

Eastern Municipal Water District

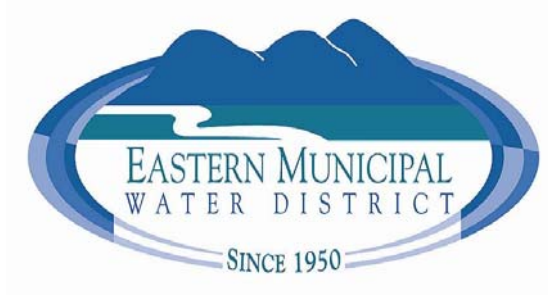


Comprehensive Annual Financial Report

for the Fiscal Year Ended June 30, 2014



Perris, California
www.emwd.org



EASTERN MUNICIPAL WATER DISTRICT

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED

JUNE 30, 2014

PREPARED BY THE FINANCE DEPARTMENT

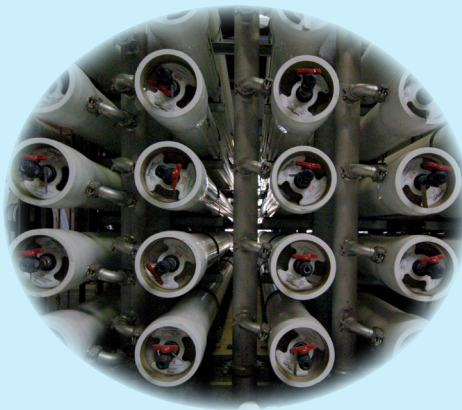
Introductory Section

Water Service

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



Potable Water System



Miles of pipeline	2,448
Number of storage tanks	77
Active number of pumping plants	83
Active wells (domestic)	18
Active wells (desalter)	11
Domestic well production capacity (mgd)	34
Total acre feet per year (includes purchased water)	101,485
Brackish groundwater desalters	2
Potable water filtration plants	2



EASTERN MUNICIPAL WATER DISTRICT
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2014

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COMPREHENSIVE ANNUAL FINANCIAL REPORT
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Board of Directors

October 31, 2014

President

Philip E. Paule

Board of Directors
Eastern Municipal Water District

Vice President

Randy A. Record

Joseph J. Kuebler, CPA

David J. Slawson

Ronald W. Sullivan

We are pleased to present the Eastern Municipal Water District's (District) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2014. State law and debt covenants require that the District publish, within six months and 180 days of the close of each fiscal year, respectively, a complete set of audited financial statements. This report is published to fulfill that requirement and to provide the Board of Directors (Board), the public and other interested parties these basic financial statements.

General Manager

Paul D. Jones II, P.E.

Treasurer

Joseph J. Kuebler, CPA

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

Randy A. Record

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

**Board Secretary and
Assistant to the
General Manager**

Rosemarie V. Howard

Mayer Hoffman McCann P.C., a firm of licensed certified public accountants, has issued an unmodified ("clean") opinion on the District's financial statements for the year ended June 30, 2014. The independent auditors' report is presented as the first component of the financial section of this report.

Legal Counsel

Lemieux & O'Neill

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

Profile of the District

The District was organized under the Municipal Water District Act of 1911 (California Water Code Section 71000, et seq.) on October 16, 1950 for the primary purpose of importing Colorado River water to its service area to augment local water supplies. Prior to the District's formation, the local water supply was primarily from groundwater wells.

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

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

Service Area

The District is located in southern California and its service area lies within the westerly third of Riverside County, encompassing approximately 352,000 acres (555 square miles). The map to the right indicates the location of the District's service area in southern California. When the District was annexed to the Metropolitan Water District of Southern California (MWD) by the District's voters in 1951, its service area consisted of 86 square miles. Growth has resulted from annexations ranging in area from 1 to 72,000 acres. The assessed valuation has grown from \$72.0 million when formed to approximately \$53.5 billion for this past fiscal year. The District is divided into separate regional service areas for water service and sewer service.



Riverside County's population increased to approximately 2.3 million as of January 2013. Of this population, the District serves approximately 785,000 (34 percent), including the cities of Temecula, Murrieta, Menifee, Hemet, San Jacinto, Moreno Valley, Perris, Wildomar and unincorporated areas in Riverside County.

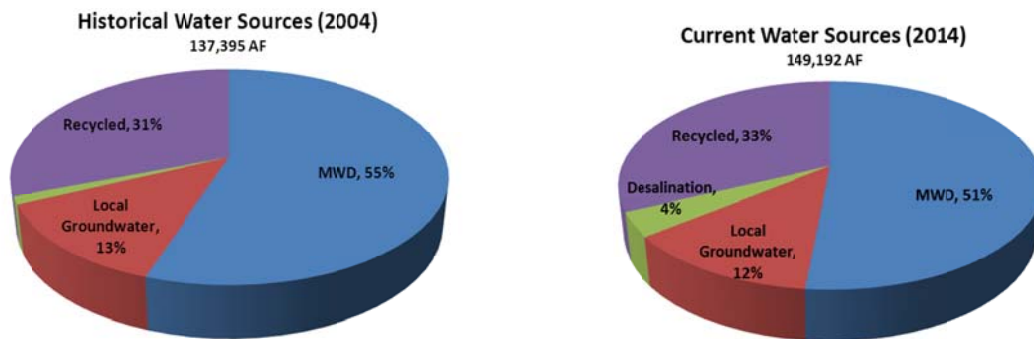
Governance

The District is governed by a Board of five directors, who are elected by the public for four-year terms from comparably sized districts based on population. The District is a member of the MWD, which is a cooperative organization of 26 cities and water agencies that are responsible for providing imported water to arid southern California. The District is currently entitled to have one representative on the MWD Board. That representative, Randy Record, was elected to serve as the Chairman of the MWD Board through 2016.

Water Supply and Reliability

The District's water supply for the fiscal year ended June 30, 2014 includes local groundwater (16 percent), imported water (51 percent) and recycled water (33 percent). The sole source of the District's imported water is MWD.

The District has made significant efforts to provide a safe and reliable supply of water and diversify the sources of water. In 2004, the District received 55 percent of its water through purchases from MWD, which in turn obtains its water supply from two primary imported sources: the Colorado River via the Colorado River Aqueduct, and the State Water Project via the Edmund G. Brown California Aqueduct. By 2014, the District reduced the level of imported water to 51 percent of supply as a result of investments in local groundwater, desalination, and recycled water improvements.



Sewer and Recycled Water Services

For the purposes of transmission, treatment and disposal of wastewater, the District is divided into five sewer service areas: Hemet/San Jacinto, Moreno Valley, Sun City, Temecula Valley, and Perris Valley. Each service area is served by a single regional water reclamation facility (RWRf), for which costs and methods of treatment vary. The facilities are capable of treating 68 million gallons per day (MGD) of wastewater and serve approximately 785,000 people. Customers' monthly bills include a daily service charge based on household size, which covers the fixed and variable costs of operating the sewer system and contributions to future infrastructure replacement costs. They are linked to a network of 1,780 miles of pipeline and 48 active lift stations.

The District currently generates approximately 45 MGD of effluent at its regional water reclamation facilities, which is expected to grow to 48 MGD by the year 2017. The District's goal is to reuse 100 percent of the water from the treatment plants and offer recycled water for sale to customers within the District's service area. In doing so, the District reduces the need to import water or to use local groundwater supply. In Fiscal Year 2014, 100 percent of the total recycled water produced which was available for sale (approximately 37,467 acre feet) was sold to customers.

Information Useful in Assessing Economic Condition

Local Economy

The District is located within Riverside County in a metropolitan area referred to as the “Inland Empire”. The District’s population has grown by nearly 45% since 2000 and experienced modest new connections during the national economic downturn. Although the state and local economy face various economic challenges, several regions and industries within the District’s service area have rebounded in 2014.

The District is conveniently accessible by truck and rail service from several significant national and international cargo facilities including the Port of Los Angeles/Long Beach complex, Los Angeles International Airport, Ontario International Airport, and Port of San Diego. Additionally, the March Air Reserve Base (March ARB), a 12 square-mile airfield and logistic center, is located in the District. In 2014, more than one in four new jobs created in the region were in the logistics industry. Also in 2014, online retailer Amazon.com occupied a new 1.2 million square-foot fulfillment center near March ARB in Moreno Valley and created more than 1,000 full-time jobs.

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

Sound Financial Policies

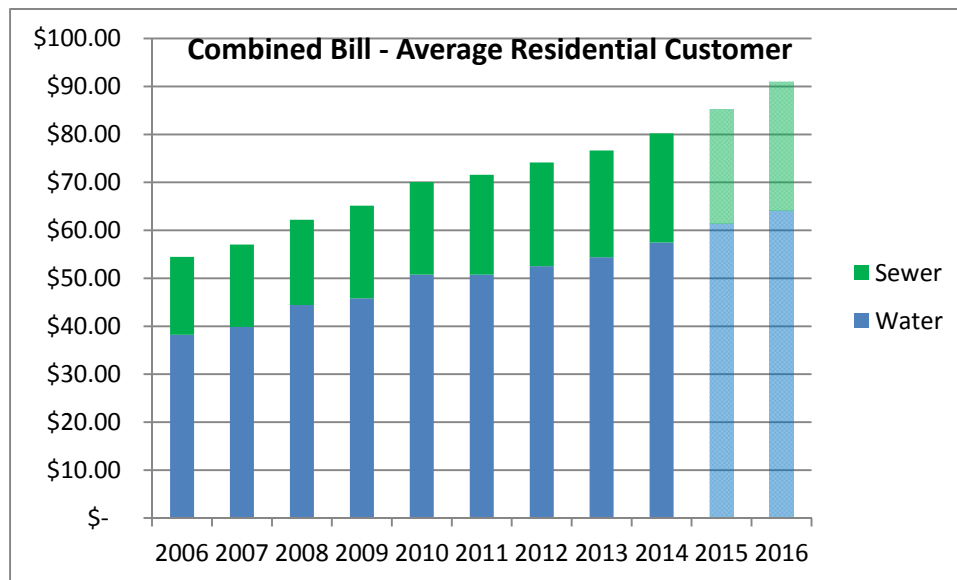
The District continues to manage funds to ensure financial stability and demonstrate responsible stewardship by sustaining reasonable rates for customers, containing costs through careful planning, preserving investments, safeguarding reserves, and active debt management.

