14.2%	\$ 1,953,572	1.7%	\$ 116,801,481
1998	40,862,625	36.6%	1,359,320	1.2%	23,665,927	21.2%	645,259	0.6%	12,241,405	10.9%	3,797,564	3.4%	10,760,006	9.6%	16,640,821	14.9%	1,793,344	1.6%	111,766,271
1999	46,822,291	36.6%	1,767,339	1.4%	25,020,585	19.5%	1,078,322	0.9%	12,827,333	10.0%	3,771,928	2.9%	21,572,990	16.9%	12,575,306	9.8%	2,592,730	2.0%	128,028,824
2000	51,382,241	37.8%	2,636,349	2.0%	25,361,569	18.7%	1,102,441	0.8%	13,882,413	10.2%	3,816,486	2.8%	20,767,021	15.3%	14,289,528	10.5%	2,560,252	1.9%	135,798,300
2001	51,360,308	34.1%	2,859,387	1.9%	26,123,677	17.3%	1,364,456	0.9%	15,164,499	10.0%	3,858,132	2.6%	25,949,508	17.2%	22,194,517	14.7%	1,901,955	1.3%	150,776,439
2002	55,736,727	37.1%	2,618,619	1.7%	27,825,278	18.5%	1,182,868	0.8%	15,744,074	10.5%	3,929,860	2.6%	25,740,750	17.1%	15,407,309	10.2%	2,283,437	1.5%	150,468,922
2003	58,351,059	33.6%	2,214,760	1.3%	29,973,084	17.2%	1,409,824	0.8%	16,914,346	9.7%	4,006,786	2.3%	46,960,911	27.1%	11,219,083	6.5%	2,712,153	1.6%	173,762,006
2004	62,824,662	29.6%	1,971,739	0.9%	33,496,234	15.8%	2,069,194	1.0%	18,698,381	8.8%	4,172,104	2.0%	80,804,323	38.0%	5,186,086	2.4%	3,183,193	1.5%	212,405,916
2005	64,092,906	29.5%	2,165,315	1.0%	39,739,370	18.3%	1,498,687	0.7%	11,517,848	5.3%	4,354,591	2.0%	72,445,434	33.4%	13,576,749	6.2%	7,693,026	3.5%	217,083,926
2006	76,543,807	28.5%	1,067,667	0.4%	45,462,646	16.9%	1,944,434	0.7%	14,747,589	5.5%	4,518,411	1.7%	99,485,272	37.1%	13,804,446	5.2%	10,808,046	4.0%	288,382,318