Water and Sewer Rates

In 2009, the District implemented a water budget-based tiered rate structure for water sales. This structure rewards customers who use water efficiently and to discourages those who waste water. In 2013, the District implemented a sewer rate structure based on the number of people occupying a property. For example, households with fewer than 3 people are charged 25 percent less than homes with 3 or 4 people. Conversely, homes with 5 or 6 people are charged 25 percent more than homes with 3 or 4 people.

In 2014, the District adopted rate increases effective in 2014 and 2015 along with a separate capital charges for water and sewer services to fund water supply reliability and capital replacement projects.

The District has implemented rate increases when necessary to fund its operations and finance critical infrastructure projects. The chart below reflects the monthly charges for an average residential customer with a household of 4 people in the District's service area:



Financial Planning

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

The District prepares a five-year financial plan to anticipate funding needs, reserve levels, and expected impacts to rates. A key component to the plan is the District's Capital Improvement Plan (CIP), which calls for total expenses for water, sewer and recycled water facilities of approximately \$487 million for the period from 2015 through 2019. The CIP is expected to be financed through a combination of property taxes, developer connection fees, rates and charges, publicly financed bond proceeds, reserves, grants and low-interest loans from the California State Revolving Fund. The CIP is modified on an annual basis to reflect updated assumptions regarding future growth within the District's service area.

Reserves Policy

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

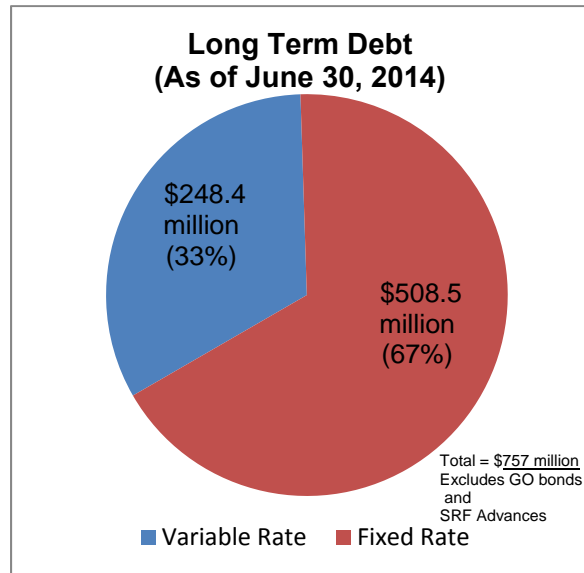
Administrative Code and Investment Policy

In 2013, the Board of Directors adopted an Administrative Code, which incorporates various policies and administrative duties. The District previously adopted an Investment Policy, which was incorporated into the Administrative Code. The District invests its funds in instruments

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

Debt Administration

The District actively manages its debt portfolio, and seeks to minimize its total debt costs. This goal is achieved by issuing both fixed and variable rate debt to fund its capital projects. The District has primarily issued certificates of participation (COPs), revenue bonds (Bonds), and has borrowed from state revolving fund (SRF) loans to fund its CIP. As of June 30, 2014, the District's total COPs, Bonds, and SRF loans outstanding, excluding the San Jacinto Z LLC loan, debt premiums and SRF construction advances, was \$757 million, of which 67 percent were fixed interest rate and 33 percent were variable interest rate, with a weighted average cost of funds of 2.87 percent.



The District restructured the 2008C COP and refunded the 2008E COP with the issuance of subordinate 2014A Refunding Revenue Bonds. The results of this restructuring and refunding resulted in lower annual debt service from 2015 through 2024, a new working lien to fund future capital projects, and the release of restricted reserve funds to fund capital projects.

The District's long-term parity debt are rated AA+, Aa2, AA and the subordinate 2014A Bonds are rated AA, Aa3, AA- by Fitch Ratings, Moody's Investors Service, Inc. and Standard & Poor's Rating Services, respectively, as of June 30, 2014.

Major Initiatives

Water Supply Development and Management

Future growth within the District's service area will increase demands for sustainable local water supplies. The District is implementing plans to increase local groundwater yields by identifying useable groundwater that is currently underutilized, determining geohydrological and water quality parameters, and developing integrated groundwater management strategies and the facilities necessary for optimal use.

- *Groundwater Management* – As part of the Integrated Recharge and Recovery Program, the District implemented a cooperative groundwater management plan for the Hemet and San Jacinto basins. The plan will help to increase the District's ability to sustain local groundwater production and provide for the protection and enhancement of the water quality of the basins. In support of this plan, the District completed construction and replacement of various facilities, including pipelines, booster stations, wells, pumps, and recharge ponds.

-
- *Brackish Groundwater Desalination* – The District has constructed two desalters with a combined annual capacity of 9,600-acre feet. A third desalter is in the final design phase and will expand the desalination program capacity to 15,000-acre feet per year. In addition, the District is conducting research and investigating the feasibility of reducing waste brine volume to increase potable water recovery at its desalination plants, as well as reduce brine disposal costs.
 - *Recycled Water* – The District has identified recycled water as a separate product line with a strategic objective to utilize one hundred (100) percent of treated effluent water from its wastewater reclamation plants. System infrastructure was expanded with the addition of recycled water storage tanks, ponds, pumps booster stations and pipelines. The FY 2013-14 Recycled Water System Management Plan includes both demand management and shortage contingency elements and identifies available supplies, demands, system capacity challenges, user allocations, modifications to user agreements, demand management requirements and shortage contingency plans. This plan is being used to identify and document the preferred strategy for the effective operation and management of the recycled water system. Recycled water sales were 100 percent of available supply in fiscal year 2013-14.
 - *Water Shortage Contingency Plan* – In January 2014, the Governor declared a drought state of emergency; encouraged local suppliers to reduce usage by 20 percent, and have local suppliers develop or update water contingency plans. The District amended its water shortage contingency plan (WSCP) in March 2014 to better reflect contemporary needs of the District. The WSCP includes five stages, with the first 2 stages being voluntary measures to encourage conservation. Stage 3 and 4 are mandatory stages with escalating adjustments to outdoor water budget allocations to domestic customers. Stage 5 includes staged adjustments to water budgets for indoor use. The District is currently in a Stage 3a, which implements mandatory water use restrictions. MWD may reduce the amount of water available to the District in 2015, which could trigger a further move into Stage 3b or beyond.

Operational Efficiencies

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

- A new long-term financial plan (LTFP) to forecast financing requirements and funding sources was developed and presented to the Board. The results of the LTFP were used to develop the inaugural Biennial Budget for FY 2014-15 and FY 2015-16.
- As a strategy to decrease Other Post Employment Benefit (OPEB) unfunded liabilities, in July 2012 and July 2013, the District began funding future costs with initial \$2.5 and \$2.7 million deposits, respectively, to its trust account with the California Employer's Retiree Benefit Trust Program. During FY 2013-14, the District implemented a new tier of OPEB benefits for future hires that will dramatically improve the plan funding and viability over the long term. In addition, the District adopted funding policy principles that direct how the OPEB Trust will be funded over time, in accordance with sound funding principles.
- The District implemented a debt portfolio optimization project which resulted in the restructuring of the 2008C COP and refund the 2008E COP with the 2014A subordinate bonds. These financings resulted in the reduction of annual debt service from 2015 through 2024, release of reserve funds to fund capital projects, and additional flexibility to fund future projects with the new working lien (subordinate lien).

-
- The District has made several streamlining efforts in reporting, such as implementing electronic distribution method of the reports and consolidation of its treasurer's report from a dozen portfolios to one.

Accounting Systems

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

Internal Controls

The District's management is responsible for establishing and maintaining a system of internal controls designed to safeguard the District's assets from loss, theft, or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in accordance with GAAP. Management follows the concept of reasonable assurance in recognizing that the cost of a control should not exceed the benefits likely to be derived and that the valuation of costs and benefits requires estimates and judgments. The most recent audits have not uncovered any weaknesses in internal control that would cause concern. However, recommendations for improvement are always welcome and are implemented where feasible.\

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Eastern Municipal Water District for its comprehensive annual financial report for the fiscal year ended June 30, 2013. This was the tenth consecutive year that the District has received this prestigious award. To be awarded a Certificate of Achievement, the District must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

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

Respectfully submitted,



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



Deborah S. Cherney, CPA
Deputy General Manager



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

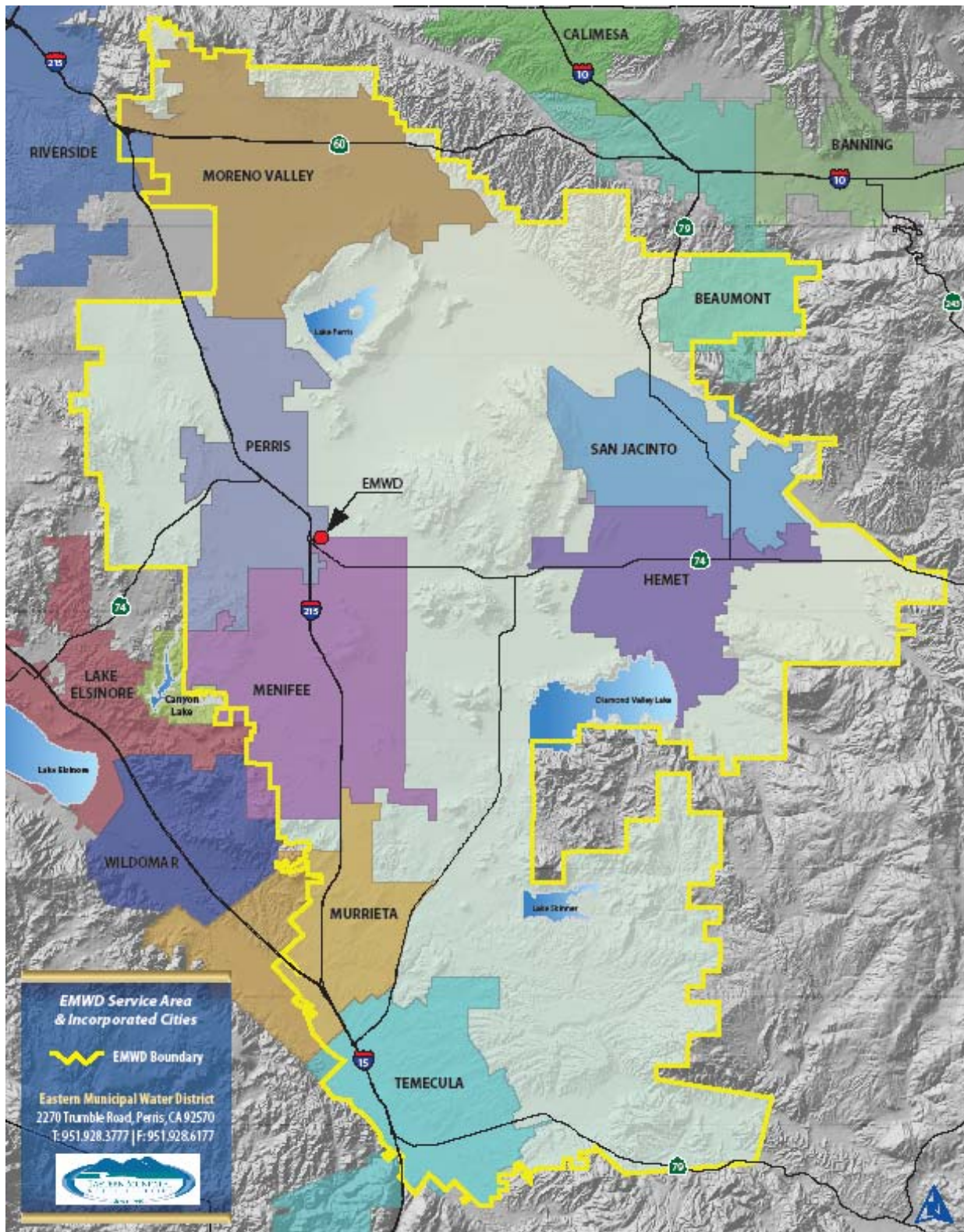
**Eastern Municipal Water District
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO

Service Area Map and Incorporated Cities



District Officials

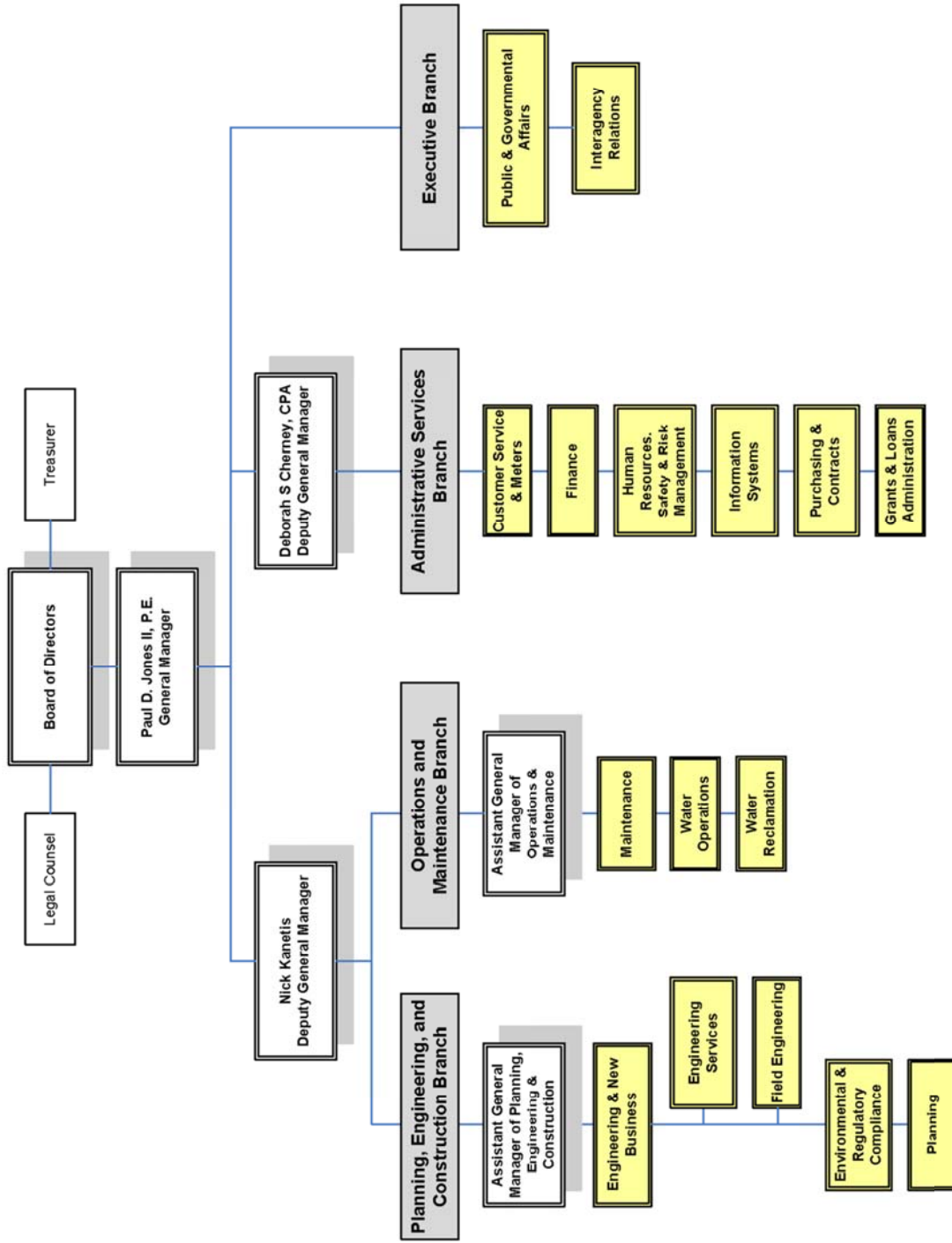
Elected Board of Directors

<u>Position</u>	<u>Name</u>	<u>Elected</u>	<u>Current Term of Office</u>
President	Philip E. Paule	1/2007	1/2011 – 1/2019
Vice President	Randy A. Record	1/2001	1/2013 – 1/2017
Director/Treasurer	Joseph J. Kuebler, CPA	4/2006	1/2011 – 1/2019
Director	David J. Slawson	1/1995	1/2011 – 1/2015
Director	Ronald W. Sullivan	1/2003	1/2013 – 1/2017

District Management

<u>Position</u>	<u>Name</u>
General Manager	Paul D. Jones II, P.E.
Deputy General Manager	Deborah S. Cherney, CPA
Deputy General Manager	Nick Kanetis
Assistant General Manager, Operations and Maintenance	Jeff Wall
Assistant General Manager, Planning, Engineering, and Construction	Charles J. Bachmann

Eastern Municipal Water District Organizational Chart



Financial Section

Wastewater Service

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



Sewer System

Miles of sewer lines	1,799
Treatment plants	5
Active lift stations	48
Sewer service connections	229,000
Average design capacity	68 mgd
Average treated per day	45 mgd



Mayer Hoffman McCann P.C.
An Independent CPA Firm

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Board of Directors
Eastern Municipal Water District
Perris, California

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of the Eastern Municipal Water District (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of June 30, 2014, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the District's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 31, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The *introductory section* and the *statistical section* are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Mayer Hoffman McCann P.C.

Irvine California
October 31, 2014

Management's Discussion and Analysis

We offer readers this narrative overview and analysis of the financial statements of the Eastern Municipal Water District (District) for the fiscal year ended June 30, 2014. Readers are encouraged to consider the information presented in this section in conjunction with the accompanying financial statements and additional information furnished in our letter of transmittal.

Operations

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

Basic Financial Statements

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

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

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

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

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

Financial Highlights

Statement of Net Position June 30, 2014 and 2013

	2014	2013	Increase/(Decrease)	
			Amount	%
Assets				
Current assets	\$272,505,718	\$277,162,633	(4,656,915)	-1.7
Restricted assets	203,743,540	217,399,965	(13,656,425)	-6.3
Net capital assets	2,143,913,467	2,080,422,620	63,490,847	3.1
Other assets	3,498,232	4,029,180	(530,948)	-13.2
Total assets	2,623,660,957	2,579,014,398	44,646,559	1.7
Total deferred outflows of resources	25,364,521	28,095,797	(2,731,276)	-9.7
Liabilities				
Current liabilities	87,630,416	85,287,301	2,343,115	2.7
Other liabilities	228,659,850	242,076,825	(13,416,975)	-5.5
Long-term debt outstanding	782,163,286	761,836,872	20,326,414	2.7
Total liabilities	1,098,453,552	1,089,200,998	9,252,554	0.8
Net position				
Net investment in capital assets	1,300,393,466	1,239,753,130	60,640,336	4.9
Restricted	115,824,667	129,643,479	(13,818,812)	-10.7
Unrestricted	134,353,793	148,512,588	(14,158,795)	-9.5
Total net position	\$1,550,571,926	\$1,517,909,197	32,662,729	2.2
Ratio of liabilities to assets and deferred outflows of resources	41%	42%		

Changes in Financial Condition of the District

The ratio of liabilities to assets and deferred outflows of resources, which indicates the degree to which District assets are financed through borrowing and other obligations, had a minimal decrease from fiscal year 2013 to 2014 and net position increased modestly. The financial position of the District remained strong and steady, providing a foundation for future growth.