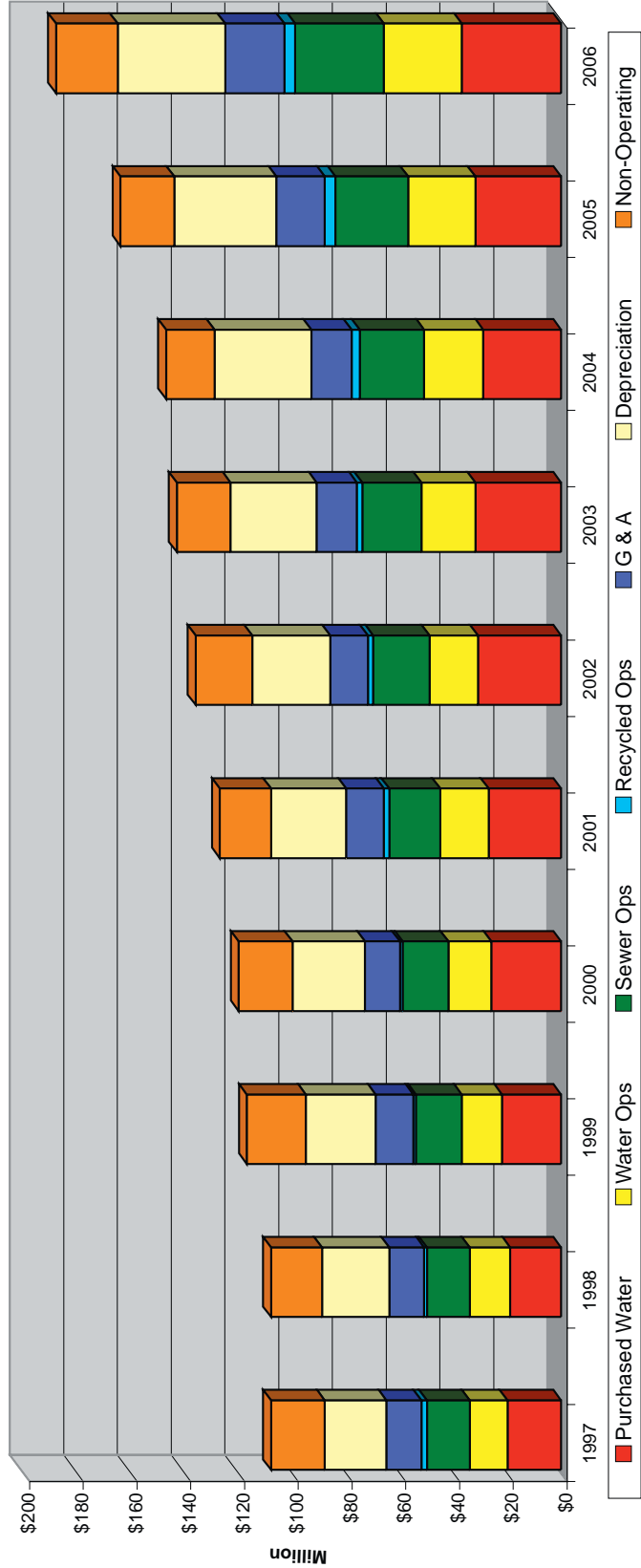


Notes:
 1. Decreased taxes and assessments for the last two years is due to the state mandated property tax shift from local governments.
 2. Rapid growth in construction activity accounts for the increases in connection fees in the last three years.
 3. Increased other revenues for the last three years relates mainly to additional excavation charges, water supply development fees and customer charges related to increased growth in construction activity.

Source: Eastern Municipal Water District

EXPENSES BY FUNCTION LAST TEN FISCAL YEARS

Fiscal Year	Purchased Water	% of Total	Water Operations	% of Total	Sewer Operations	% of Total	Recycled Water Operations	% of Total	General & Administrative	% of Total	Depreciation & Amortization	% of Total	Total Non-Operating Expenses	% of Total	Total Expenses
1997	\$ 20,274,732	18.7%	\$ 14,460,206	13.3%	\$ 15,950,706	14.7%	\$ 1,514,578	1.4%	\$ 12,602,706	11.7%	\$ 23,325,105	21.5%	\$ 20,219,982	18.7%	\$ 108,348,015
1998	18,577,818	17.3%	14,556,360	13.6%	15,662,378	14.6%	1,337,147	1.2%	13,459,580	12.6%	24,555,656	22.9%	19,030,418	17.8%	107,179,357
1999	21,788,173	18.7%	14,845,543	12.7%	17,219,223	14.7%	1,439,250	1.2%	13,909,581	11.9%	25,976,208	22.2%	21,741,837	18.6%	116,919,815
2000	26,331,029	21.6%	16,348,960	13.4%	17,453,978	14.3%	1,313,145	1.1%	13,429,893	11.0%	27,279,095	22.4%	19,790,677	16.2%	121,946,777
2001	26,985,006	21.2%	17,606,824	13.8%	19,313,651	15.2%	1,922,568	1.5%	14,463,535	11.4%	27,887,507	21.9%	19,062,414	15.0%	127,241,505
2002	30,632,930	22.6%	17,886,826	13.2%	20,540,533	15.2%	1,988,321	1.5%	14,395,481	10.6%	29,435,014	21.7%	20,530,179	15.2%	135,409,284
2003	32,307,403	22.4%	19,534,843	13.6%	22,151,919	15.4%	2,410,213	1.7%	15,317,533	10.9%	31,911,657	22.2%	20,385,823	14.1%	144,019,391
2004	29,104,840	19.9%	21,777,484	14.9%	23,789,668	16.2%	2,992,339	2.0%	15,186,601	10.4%	35,574,113	24.3%	18,021,438	12.3%	146,446,483
2005	32,380,524	19.6%	25,111,134	15.2%	27,194,672	16.5%	3,789,915	2.3%	18,418,043	11.2%	37,572,961	22.8%	20,392,573	12.4%	164,859,822
2006	36,817,458	19.6%	29,030,238	15.4%	33,061,321	17.6%	4,289,919	2.3%	21,520,070	11.4%	40,091,319	21.3%	23,333,879	12.4%	188,144,204



Source: Eastern Municipal Water District

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

Fiscal Year	Gallons Produced ¹		Gallons Consumed		Unbilled Total	Avg. %	Gallons of Wastewater Treated	Total Direct Rate					
	Purchased	Wells	Desalters ²	Total				Domestic	Agriculture	Base Rate ³	Water Usage Rate ⁴	Sewer ⁵	
1997	18,728	6,506	-	25,233	21,700	2,066	23,766	1,467	5.8%	10,443	\$ 6.02	\$ 29.56	\$ 15.36
1998	15,598	5,631	-	21,229	18,799	1,450	20,250	979	4.6%	10,833	6.02	29.52	15.38
1999	18,041	6,553	-	24,594	20,835	1,875	22,709	1,885	7.7%	11,213	6.02	29.52	15.43
2000	21,690	6,777	-	28,467	24,518	2,577	27,095	1,372	4.8%	11,873	6.02	29.48	15.18
2001	22,128	6,596	-	28,724	24,590	2,893	27,483	1,241	4.3%	12,082	6.02	29.46	14.68
2002	25,096	6,032	-	31,128	26,748	2,656	29,404	1,723	5.5%	11,903	6.02	29.46	14.84
2003	26,056	5,925	95	32,076	28,315	2,135	30,450	1,626	5.1%	12,760	7.27	29.50	15.18
2004	24,722	5,763	536	31,020	27,092	1,689	28,781	2,239	7.2%	13,925	7.45	30.10	16.17
2005	24,532	5,352	217	30,101	26,247	1,698	27,945	2,157	7.2%	15,805	7.70	31.04	17.40
2006	25,818	6,353	944	33,115	29,688	771	30,459	2,656	8.0%	16,352	8.15	32.36	18.37

Notes:

The information shown does not include recycled water.

1. Gallons are presented in millions.
2. No desalter facilities existed prior to 2003.
3. Rate shown is for meters up to and including 1".
4. Rate shown is an average rate for 20 billing units. A billing unit is 100 cubic feet of water or 748 gallons.
5. Rate shown is an average rate for one month of service.

Source: Eastern Municipal Water District

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

Fiscal Year	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Water Rates										
Monthly base rate (meter size)										
<=1"	\$ 6.02	\$ 6.02	\$ 6.02	\$ 6.02	\$ 6.02	\$ 6.02	\$ 7.27	\$ 7.45	\$ 7.70	\$ 8.15
1 1/2"	9.03	9.03	9.03	9.03	9.03	9.03	10.90	11.19	11.56	12.23
2"	12.05	12.05	12.05	12.05	12.05	12.05	14.54	14.90	15.39	16.30
3"	24.09	24.09	24.09	24.09	24.09	24.09	29.08	29.81	30.78	32.61
4"	30.11	30.11	30.11	30.11	30.11	30.11	36.35	37.26	38.48	40.76
6"	42.16	42.16	42.16	42.16	42.16	42.16	50.89	52.16	53.87	57.06
8"	48.18	48.18	48.18	48.18	48.18	48.18	58.16	59.62	61.56	65.21
Usage rate (per billing unit)¹	\$ 29.56	\$ 29.52	\$ 29.52	\$ 29.48	\$ 29.46	\$ 29.46	\$ 29.50	\$ 30.10	\$ 31.04	\$ 32.36
Sewer Rates (avg per month)²	\$ 15.36	\$ 15.38	\$ 15.43	\$ 15.18	\$ 14.68	\$ 14.84	\$ 15.18	\$ 16.17	\$ 17.40	\$ 18.37

Notes:

The information shown does not include recycled water.

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

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

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

Source: Eastern Municipal Water District

**LARGEST DOMESTIC WATER CUSTOMERS
AS OF JUNE 30, 2006**

<u>Customer Name</u>	<u>Annual Water Sales in Acre Feet</u>	<u>Annual Revenues</u>	<u>Percentage of Total Domestic Revenues</u>
1 City of Perris ²	2,031	\$ 1,319,490	45.5%
2 Nuevo Mutual Water Company ²	848	445,398	15.3%
3 Western States MHP	267	230,680	7.9%
4 County of Riverside Building Dept.	184	195,464	6.7%
5 G B W Investments	183	185,661	6.4%
6 Hemet Golf Club ¹	330	130,701	4.5%
7 Soboba Springs	121	123,978	4.3%
8 Western Municipal Water District ²	425	114,141	3.9%
9 Centex Homes	129	107,622	3.7%
10 City of Hemet ^{1,2}	130	49,857	1.7%
Total	<u>4,648</u>	<u>\$ 2,902,992</u>	

Notes:

Information for fiscal year ended June 30, 1997 is not available.