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

- Current assets decreased by \$4.7 million due to decreases of \$2.2 million in non-restricted cash; \$2.2 million in other receivables; \$1.9 million in grants receivable; \$0.2 million in prepaid expenses; and \$0.19 million in water inventory. The decreases in other receivable are mainly due to the \$1.9 million decrease in receivable from other agencies for recharge water. The decrease in grants receivable is due to different grants being active each year and the timing of construction costs and reimbursements. The decreases are offset by increases in utility accounts receivable, net of allowances by \$1.4 million and accrued interest receivable by \$0.53 million.

-
- Restricted assets decreased by a net \$13.7 million due to decreases of \$1.4 million in construction cash used to finance District construction projects, and \$12.3 million in debt service cash due to the release of required reserves in remarketing of the 2008C and refunding of the 2008E COPs by the 2014A revenue bonds, and \$0.04 million in notes receivable; offset by an added \$0.06 million in property taxes receivable.
 - Net capital assets increased by a net \$63.5 million due to \$182.7 million of operating assets added to the system; added land of \$2.3 million; and added equipment and general facilities of \$4.9 million; offset by a decrease of \$45.1 million in construction in progress and additional accumulated depreciation totaling \$81.3 million.
 - Other assets decreased by \$0.53 million due to the amortization of net pension assets.
 - Deferred outflows of resources decreased \$2.7 million due to a decrease of \$1.4 million in the fair value of the District's two swap contracts. Both contracts were determined to be hedge effective for fiscal years 2014 and 2013. The remaining \$1.3 million decrease relates to the amortization of deferred charges on debt refunding.
 - Current liabilities increased by a net \$2.3 million due to an increase of \$3.6 million in accounts and other payables, accrued expenses, salaries and benefits; \$1.7 million in the current portion of compensated absences; \$1 million in advances from developers; and \$0.9 million in customer deposits. These increases were offset by decreases of \$4.1 million in current portion of long-term debt (which relates to the refunding of the 2008E COPs by the 2014A revenue bonds that reduces the debt service payments for the next ten years); and a net \$0.7 million in various other current liabilities.
 - Other noncurrent liabilities (noncurrent liabilities except for long term debt) decreased by \$13.4 million due to a net decrease of \$14.5 million in construction advances relating to SRF loan programs for the Acid Phase Anerobic Digester (APAD) project, and the San Jacinto Valley RWRf and Temecula Valley RWRf Expansion projects; a decrease of \$1.4 million in the fair value of swap contracts; and \$1.4 million in compensated absences and other accrued expenses. These decreases were offset by an increase of \$2.1 million in the net other postemployment benefits, and an increase of \$1.8 million in advances from developers.
 - Long-term debt outstanding increased by \$20.3 million due to the added \$43.9 million APAD State Revolving Fund loan and \$0.04 million capital lease obligation; offset by \$7.5 million, \$7.8 million, \$10.0 million and \$2.5 million in scheduled payments and amortized amounts that were recorded in the fiscal year ended June 30, 2014 for advances for construction, notes and assessments payable, revenue bonds, COPs and GO bonds, respectively. Furthermore the portion of long-term debt reported as current was decreased by \$4 million.
 - Net position increased by \$32.7 million; this increase is due to non-operating revenues of \$83.9 million that was offset by non-operating expenses of \$26.6 million; capital contributions from developers of \$44.6 million; and capital grants of \$4.2 million. The increases were offset by the losses from operations of \$73.5 million. Further information regarding restrictions and commitments associated with net position can be found in Notes 10 and 11 to the basic financial statements.

Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended June 30, 2014 and 2013

	2014		2013		Amount	% Change
	Amount	% of Total	Amount	% of Total		
Operating revenues:						
Water sales - domestic	\$ 118,695,153	58.8	\$ 110,468,194	59.0	\$ 8,226,959	7.4
Water sales - irrigation	4,029,022	2.0	1,988,610	1.1	2,040,412	102.6
Sewer service charge	73,100,086	36.2	68,957,128	36.9	4,142,958	6.0
Recycled water sales	6,125,420	3.0	5,676,043	3.0	449,377	7.9
Total operating revenues	<u>201,949,681</u>	<u>100.0</u>	<u>187,089,975</u>	<u>100.0</u>	<u>14,859,706</u>	<u>7.9</u>
Non-operating revenues (expenses):						
Property taxes - general levy	28,061,489	33.4	27,243,490	38.4	817,999	3.0
Property taxes - general bond levy	4,517,348	5.4	5,311,738	7.5	(794,390)	-15.0
Availability (standby) assessments	5,700,591	6.8	5,635,153	7.9	65,438	1.2
Water and sewer connection fees	30,149,861	35.9	20,364,185	28.7	9,785,676	48.1
Interest - operations and restricted funds	3,133,313	3.7	4,485,217	6.3	(1,351,904)	-30.1
Net increase (decrease) in fair value of investments	1,746,290	2.1	(3,694,351)	(5.2)	5,440,641	-147.3
Interest - general obligation bond funds	43,980	0.1	41,069	0.1	2,911	7.1
Grant revenues	969,474	1.2	2,052,613	2.9	(1,083,139)	-52.8
Other revenues	9,568,311	11.4	9,540,375	13.4	27,936	0.3
Gain on disposal of fixed assets	54,359	0.1	38,946	0.1	15,413	39.6
Total non-operating revenues	<u>83,945,016</u>	<u>100.0</u>	<u>71,018,435</u>	<u>100.0</u>	<u>12,926,581</u>	<u>18.2</u>
Total revenues	<u>285,894,697</u>		<u>258,108,410</u>		<u>27,786,287</u>	<u>10.8</u>
Operating expenses:						
Purchased water	63,850,688	23.2	58,445,847	22.2	5,404,841	9.2
Water operations	44,193,507	16.0	40,994,915	15.6	3,198,592	7.8
Sewer operations	42,710,741	15.5	40,279,734	15.3	2,431,007	6.0
Recycled water operations	5,992,372	2.2	5,992,260	2.3	112	0.0
General and administrative	28,352,049	10.3	28,392,519	10.8	(40,470)	-0.1
Depreciation and amortization	82,037,529	29.8	77,162,281	29.3	4,875,248	6.3
Net other postemployment benefits	8,358,000	3.0	11,852,000	4.5	(3,494,000)	-29.5
Total operating expenses	<u>275,494,886</u>	<u>100.0</u>	<u>263,119,556</u>	<u>100.0</u>	<u>12,375,330</u>	<u>4.7</u>
Non-operating expenses:						
Interest - COPs/Revenue Bonds	14,783,498	55.7	15,750,253	61.8	(966,755)	-6.1
Interest - GO Bonds	1,839,045	6.9	1,933,453	7.6	(94,408)	-4.9
Interest - other	1,265,303	4.8	1,194,662	4.7	70,641	5.9
GO bond service fees	57,289	0.2	68,556	0.3	(11,267)	-16.4
Other expenses	8,618,255	32.4	6,543,446	25.7	2,074,809	31.7
Total non-operating expenses	<u>26,563,390</u>	<u>100.0</u>	<u>25,490,370</u>	<u>100.0</u>	<u>1,073,020</u>	<u>4.2</u>
Total expenses	<u>302,058,276</u>		<u>288,609,926</u>		<u>13,448,350</u>	<u>4.7</u>
Loss before contributions	<u>(16,163,579)</u>		<u>(30,501,516)</u>		<u>14,337,937</u>	<u>-47.0</u>
Capital contributions:						
Developer contributions	44,581,002	91.3	19,995,927	65.7	24,585,075	123.0
Capital grants	4,245,306	8.7	10,450,898	34.3	(6,205,592)	-59.4
Total capital contributions	<u>48,826,308</u>	<u>100.0</u>	<u>30,446,825</u>	<u>100.0</u>	<u>18,379,483</u>	<u>60.4</u>
Change in net position	<u>32,662,729</u>		<u>(54,691)</u>		<u>32,717,420</u>	<u>-59,822.3</u>
Net position at beginning of year	1,517,909,197		1,521,989,940		(4,080,743)	-0.3
Adjustment	-		(4,026,052)		4,026,052	
Net position at end of year	<u>1,550,571,926</u>		<u>1,517,909,197</u>		<u>32,662,729</u>	<u>2.2</u>

Changes in Financial Performance of the District

The Revenue by Source and Expenses by Function charts in the statistical section of this report illustrate revenues by source and expenses by function, respectively, for the last ten fiscal years. The following denotes explanations for the major changes between the 2014 and 2013 fiscal years as shown in the previous table.

- Total revenues – Combined revenues including capital contributions for the fiscal year totaled \$334.7 million compared to a prior year of \$288.6 million. This is an increase of approximately \$46.2 million (16.0 percent). The table on the previous page presents a comparison of revenues by major source for the two fiscal years 2014 and 2013.
- Total expenses – Combined expenses for the fiscal year totaled \$302.1 million compared to a prior year of \$288.6 million. This is an increase of approximately \$13.4 million (4.7 percent). The table on the previous page presents a comparison of expenses by category for the two fiscal years 2014 and 2013.
- Water sales – Total domestic and irrigation sales increased approximately \$10.3 million. This change reflects an increase in tiered water rates and a 6.4 percent increase in acre-foot sales.
- Sewer service - Wastewater service charges increased \$4.1 million over the previous years total to end at \$73.1 million. This is primarily attributed to an additional 2,975 sewer connections and a 2.2 percent rate increase effective July 1, 2013.
- Connection fees – These revenues increased by a net \$9.8 million over the prior year. The Board adopted a 16 percent connection fee rate increase effective January 1, 2014. Sewer connections were 2,975 compared to the prior year's 2,550, representing an increase of 16.6 percent and water connections were 2,156 compared to the prior year's 1,464, representing an increase of 47.3 percent.
- Interest earnings – The current fiscal year's interest earnings were lower by \$1.3 million compared to the prior years, due to an average portfolio balance decline from the previous years by \$10.9 million, along with yields on investments averaging 0.86 percent for the year compared to 0.98 percent for the previous year.
- Net (decrease) increase in fair value of investments – In accordance with Governmental Accounting Standards Board Statement No. 31, the District adjusts the value of investments each fiscal year end to reflect fair value. This adjustment amount was \$5.4 million more than the prior year amount due to a lower weighted average maturity and increased security diversity in the investment portfolio in 2014 than in 2013.
- Purchased water – The \$5.4 million increase in expense is primarily due to increased demand for water, which resulted in the purchase of 3,901 acre-feet more untreated water in 2014 than in 2013.
- Depreciation and amortization – The District capitalized a net additional \$187.6 million of depreciable assets over the course of the year, which resulted in the \$4.9 million of additional expense.
- Net other postemployment benefits – This amount is determined by an actuarial calculation as the annual required contribution plus adjustments. It includes actual pay-as-you-go costs for benefits provided to retired employees during the year, plus an estimate of the present value of projected benefits earned by current employees. The estimated amount relating to projected benefits decreased \$3.5 million, this decrease is

primarily because the District continues funding future costs with a contribution of \$2.7 million to an irrevocable trust, and the actual premiums were less than the projected premiums used in previous actuarial calculation.