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

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

2. Wholesale customer.

Source: Eastern Municipal Water District

**LARGEST AGRICULTURAL WATER CUSTOMERS
AS OF JUNE 30, 2006**

<u>Customer Name</u>	<u>Annual Water Sales in Acre Feet</u>	<u>Annual Revenues</u>	<u>Percentage of Total AG Revenues</u>
1 C & R Farms	317	\$ 146,766	23.9%
2 McAnally Egg Enterprises	153	84,949	13.8%
3 Kevin & Pauline Doan	118	66,291	10.8%
4 Demler Egg Ranch ¹	128	56,825	9.3%
5 United Aircraft Services	117	55,947	9.1%
6 Abacherli Dairy	97	54,993	9.0%
7 Sunnydale Farms	113	45,710	7.4%
8 Metropolitan Water District	72	40,909	6.7%
9 Lily & Daniel Plascencia	62	35,071	5.7%
10 San Jacinto Cemetery District ¹	97	26,731	4.4%
Total	<u>1,272</u>	<u>\$ 614,193</u>	

Notes:

Information for fiscal year ended June 30, 1997 is not available.

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

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

Source: Eastern Municipal Water District

**LARGEST RECYCLED WATER CUSTOMERS
AS OF JUNE 30, 2006**

<u>Customer Name</u>	<u>Annual Water Sales in Acre Feet</u>	<u>Annual Revenues</u>	<u>Percentage of Total Recycled Revenues</u>
1 SCGA Members Club	661	\$ 140,924	17.6%
2 AG Sod	2,121	125,550	15.7%
3 Rancho Calif. Water District	905	124,349	15.6%
4 Sun City Golf Course LLC	481	103,571	13.0%
5 City of Moreno Valley	300	70,871	8.9%
6 West Coast Turf	1,425	70,736	8.9%
7 Department of Fish and Game	1,671	54,780	6.9%
8 Agri Empire	1,073	53,936	6.8%
9 Don Bean	487	32,495	4.1%
10 Pacific Earth Resources	552	21,327	2.7%
Total	<u>9,676</u>	<u>\$ 798,538</u>	

Notes:

Information for fiscal year ended June 30, 1997 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, 2006**

<u>Customer Name</u>	<u>Annual Revenues</u>	<u>Percentage of Total Sewer Revenues</u>
1 Pechanga Resort & Casino	\$ 420,871	38.9%
2 Western States MHP	88,353	8.2%
3 Eagle Glen Apartments LLC	84,766	7.8%
4 Riverside County Regional Med. Ctr.	83,976	7.8%
5 Montego HOA	83,299	7.7%
6 Golden Village RV Resort	72,483	6.7%
7 Enclave at Menifee	64,512	6.0%
8 Santa Rosa Developers	62,106	5.7%
9 County of Riverside Building Dept.	60,977	5.6%
10 The Villa at Old School	60,719	5.6%
Total	<u>\$ 1,082,061</u>	

Notes:

Information for fiscal year ended June 30, 1997 is not available.

Source: Eastern Municipal Water District

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

Rates Effective Beginning January 1	Full Service Domestic Groundwater Replenishment and Reservoir		Interim Agricultural Program		Shift Seasonal Storage		Long Term Seasonal Storage	
	Treated	Untreated	Treated	Untreated	Treated	Untreated	Treated	Untreated
1997	\$ 431	\$ 349	\$ 294	\$ 236	\$ 290	\$ 233	\$ 290	\$ 233
1998	431	349	294	236	301	244	290	233
1999	431	349	294	236	312	255	290	233
2000	431	349	294	236	323	266	290	233
2001	431	349	294	236	334	277	290	233
2002	431	349	294	236	345	288	290	233
2003	408	326	294	236	-	-	290	233
Tier 1 ¹	489	407	n/a	n/a	-	-	n/a	n/a
Tier 2	418	326	304	236	-	-	300	233
2004	499	407	n/a	n/a	-	-	n/a	n/a
Tier 2	443	331	329	241	-	-	325	238
2005	524	412	n/a	n/a	-	-	n/a	n/a
Tier 2	453	331	339	241	-	-	335	238
2006	549	427	n/a	n/a	-	-	n/a	n/a
Tier 2								