- Interest – certificates of participation/revenue bonds – The \$0.97 million net decrease is primarily due to a greater amount of interest expense capitalized in the current fiscal year compared to the prior year, combined with lower interest rates on variable rate debt.
- Other non-operating expenses – The \$2.0 million increase is primarily due to current year expense relating to improvements done on customer properties in the Enchanted Heights project, funded partly by the SRF loan principal forgiveness program in the amount of \$4 million.
- Capital contributions from developers - Facilities built by developers and turned over to the District to operate and maintain increased to \$44.6 million compared to \$20.0 million in the previous year, a change of \$24.5 million. This increase mainly relates to increased processing of project closures and additional development activity in the service area.
- Capital contributions from grants - The District actively pursues grant funding and revenues which vary from year to year. Major capital grant revenues for fiscal year 2014 include federal and state of California grants totaling \$2.2 million for the Enchanted Heights Sewer Infrastructures project, federal grant totaling \$0.8 million for the Audie Murphy Ranch Pipeline & San Jacinto Reservoir Pump Station, and state grant of \$0.5 million for the Perris II Desalter Well 93.
- Net position - The financial condition of the District has remained steady for fiscal year 2014. The table on page 5 compares the various categories of assets, liabilities, deferred outflows of resources and net position for the two fiscal years 2014 and 2013.

Capital Assets

Net of accumulated depreciation, the District reported capital assets of \$2,143.9 million in fiscal year 2014 compared to \$2,080.4 million in fiscal year 2013. A comparison of this change is provided below by major category. Refer to Note 3 to the basic financial statements for further information regarding capital assets.

Capital Assets For the Fiscal Years Ended June 30, 2014 and 2013

	2014	2013	Increase/(Decrease)	
			Amount	% Change
Land	\$ 45,790,534	\$ 43,469,609	\$ 2,320,925	5.3
Tunnel water seepage agreement	1,750,900	1,750,900	-	0.0
Water capacity rights	29,657,807	29,657,807	-	0.0
Water plant, lines and equipment	1,057,834,177	985,110,369	72,723,808	7.4
Sewer plant, lines and equipment	1,602,575,684	1,492,619,061	109,956,623	7.4
Equipment and general facilities	122,429,236	117,522,156	4,907,080	4.2
Construction in progress	217,698,701	262,845,195	(45,146,494)	-17.2
Total capital assets	3,077,737,039	2,932,975,097	144,761,942	4.9
Less accumulated depreciation	(933,823,572)	(852,552,477)	(81,271,095)	9.5
Net capital assets	\$ 2,143,913,467	\$ 2,080,422,620	\$ 63,490,847	3.1

Significant additions to capital assets include \$44.6 million in contributed capital from developers. Most of the contributed assets were water and sewer line additions relating to development in the area. Other additions resulted from the completion and capitalization of \$150 million construction in progress.

The three largest District projects that were capitalized during the 2014 fiscal year include the San Jacinto Valley Regional Water Reclamation Facility (SJRWRF) Expansion to 14 million gallons per day (MGD) (\$46.5 million): the Menifee/Perris I Desalters Iron and Manganese Removal Facility (\$21.6 million): and the Perris Water Filtration Plant (PWFP) Reject Recovery Facility (\$9.9 million).

The San Jacinto Valley Regional Water Reclamation Facility (SJRWRF) Expansion to 14 MGD project included the design, construction and upgrade of tertiary treatment facilities and Plant 2 facilities. The tertiary treatment includes expansion of chlorine contact basin, tertiary effluent and utility pump station, filters, etc. The Plant 2 facilities includes new headworks, digesters, primary clarifiers, odor scrubber, secondary clarifiers, aeration basins, operations/maintenance building, sludge thickeners, upgrade of Plant 1 aeration basins, etc. After completion of this project, SJRWRF will have firm capacity of 14 MGD based on annual average flows. This project was substantially completed as of June 30, 2014, with final work to be completed in 2015.

The Menifee/Perris I Desalters Iron and Manganese Removal Facility project includes the design, construction and upgrades to the existing Menifee/Perris I Desalter Facility and the existing well field to allow the facility to operate from 5.2 MGD to ultimate capacity, 8.4 MGD. The work comprises construction of an iron and manganese removal treatment plant within the District's existing Facility, and construction of chlorination facilities for eleven (11) existing wells at ten (10) separate well sites. The facility will use a conventional coagulation/filtration treatment process to remove iron and manganese (among various other constituents) from the brackish

groundwater to acceptable levels to prevent fouling of the downstream reverse osmosis membranes, resulting in utilization of the full rated capacity of the Desalters. This project was substantially completed as of February 28, 2014, with final work to be completed by December 31, 2014.

The Perris Water Filtration Plant (PWFP) Reject Recovery Facility project includes the design and construction of a Reject Recovery Facility (RRF) to provide a new source of water supply and to reduce overall treatment costs. The PWFP membrane treatment process currently rejects flow and discharges the untreated concentrated water to the sewer which is further treated downstream at the PVRWRF. The PWFP is rated at a capacity of 24 MGD and has the ability to treat both Colorado River and State Project source waters. The PWFP is routinely operated at 98% recovery, which yields 0.4 MGD of reject flow at current design capacity. The RRF captures and treats the reject water using low pressure membrane filtration system and the treated effluent water is sent to the head of the plant for further processing. The RRF is configured to treat the reject flows up to 1 MGD (ultimate) at 85% recovery. The reject from the RRF is approximately 0.06 MGD (initially) which will continue to be discharged to the sewer under routine operation. This project was substantially completed as of June 30, 2014, with final work to be completed by October 31, 2014.

The District had \$42,441,662 in construction contract commitments as of June 30, 2014. Refer to Note 11 to the basic financial statements for further information regarding these commitments.

Capital Expenses

During the year, additions to construction in progress totaled approximately \$105.0 million. Some of the major projects currently underway and where expenses in fiscal year 2014 exceeded \$2.0 million include:

	<u>Millions</u>
• San Jacinto Valley RWRF Expansion to 14 MGD	\$ 26.8
• Ten Water and sewer projects between \$1,000,000 to \$2,000,000	15.4
• Sixty-four water and sewer projects between \$100,000 - \$500,000	14.4
• Sixteen water and sewer projects between \$500,000 - \$1,000,000	11.7
• Remaining water and sewer projects with expenses less than \$100,000	8.2
• Wine Country Sewer Infrastructure Project	6.4
• Perris Water Filtration Plant Project Recovery Facility	5.5
• Whitewood Gravity Sewer	4.9
• Warm Springs 30-inch Force Main	3.5
• Enchanted Heights Sewer Infrastructure	3.2
• 500 KW Solar Photovoltaic Renewable Energy Project	2.8
• San Jacinto/MWD Recycle Water Pond Pump Station	2.2
	<u>\$ 105.0</u>

Noncurrent Liabilities

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

The District had a total of \$1,041.3 million of outstanding debt and other noncurrent liabilities at June 30, 2014, a net increase of \$6.0 million or 0.6 percent from the prior year. Total debt increased \$16.2 million to \$801.9 million due the \$43.9 million SRF construction advance for the APAD project converting to a loan with repayment beginning December 2013, and scheduled debt payments and amortization of discount/premium totaling \$27.7 million. The amount of debt and amortizations due within one year total \$19.8 million. To reduce debt service costs, the District restructured the variable rate 2008C COPs and refunded the 2008E COP with the 2014A Refunding Revenue Bonds

Other noncurrent liabilities decreased \$10.2 million, mainly due to a net decrease in SRF construction advances of \$14.5 million and decrease in fair value of the swap contracts of \$1.4 million. These decreases were offset by \$2.1 million increase in net OPEB obligation and \$2.7 million in advances from developers.

The District's parity COP and Revenue Bond debt has been assigned an AA+, Aa2 and AA rating and the subordinate 2014A Refunding Revenue Bonds has been assigned an AA, Aa3, and AA- from Fitch Ratings, Moody's Investors Service, Inc., and Standard & Poor's Rating Services, respectively. More detailed information about the District's long-term debt and other noncurrent liabilities is presented in Note 5 to the basic financial statements.

Contacting the District's Financial Management

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

EASTERN MUNICIPAL WATER DISTRICT

Statement of Net Position

June 30, 2014

(with prior year data for comparison purposes only)

	June 30	
	2014	2013
Assets:		
Current assets:		
Cash and investments (Note 2)	\$ 212,038,291	\$ 214,238,862
Utility accounts receivable, net of allowances	29,580,997	28,214,128
Property taxes receivable	12,170,806	12,121,373
Accrued interest receivable	939,445	409,507
Other receivables	5,143,395	7,266,027
Prepaid expenses	3,001,662	3,200,649
Net pension assets (Note 4)	530,948	530,948
Materials and supplies inventory	3,136,749	3,121,337
Water Inventory (Notes 11)	2,091,314	2,279,683
Grants receivable	3,872,111	5,780,119
Total current assets	272,505,718	277,162,633
Noncurrent assets:		
Restricted assets:		
Debt service/covenants cash and investments (Note 2)	113,649,543	125,928,754
Property taxes receivable	1,539,415	1,477,073
Soboba reimbursement receivable (Note 11)	12,998,778	12,998,778
Construction cash and investments (Note 2)	75,527,588	76,926,242
Notes receivable	28,216	69,118
Total restricted assets	203,743,540	217,399,965
Capital assets (Note 3):		
Land	45,790,534	43,469,609
Tunnel water seepage agreement	1,750,900	1,750,900
Structures, improvements and water rights	2,690,067,668	2,507,387,237
Equipment and general facilities	122,429,236	117,522,156
Construction in progress	217,698,701	262,845,195
Total capital assets	3,077,737,039	2,932,975,097
Less accumulated depreciation	(933,823,572)	(852,552,477)
Total net capital assets	2,143,913,467	2,080,422,620
Other assets:		
Net pension assets (Note 4)	3,498,232	4,029,180
Total noncurrent assets	2,351,155,239	2,301,851,765
Total assets	2,623,660,957	2,579,014,398
Deferred outflows of resources		
Accumulated decrease in fair value of swap contracts (Note 6)	14,120,430	15,517,588
Deferred charges on debt refundings	11,244,091	12,578,209
Total deferred outflows of resources	25,364,521	28,095,797

(Continued on next page)

	June 30	
	2014	2013
Liabilities:		
Current liabilities:		
Accounts payable	\$ 35,501,392	\$ 32,781,809
Accrued salaries and benefits	2,935,094	2,674,180
Customer deposits	8,175,756	7,285,594
Compensated absences (Note 5)	7,625,285	5,949,835
Accrued interest	8,313,409	8,990,295
Other payables	2,231,100	2,224,517
Advances for construction, notes and assessments (Note 5)	3,958,096	3,594,533
Revenue bonds (Note 5)	8,493,590	7,768,590
Certificates of participation (Note 5)	4,753,784	9,983,784
General obligation bonds (Note 5)	2,550,504	2,502,646
Settlement payable (Note 11)	-	2,499
Advances from developers (Note 14)	1,103,429	143,123
Capital lease payable (Note 5)	13,498	-
Other accrued expenses (Note 5)	1,975,479	1,385,896
Total current liabilities	87,630,416	85,287,301
Noncurrent liabilities:		
Compensated absences (Note 5)	5,785,451	6,702,586
Advances for construction, notes and assessments (Note 5)	101,237,573	65,154,855
Revenue bonds (Note 5)	190,031,537	149,880,127
Certificates of participation (Note 5)	454,956,306	508,355,090
General obligation bonds (Note 5)	35,896,296	38,446,800
State Revolving Fund construction advances (Note 5)	127,822,117	142,318,983
Advances from developers (Note 14)	22,616,585	20,853,017
Capital lease payable (Note 5)	41,574	-
Other accrued expenses (Note 5)	5,976,231	6,472,480
Net other postemployment benefits obligation (Note 9)	52,339,036	50,212,171
Fair value of swap contracts (Note 6)	14,120,430	15,517,588
Total noncurrent liabilities	1,010,823,136	1,003,913,697
Total liabilities	1,098,453,552	1,089,200,998
Net position:		
Net investment in capital assets	1,300,393,466	1,239,753,130
Restricted for debt service/covenants (Note 10)	70,625,613	73,268,230
Restricted for construction (Note 10)	45,199,054	56,375,249
Unrestricted (Note 10)	134,353,793	148,512,588
Total net position	1,550,571,926	1,517,909,197

See accompanying notes to the basic financial statements

Eastern Municipal Water District

Statement of Revenues, Expenses and Changes in Net Position

For the Fiscal Year Ended June 30, 2014
(with prior year data for comparison purposes only)

	Fiscal Year Ended June 30	
	2014	2013
Operating revenues:		
Water sales - domestic	\$ 118,695,153	\$ 110,468,194
Water sales - irrigation	4,029,022	1,988,610
Sewer service charge	73,100,086	68,957,128
Recycled water sales	6,125,420	5,676,043
Total operating revenues	201,949,681	187,089,975
Operating expenses:		
Purchased water	63,850,688	58,445,847
Water operations	44,193,507	40,994,915
Sewer operations	42,710,741	40,279,734
Recycled water operations	5,992,372	5,992,260
General and administrative	28,352,049	28,392,519
Depreciation and amortization	82,037,529	77,162,281
Net other postemployment benefits	8,358,000	11,852,000
Total operating expenses	275,494,886	263,119,556
Loss from operations	(73,545,205)	(76,029,581)
Non-operating revenues (expenses):		
Property taxes - general levy	28,061,489	27,243,490
Property taxes - general bond levy	4,517,348	5,311,738
Availability (standby) assessments	5,700,591	5,635,153
Water and sewer connection fees	30,149,861	20,364,185
Interest - operations and restricted funds	3,133,313	4,485,217
Net increase (decrease) in fair value of investments	1,746,290	(3,694,351)
Interest - general obligation bond funds	43,980	41,069
Grant revenues	969,474	2,052,613
Other revenues	9,568,311	9,540,375
Gain on disposal of fixed assets	54,359	38,946
Interest - certificates of participation/revenue bonds	(14,783,498)	(15,750,253)
Interest - general obligation bonds	(1,839,045)	(1,933,453)
Interest - other	(1,265,303)	(1,194,662)
General obligation bond service fees	(57,289)	(68,556)
Other expenses	(8,618,255)	(6,543,446)
Total non-operating revenues	57,381,626	45,528,065
Loss before contributions	(16,163,579)	(30,501,516)
Capital contributions		
Developer contributions	44,581,002	19,995,927
Capital grants	4,245,306	10,450,898
Total capital contributions	48,826,308	30,446,825
Change in net position	32,662,729	(54,691)
Total net position at beginning of year	1,517,909,197	1,521,989,940
Adjustment	-	(4,026,052)
Total net position at end of year	\$ 1,550,571,926	\$ 1,517,909,197

See accompanying notes to the basic financial statements

EASTERN MUNICIPAL WATER DISTRICT
Statement of Cash Flows

For the Fiscal Year Ended June 30, 2014
(with prior year data for comparison purposes only)

	Fiscal Year Ended June 30	
	2014	2013
Cash flows from operating activities		
Receipts from customers	205,544,639	\$ 185,465,043
Receipts from availability (standby) assessments	5,860,100	5,552,779
Other receipts	9,568,311	6,292,677
Payments for water	(63,684,669)	(58,445,847)
Payments to employee for services	(71,029,671)	(66,709,450)
Payments to suppliers for goods and services	(46,635,900)	(69,207,707)
Payments for energy and utilities	(15,766,823)	(13,545,392)
Net cash (used for) provided by operating activities	23,855,987	(10,597,897)
Cash flows from noncapital financing activities		
Proceeds from property taxes, general levy	27,851,864	27,165,703
Proceeds from operating grants	2,228,554	2,244,532
Net cash (used for) provided by noncapital financing	30,080,418	29,410,235
Cash flows from capital and related financing activities		
Acquisitions and construction of capital assets	(94,949,161)	(134,892,228)
Proceeds from sale of capital assets	117,949	95,950
Proceeds from long-term debt issuance	48,645,000	142,877,850
Proceeds from SRF construction advances	26,409,638	20,117,337
Repayment of notes, bonds and certificates of participations	(75,281,718)	(126,985,877)
Interest paid	(21,373,159)	(21,023,534)
Proceeds from property taxes, GO bond levy	4,455,006	5,087,323
Proceeds from water and sewer connection fees	30,149,861	20,364,185
Proceeds from developer advances	11,397,314	7,559,630
Repayments of developer advances	(8,673,440)	(8,730,717)
Proceeds from capital grants	4,894,234	22,064,482
Net cash (used for) capital and related financing activities	(74,208,476)	(73,465,599)
Cash flows from investing activities		
Purchases of investments	(147,716,006)	(103,528,176)
Proceeds from sales and maturities of investments	47,234,313	310,422,702
Proceeds from earnings on investments	2,647,355	5,217,739
Net cash provided by investing activities	(97,834,338)	212,112,265
Total (decrease) increase in cash and cash equivalents	(118,106,409)	157,459,004
Cash and cash equivalents at beginning of year	275,381,190	117,922,186
Cash and cash equivalents at end of year (Note 2)	157,274,781	\$ 275,381,190

(Continued on next page)

EASTERN MUNICIPAL WATER DISTRICT

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2014
(with prior year data for comparison purposes only)

	Fiscal Year Ended June 30	
	2014	2013
Reconciliation of loss from operations to net cash provided by (used for) operating activities:		
Loss from operations	(73,545,205)	\$ (76,029,581)
Adjustments to reconcile loss from operations to net cash provided by (used for) operating activities:		
Depreciation and amortization expense	82,037,529	77,162,281
Other revenues	7,181,605	8,451,740
(Increase) decrease in utility accounts receivable	(1,366,869)	(2,936,216)
(Increase) decrease in other receivables	2,282,824	(5,724,305)
(Increase) decrease in prepaid expenses	198,987	(876,750)
(Increase) decrease in materials and supplies inventory	(15,412)	73,471
(Increase) decrease in water inventory	188,369	(2,279,683)
(Increase) decrease in notes receivable	40,902	(8,588)
(Increase) decrease in accounts payable	1,326,665	(6,681,817)
(Increase) decrease in accrued expenses	1,753,749	1,557,480
(Increase) decrease in customer deposits	890,162	534,100
(Increase) decrease in settlement payable	(2,499)	(9,997,501)
(Increase) decrease in compensated absences	758,315	136,472
(Increase) decrease in net other postemployment benefits obligation	2,126,865	6,021,000
Net cash (used for) provided by operating activities	23,855,987	\$ (10,597,897)
 Reconciliation of cash and cash equivalent to statement of net position:		
Current cash and investments	212,038,291	\$ 214,238,862
Restricted cash and investments:		
Debt service/covenants	113,649,543	125,928,754
Construction	75,527,588	76,926,242
Total cash and investments	401,215,422	417,093,858
Less investments	243,940,641	141,712,668
Cash and cash equivalents (Note 2)	157,274,781	\$ 275,381,190
 Noncash capital, financing, and investing activities		
Capital asset contributions from developers	44,581,002	\$ 19,995,927
Net increase (decrease) in fair value of investments	1,746,290	(3,694,351)
Amortization of bond premiums, discounts, and loss on debt refundings	234,098	841,360

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, 2014

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

Reporting Entity

The Eastern Municipal Water District (District) was formed in October 1950, under the California Water Code for the primary purpose of importing Colorado River Water to augment local water supplies. In 1962, the District began providing wastewater treatment services to customers within its service area and, as a consequence, has become actively involved in the production of recycled water (i.e., wastewater which has been treated to a level acceptable for nondomestic purposes) and has been recognized as an industry leader in the management of ground water basins and the related beneficial uses of recycled water. The District's water and wastewater customers include retail customers (e.g., residential, commercial and agricultural) located in both incorporated and unincorporated areas within the District's service area, as well as wholesale customers (e.g., municipalities and local water Districts) located within its service area.