Note:

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

Source: (MWD) Metropolitan Water District of Southern California

ANNUAL DOMESTIC CONSUMPTION (AF) LAST TEN FISCAL YEARS

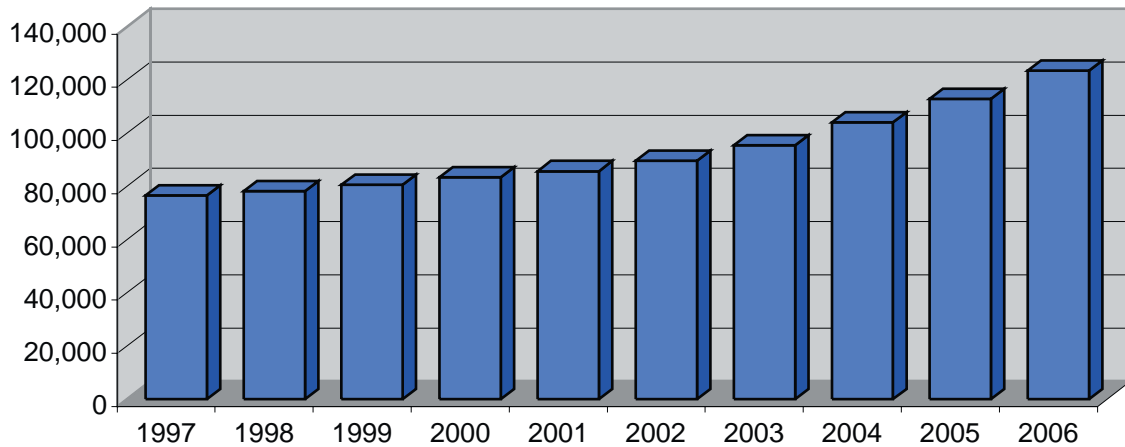
Fiscal Year	Usage (AF)	Active Accounts	Average AF Per Account
1997	54,633	76,599	0.71
1998	48,825	78,078	0.63
1999	54,212	80,517	0.67
2000	61,007	83,293	0.73
2001	60,231	85,638	0.70
2002	66,293	89,569	0.74
2003	67,345	95,449	0.71
2004	79,006	103,919	0.76
2005	77,066	112,845	0.68
2006	87,488	123,384	0.71

Note:

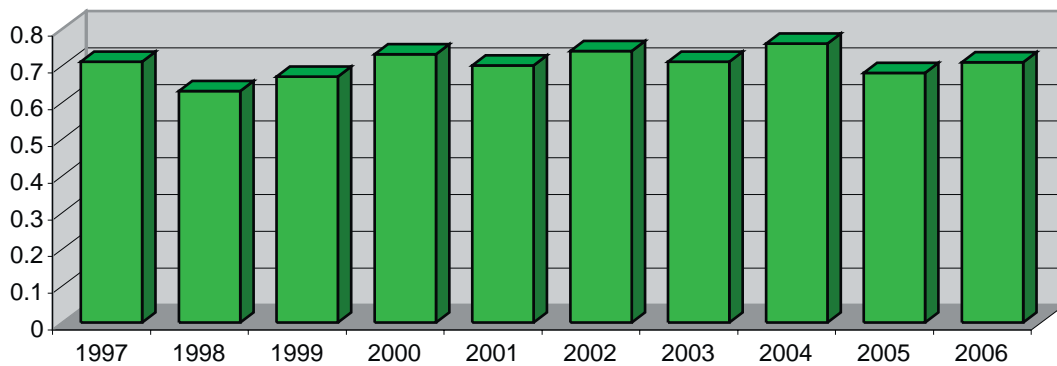
Amounts exclude commercial accounts.