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

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

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

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

Basis of Accounting and Measurement Focus

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

The District uses the economic resources measurement focus and the accrual basis of accounting. Measurement focus determines what is measured in a set of financial statements and under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Cash and Investments

Investments are stated at their fair value, which represents the quoted or stated market value. Investments that are not traded on a market, such as investments in external pools, are valued based on the stated fair value as represented by the external pool. Guaranteed investment contracts are carried at cost because they are not transferable and have terms that are not affected by changes in market interest rates.

Cash Equivalents

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

Classification of Revenues and Expenses

An enterprise fund distinguishes operating revenues and expenses from non-operating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for domestic, agricultural and irrigation, and recycled water sales, and sewer service charges. Operating expenses for the District include the cost of sales and services, administrative expenses, and depreciation of capital assets.

Non-operating revenues and expenses are those revenues and expenses generated that are not directly associated with the normal business of supplying water and wastewater treatment services. Non-operating revenues mainly consist of property taxes, availability (standby) assessments, investment income, connection fees, and miscellaneous income. Capital contributions consist of facilities built by developers and turned over to the District to operate and maintain; and federal, state and private grants used to fund capital assets. Non-operating expenses mainly consist of debt service interest and debt-related fees.

Eastern Municipal Water District
Notes to the Basic Financial Statements

(continued)

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

Capital Assets

Both purchased capital assets and self-constructed capital assets are recorded at cost. The cost of self-constructed assets includes direct labor, material, contracted services, overhead and interest on funds borrowed to finance construction. Contributed capital assets are recorded at fair market value at the time they are received. These assets consist primarily of distribution lines and connections constructed and donated by developers. The District follows the capitalization thresholds shown below for all purchased or constructed assets. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

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

Assets	Years
Water source of supply and treatment	30-40
Water storage and distribution	20-40
Wastewater collection system and lift stations	35-100
Wastewater treatment plants	40-50
Recycled water storage and distribution	40-50
Capacity rights	40
Meters and service connections	20-25
Buildings and improvements	10-35
Office and general equipment	5-10
Automotive pool	5-15

Allowance for Doubtful Accounts

An allowance for doubtful accounts has been established for utility accounts receivables that are 60 or more days delinquent at year-end. This allowance is netted against the receivable on the Statement of Net Position and amounts to \$850,608 and \$842,850 at June 30, 2014 and 2013, respectively.

Inventories

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

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

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

Restricted Assets

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

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

Generally, restricted resources are not commingled with unrestricted resources in financing projects and activities, and are used for specific types of projects for which such funding is designated. When both restricted and unrestricted resources are available for use, the District may use restricted resources or unrestricted resources, depending upon the type of project or activity, as determined by Board action.

Revenue Recognition

Revenues are recognized when earned. Metered water accounts are read and billed daily on 30-day cycles. Wastewater customers are also billed and included with the water billing. In certain areas of the District, the wastewater billing is handled by another water utility agency, but is accrued as revenues by the District each month. Collections are forwarded monthly, based on actual receipts. Unbilled water and wastewater charges are accrued for the period from the last meter reading through year-end and are included in accounts receivable. Unbilled accounts receivable amounted to \$8,313,969 and \$7,217,378 at June 30, 2014 and 2013, respectively.

Property Taxes

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

The property tax calendar is as follows:

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

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

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

Debt Discounts, Premiums, and Deferred Amounts on Refunding

General obligation bond, revenue bond, and certificate of participation premiums and discounts are deferred and amortized over the term of the bonds. The discounts and premiums are presented as an addition (or reduction) of the face amount of the debt. Furthermore, in accordance with GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, deferred charges on refunding are presented as deferred outflows of resources on the Statement of Net Position.

Compensated Absences

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

Use of Estimates

The financial statements are prepared in conformity with generally accepted accounting principles, and therefore include amounts that are based on management's best estimates and judgments. Accordingly, actual results could differ from those estimates.

Prior Year Data

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the District's prior year financial statements, from which this selected financial data was derived. Certain immaterial amounts in fiscal year 2013 have been reclassified to conform to the fiscal year 2013 presentation. Such reclassifications had no effect on the previously reported change in net position.

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

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

Interest Rate Swap Contracts

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

Fair values of these interest rate swap contracts are reported as liabilities, and its changes in the fair value are reported as deferred outflows of resources in the statement of net position. As of June 30, 2014 and June 30, 2013, all potential hedging instruments of the District are considered effective hedges.

2. Cash and Investments

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

	2014	2013
Current assets	\$ 212,038,291	\$ 214,238,862
Restricted assets:		
Debt service/covenants	113,649,543	125,928,754
Construction	75,527,588	76,926,242
Totals	\$ 401,215,422	\$ 417,093,858

Cash and investments at June 30 consisted of the following:

	2014	2013
Cash on hand	\$ 4,900	\$ 4,900
Deposits with financial institutions	8,673,875	80,368,358
Investments	392,536,647	336,720,600
Total cash and investments	\$ 401,215,422	\$ 417,093,858

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

	2014	2013
Demand accounts and on hand	\$ 8,678,775	\$ 80,373,258
Local Agency Investment Fund (LAIF)	58,797,449	58,774,317
Investment Trust of California (CalTRUST)	50,832,179	59,377,295
Money market mutual funds	38,966,378	76,856,320
Total cash and cash equivalents	\$ 157,274,781	\$ 275,381,190

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

2. Cash and Investments (continued)

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

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

Investment Types Authorized by State Law	Authorized by Investment Policy	Maximum Maturity*	Maximum Percentage of Portfolio*	Maximum Investment in One Issuer*
U.S. treasury obligations	Yes	5 Years	None	None
U.S. agency securities	Yes	5 Years	None	None
Bankers' acceptances	Yes	180 Days	40%	30%
Negotiable certificates of deposit	Yes	1 Year	30%	25%
Commercial paper	Yes	270 Days	25%	10%
Repurchase agreements	No ¹	1 Year	None	None
Reverse repurchase agreements	No	92 Days	20%	None
Medium-term notes	Yes	5 Years	30%	25%
Mortgage pass – through securities	No	5 Years	None	None
LAIF	Yes	None	None	\$50,000,000
CA local agency securities	Yes	5 Years ²	30% ³	25% ³
Mutual funds	No	N/A	None	None
Money market mutual funds	Yes	N/A	15%	10%
County pooled investment funds	No	N/A	None	None
Joint powers authority (CalTRUST)	Yes	N/A	15%	15%
Investment contracts	Yes	None	None	None

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

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

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

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

Eastern Municipal Water District
Notes to the Basic Financial Statements

(continued)

2. Cash and Investments (continued)

Investments Authorized by Debt Agreements

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

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

Interest Rate Risk

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

Information about the sensitivity of the fair values of the District's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the table on the following page, which shows the distribution of the District's investment by remaining maturity.

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

2. Cash and Investments (continued)

Interest Rate Risk (continued)

Investment Type	Total Amount	12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
U.S. agency securities:					
Federal Farm Credit Bank (FFCB)	\$ 38,498,720	\$ -	\$ 4,973,750	\$33,524,970	\$ -
Federal Home Loan Bank (FHLB)	34,729,150	-	-	34,729,150	-
Federal Home Loan Mortgage Corp. (FHLMC)	14,821,500	-	-	14,821,500	-
Federal National Mortgage Assn. (FNMA)	62,604,350	-	22,925,250	39,679,100	-
Corporate – Fixed	37,160,676	1,011,110	15,301,650	20,847,916	-
Corporate – Floating	23,201,292	4,200,892	5,003,360	13,997,040	-
Municipal	29,792,299	2,002,740	16,206,105	11,583,454	-
LAIF	50,014,937	50,014,937	-	-	-
Investment Trust of California (CalTRUST)	50,832,179	-	50,832,179	-	-
Money market mutual funds	2,858,250	2,858,250	-	-	-
Held by trustee:					
LAIF	8,782,512	8,782,512	-	-	-
Money market mutual funds	36,108,128	36,108,128	-	-	-
Guaranteed investment contracts (GICs)*	3,132,654	-	-	-	3,132,654
Total investments	\$392,536,647	\$ 104,978,569	\$115,242,294	\$169,183,130	\$ 3,132,654

* The District's GIC is with AIG Matched Funding Corporation (AIG). The contract required AIG to deposit securities as collateral with Wells Fargo Bank Minnesota, NA at a value of at least 105% of the investment balance. The termination of the investment contract and release of collateral would occur in the event of default by AIG. As of June 30, 2014, AIG was not in default and the value of the investment exceeded 105% of the investment balance.

Investments with Fair Value Highly Sensitive to Interest Rate Risk

Highly sensitive investments are investments whose sensitivity to market interest rate fluctuations are not fully addressed by use of one of the five methods for reporting interest rate risk as specified by the GASB No.40. As of June 30, 2014 the District had \$23,201,292 invested in corporate floating notes.