Source: Eastern Municipal Water District

Number of Accounts

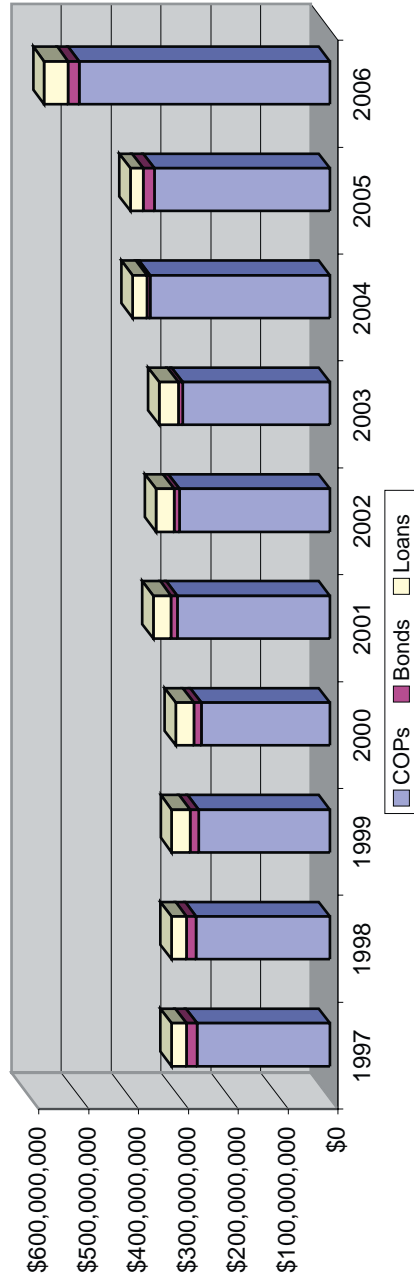


AF/Account



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

Fiscal Year	Certificates of Participation ¹	General Obligation		Loans ²	Total	Percentage of Assessed Value ³
		Bonds	Bonds			
1997	\$ 266,540,000	\$ 21,525,000	\$ 29,984,239	\$ 318,049,239	1.71%	
1998	267,805,000	19,280,000	30,549,767	317,634,767	1.70%	
1999	263,000,000	16,975,000	37,175,525	317,150,525	1.70%	
2000	258,075,000	14,790,000	36,556,179	309,421,179	1.59%	
2001	305,615,000	12,675,000	35,588,494	353,878,494	1.65%	
2002	301,880,000	10,515,000	36,124,905	348,519,905	1.47%	
2003	295,475,000	8,450,000	38,556,914	342,481,914	1.29%	
2004	360,370,000	6,455,000	28,603,485	395,428,485	1.31%	
2005	351,615,000	22,695,000	25,705,169	400,015,169	1.10%	
2006	502,990,000	21,675,000	48,103,473	572,768,473	1.25%	



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

1. The District issued over \$160 million of new certificates of participation in 2006.
2. The District has a loan contract with the State of California Department of Water Resources. The future loan commitment for this contract is approximately \$25.6 million at June 30, 2006.
3. Assessed value includes both secured and unsecured property.

Source: Eastern Municipal Water District

**REVENUE BOND COVERAGE
LAST TEN FISCAL YEARS**

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
OPERATING REVENUES:										
Water Sales	\$ 47,680,036	\$ 42,221,945	\$ 48,589,630	\$ 54,018,590	\$ 54,219,695	\$ 58,355,346	\$ 60,565,819	\$ 64,796,401	\$ 66,258,221	\$ 77,611,474
Sewer Service Sales	22,615,071	23,665,927	25,020,585	25,361,569	26,123,677	27,825,278	29,973,084	33,496,234	39,739,370	45,462,646
Recycled Water	764,848	645,259	1,078,322	1,102,441	1,364,456	1,182,868	1,409,824	2,069,194	1,498,687	1,944,434
Total Operating Revenues	71,059,955	66,533,131	74,688,537	80,482,600	81,707,828	87,363,492	91,948,727	100,361,829	107,496,278	125,018,554
OPERATING EXPENSES:										
Water Purchases	20,274,732	18,577,818	21,788,173	26,331,029	26,985,006	30,632,930	32,307,403	29,104,840	32,380,524	36,817,458
Water Operations	14,460,206	14,556,360	14,845,543	16,348,960	17,606,824	17,886,826	19,634,843	21,777,484	25,111,134	29,030,238
Sewer Operations	17,465,284	16,999,525	18,658,473	18,767,123	21,236,219	22,528,854	24,562,132	26,782,007	30,984,587	37,351,240
General & Administrative	12,602,706	13,459,580	13,909,581	13,429,893	14,463,535	14,395,481	15,317,533	15,186,601	18,418,043	21,520,070
Total Operating Expenses	64,802,928	63,593,283	69,201,770	74,877,005	80,291,584	85,444,091	91,821,911	92,850,932	106,894,288	124,719,006
OPERATING INCOME (LOSS)	6,257,027	2,939,848	5,486,767	5,605,595	1,416,244	1,919,401	126,816	7,510,897	601,990	299,548
NON-OPERATING REVENUES:										
Property taxes - General Purpose	9,336,708	9,236,496	9,804,684	10,778,537	11,753,408	12,887,334	14,477,271	16,531,907	8,707,881	11,213,568
Standby charges	3,758,737	3,797,564	3,771,928	3,816,486	3,858,132	3,929,860	4,006,786	4,172,104	4,354,591	4,518,411
Water and Sewer Connection Fees	10,705,384	10,760,006	21,572,990	20,767,021	25,949,508	25,740,750	46,960,911	80,804,323	72,445,434	99,485,272
Interest income	14,952,009	16,314,378	12,262,116	13,948,178	21,827,134	15,105,192	10,986,525	4,987,397	13,354,263	13,545,983
Other income/(expense)	(33,398)	(374,807)	(2,539,326)	(978,297)	(2,107,544)	(1,637,861)	(1,564,986)	780,603	3,077,188	7,088,876
Total Non-Operating Revenues	38,719,440	39,733,637	44,872,392	48,331,925	61,280,638	56,025,275	74,866,507	107,276,334	101,939,357	135,852,110
NON-OPERATING EXPENSES:										
Debt Service Interest Payments	16,222,421	15,312,712	15,260,659	15,069,255	14,033,057	15,736,862	15,427,928	15,042,051	15,358,957	18,404,817
Total non-operating expenses	16,222,421	15,312,712	15,260,659	15,069,255	14,033,057	15,736,862	15,427,928	15,042,051	15,358,957	18,404,817
EXCESS OF REVENUE OVER EXPENSES BEFORE EXTRAORDINARY ITEM	28,754,046	27,360,773	35,098,500	38,868,265	48,663,825	42,207,814	59,565,395	99,745,180	87,182,390	117,746,841
Add back for COP interest	16,222,421	15,312,712	15,260,659	16,069,255	14,033,057	15,736,862	15,427,928	15,042,051	15,358,957	18,404,817
Net Revenues for Debt Coverage	44,976,467	42,673,485	50,359,159	54,937,520	62,696,882	57,944,676	74,993,323	114,787,231	102,541,347	136,151,658
COP Principal and Interest	20,212,421	19,512,712	20,065,659	20,994,255	19,233,057	19,471,862	21,832,928	21,737,051	24,113,957	27,374,817
Debt Coverage Ratio	2.2	2.2	2.5	2.6	3.3	3.0	3.4	5.3	4.3	5.0

Source: Eastern Municipal Water District

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

Calendar Year	Population ¹	Personal Income ² (thousands of \$)	Per Capita Personal Income ²	Unemployment Rate ²
2000	450,000	\$ 37,014,951	\$ 23,728	5.4%
2001	480,000	39,974,556	24,668	5.5%
2002	501,000	42,010,066	24,797	6.3%
2003	520,300	42,655,266	24,814	6.3%
2004	553,000	43,737,000	25,386	5.8%
2005	596,000	45,451,000	25,972	5.1%

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

Sources: Riverside County Economic Development Agency
County of Riverside
Bureau of Economic Analysis - www.bea.gov

**PRINCIPAL EMPLOYERS
FISCAL YEAR ENDED JUNE 30, 2006**

Employer	No. of Employees	Percentage of Total
Moreno Valley Unified School Dist.	3,447	16.2%
Temecula Valley Unified School Dist.	2,608	12.3%
Riverside Cty Regional Medical Ctr	2,400	11.3%
Guidant Corp.	2,354	11.1%
Hemet Unified School District	2,200	10.4%
National R.V., Inc.	2,177	10.3%
Manpower of Temecula	1,871	8.8%
Valley Health System	1,756	8.3%
Ross Distribution Center	1,400	6.6%
Starcrest Products of CA, Inc.	1,000	4.7%
Total	<u>21,213</u>	

Notes: Information for fiscal year ended June 30, 1997 is not available.
Included employers whose headquarters are located within the District's service area.

Sources: County of Riverside
Cities of Hemet, San Jacinto and Temecula
Hemet Unified School District

**DISTRICT EMPLOYEES BY FUNCTION
FISCAL YEAR ENDED JUNE 30, 2006**

	<u>2006</u>
<u>Water Operations</u>	
Water Resources Development and Management	12
Water Quality	13
Water Operations and Distribution	62
<u>Wastewater Operations</u>	
Wastewater Collection	13
Source Control	9
Water Reclamation Plant	80
<u>Maintenance Services</u>	
Maintenance	20
Auto and Fabrication	13
Mechanical	25
Electrical and Controls	19
Field and Grounds	35
<u>Engineering Services</u>	
General Engineering	47
Inspections and Construction Management	40
New Business Development	33
<u>Administration</u>	
Environmental and Regulatory Compliance	9
Executive and Administration	9
Billing/Customer Service	45
Meter Reading	24
Finance and Accounting	18
Human Resources	13
Legislative Affairs	3
Information Systems	32
Purchasing, Warehouse and Records Management	27
Community Involvement	10
Total	<u><u>611</u></u>

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

Source: Eastern Municipal Water District

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

	<u>Fiscal Year</u>			
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
<u>WATER SYSTEM</u>				
Miles of water mains:	2,345	2,051	1,867	1,528
Number of storage tanks:	81	81	80	78
Maximum storage capacity: (million gallons)	190	190	190	176
Number of pumping plants:	88	85	85	75
Number of active domestic wells:	18	22	18	17
Well production capacity:				
gallons per minute	19,747	19,000	17,953	18,179
acre-feet per year	31,858	30,407	28,959	29,310
Number of service connections:				
active domestic accounts	123,384	112,845	103,919	95,449
active agriculture and irrigation accounts	130	139	153	167
<u>SEWER SYSTEM</u>				
Miles of sewer lines:	1,750	1,500	1,400	1,200
Number of treatment plants:	5	5	5	5
Treatment capacity: (million gallons per day)	56	53	53	53
Average million gallons per day treated:	44.8	43.3	38.4	36.6
Percentage of capacity utilized:	80%	82%	72%	69%
Number of lift stations:	48	43	40	35
<u>RECYCLED SYSTEM</u>				
Miles of pipeline:				
transmission and distribution	174	159	139	123
Number of pumping facilities:	23	18	15	15
Number of acre feet storage & percolation ponds:	6,669	6,669	6,669	6,764
<u>GENERAL INFORMATION</u>				
Service area:				
acres	352,000	352,000	352,000	352,000
square miles	555	555	555	555
Average years of service of employees:	9.80	10.63	10.90	10.86

Source: Eastern Municipal Water District

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

Fiscal Year	Retail Sales	Write Offs	% of Sales
1997	\$ 56,536,859	\$ 496,766	0.9%
1998	53,116,341	462,803	0.9%
1999	58,067,579	376,289	0.6%
2000	63,682,193	259,197	0.4%
2001	63,691,389	244,161	0.4%
2002	68,291,381	236,168	0.3%
2003	70,041,876	301,164	0.4%
2004	83,551,697	255,260	0.3%
2005	88,297,280	259,410	0.3%
2006	103,371,554	384,329	0.4%
Total	<u>\$ 708,648,149</u>	<u>\$ 3,275,547</u>	<u>0.5%</u>

Note: Excludes sales collected by other agencies.

Source: Eastern Municipal Water District

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

Fiscal Year	Year End A/R Balance	Reserve	% of A/R
1997	\$ 5,139,131	\$ 286,495	5.6%
1998	3,543,152	227,463	6.4%
1999	4,525,491	222,503	4.9%
2000	5,501,355	116,267	2.1%
2001	5,070,308	56,097	1.1%
2002	5,477,258	69,363	1.3%
2003	5,499,953	56,569	1.0%
2004	5,707,462	89,413	1.6%
2005	5,973,588	91,578	1.5%
2006	7,350,203	187,390	2.5%

Note: Reserve equals accounts over 60 days.

Source: Eastern Municipal Water District

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The two Tres Cerritos water tanks in Hemet hold 15 million gallons of water.
EMWD's system of 81 storage tanks hold a total of 190 million gallons.



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