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

2. Cash and Investments (continued)

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The table below shows the minimum rating required by the California Government Code, the District's investment policy, or debt agreements, and the actual Standard & Poor's Rating Services credit rating as of year-end for each investment type.

Investment Type	Total Amount	Min. Legal Rating	Rating at End of Year			
			AAA	AA	A	Unrated
U.S. agency securities:						
FFCB	\$ 38,498,720	N/A	\$ -	\$ 38,498,720	\$ -	\$ -
FHLB	34,729,150	N/A	-	34,729,150	-	-
FHLMC	14,821,500	N/A	-	14,821,500	-	-
FNMA	62,604,350	N/A	-	62,604,350	-	-
Corporate – Fixed	37,160,676	A	2,060,020	18,213,660	16,886,996	-
Corporate – Floating	23,201,292	A	-	19,199,982	4,001,310	-
Municipal	29,792,299	N/A	-	26,137,886	3,654,413	-
LAIF	50,014,937	N/A	-	-	-	50,014,937
CalTRUST	50,832,179	N/A	-	-	-	50,832,179
Money market mutual funds	2,858,250	AAA*	2,858,250	-	-	-
Held by trustee:						
LAIF	8,782,512	N/A	-	-	-	8,782,512
Money market mutual funds	36,108,128	N/A	36,108,128	-	-	-
Guaranteed investment contracts	3,132,654	N/A	-	-	-	3,132,654
Total investments	\$ 392,536,647		\$41,026,398	\$ 214,205,248	\$24,542,719	\$ 112,762,282

* Money market mutual funds are rated AAAM by S&P and Aaa-mf by Moodys at June 30, 2014. These ratings meet minimum rating requirements.

Concentration of Credit Risk

This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Investments in any one issuer other than U.S. Treasury securities, mutual funds and external investment pools that represent five percent or more of the District's total investments are shown below as of June 30, 2014.

Issuer	Investment Type	Reported Amount
FNMA	U.S. agency securities	\$ 62,604,350
FHLB	U.S. agency securities	34,729,150
FFCB	U.S. agency securities	38,498,720

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

2. Cash and Investments (continued)

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of a failure of the counter party (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits. As of June 30, 2014, 100 percent of the District's investments were held in collateralized accounts in the District's name.

Investment in State Investment Pool

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

Investment in Investment Trust of California (CalTRUST)

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

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

3. Capital Assets

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

	Beginning Balance June 30, 2013	Additions	Reductions	Ending Balance June 30, 2014
Capital assets, not being depreciated:				
Land	\$ 43,469,609	\$ 2,320,925	\$ -	\$ 45,790,534
Tunnel Water Seepage Agreement	1,750,900	-	-	1,750,900
Construction in progress	262,845,195	105,002,288	(150,148,782)	217,698,701
Total capital assets, not being depreciated	308,065,704	107,323,213	(150,148,782)	265,240,135
Capital assets, being depreciated:				
Water plant, lines and equipment	985,110,369	72,723,808	-	1,057,834,177
Water capacity rights	29,657,807	-	-	29,657,807
Sewer plant, lines and equipment	1,492,619,061	110,017,196	(60,573)	1,602,575,684
Equipment and general facilities	117,522,156	5,676,530	(769,450)	122,429,236
Total capital assets, being depreciated	2,624,909,393	188,417,534	(830,023)	2,812,496,904
Less accumulated depreciation for:				
Water plant, lines and equipment	323,927,918	34,781,875	-	358,709,793
Water capacity rights	6,547,111	712,317	-	7,259,428
Sewer plant, lines and equipment	439,683,792	40,290,858	(9,464)	479,965,186
Equipment and general facilities	82,393,656	6,252,479	(756,970)	87,889,165
Total accumulated depreciation	852,552,477	82,037,529	(766,434)	933,823,572
Total capital assets, being depreciated, net	1,772,356,916	106,380,005	(63,589)	1,878,673,332
Capital assets, net	\$2,080,422,620	\$213,703,218	\$(150,212,371)	\$2,143,913,467

The net interest cost capitalized during fiscal years ended June 30, 2014 and 2013 was \$5,986,828 and \$4,924,837, respectively.

Depreciation expense breakdown for 2014:

Water	\$ 27,783,532
Sewer	41,154,762
Recycled	5,879,993
General/Administrative	7,219,242
Total	\$ 82,037,529

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

3. Capital Assets (continued)

The District entered into a Tunnel Water Seepage Agreement with the Metropolitan Water District (MWD) in 1951 to set the terms and conditions of annexation to the MWD service area. Among other provisions, the agreement provided that for all future time, the tunnel water seepage of MWD's San Jacinto tunnel would come under the control and be delivered free to the District. In 1953, the District established an intangible asset that represented the value of this agreement based on an engineering report by Warren O. Wagner, consulting hydraulic engineer. The original appraisal was established at \$1,669,000 based on an annual value of this additional water at 5,840-acre feet per year at \$10.00 per acre-foot and a money value of 3.5 percent. This value was reevaluated in 1957 with Mr. Wagner and a revised value of \$1,750,900 was established based on \$12.00 per acre-foot and a 4.0 percent value of money. This agreement is not amortized because it has an indefinite useful life.

4. Net Pension Assets

The District amended its California Public Employees Retirement System (PERS) contract on January 4, 1998 to implement a 2.0 percent at 55 retirement program. The actuarial division of PERS determined that the present value impact on the District was an unfunded liability of \$4,939,895. This would have resulted in an employer rate increase of 1.495 percent of eligible payroll over the next 20 years. However, the District opted to pay this liability in advance and is amortizing this prepaid amount over the next 20 years. The current portion is \$246,995, and the balance of future expense is \$658,701 at June 30, 2014.

The District amended its PERS contract on August 5, 2005 to implement a 2.5 percent at 55 retirement program. The actuarial division of PERS determined that the present value impact on the District was an unfunded liability of \$5,679,062. This would have resulted in an employer rate increase of 2.145 percent of eligible payroll over the next 20 years. However, the District opted to pay this liability in advance and is amortizing this prepaid amount over the next 20 years. The current portion is \$283,953, and the balance of future expense is \$2,839,531 at June 30, 2014.

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

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

5. Noncurrent Liabilities

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

	Beginning Balance June 30, 2013	Additions	Reclassification	Reductions	Ending Balance June 30, 2014	Due Within One Year
Long-term Debt						
Advances for construction, notes and assessments:						
CA DWR Prop 82	\$ 1,791,067	\$ -	\$ -	\$ (157,540)	\$ 1,633,527	\$ 161,982
CA DWR Prop 204	1,134,933	-	-	(99,827)	1,035,106	102,642
CA DWR Prop 204 (HWFP)	27,369,504	-	-	(1,491,322)	25,878,182	1,525,408
San Jacinto Z LLC	151,032	-	-	(100,457)	50,575	50,575
SWRCB SRF loan (APAD)	-	-	43,908,096	(2,110,632)	41,797,464	2,117,489
SWRCB SRF loan (SCATT)	38,302,852	-	-	(3,502,037)	34,800,815	-
Total notes payable	68,749,388	-	43,908,096	(7,461,815)	105,195,669	3,958,096
Capital lease obligations	-	74,975	-	(19,903)	55,072	13,498
Revenue bonds:						
2011A refunding	48,770,000	-	-	(6,940,000)	41,830,000	7,665,000
2012A refunding	50,000,000	-	-	-	50,000,000	-
2013A refunding	54,575,000	-	-	-	54,575,000	-
2014A refunding	-	48,645,000	-	-	48,645,000	-
Unamortized premium	4,303,717	-	-	(828,590)	3,475,127	828,590
Total revenue bonds	157,648,717	48,645,000	-	(7,768,590)	198,525,127	8,493,590
Certificates of participation:						
2006A	102,595,000	-	-	(3,985,000)	98,610,000	4,180,000
2007A refunding	20,400,000	-	-	(85,000)	20,315,000	90,000
2008A refunding	55,350,000	-	-	(290,000)	55,060,000	295,000
2008C refunding	52,980,000	-	-	(5,435,000)	47,545,000	-
2008D refunding	45,175,000	-	-	-	45,175,000	-
2008E refunding	48,645,000	-	-	(48,645,000)	-	-
2008G	50,000,000	-	-	-	50,000,000	-
2008H	140,035,000	-	-	-	140,035,000	-
Net unamort prem/disc	3,158,874	-	-	(188,784)	2,970,090	188,784
Total COPs	518,338,874	-	-	(58,628,784)	459,710,090	4,753,784
General obligation bonds:						
2005	14,074,000	-	-	(555,000)	13,519,000	580,000
2009	26,361,000	-	-	(1,865,000)	24,496,000	1,940,000
Net unamort prem/disc	514,446	-	-	(82,646)	431,800	30,504
Total GO bonds	40,949,446	-	-	(2,502,646)	38,446,800	2,550,504
Sub-total	785,686,425	48,719,975	43,908,096	(76,381,738)	801,932,758	19,769,472
Other Noncurrent Liabilities						
State Revolving Fund construction advances	142,318,983	29,411,230	(43,908,096)	-	127,822,117	-
Advances from developers	20,996,140	11,397,314	-	(8,673,440)	23,720,014	1,103,429
Settlement payable	2,499	-	-	(2,499)	-	-
Other accrued expenses	7,858,376	2,663,951	-	(2,570,617)	7,951,710	1,975,479
Compensated absences	12,652,421	9,894,855	-	(9,136,540)	13,410,736	7,625,285
Net OPEB obligation	50,212,171	10,721,473	-	(8,594,608)	52,339,036	-
Fair value of swap contracts	15,517,588	-	-	(1,397,158)	14,120,430	-
Sub-total	249,558,178	64,088,823	(43,908,096)	(30,374,862)	239,364,043	10,704,193
Total Noncurrent Liabilities	\$1,035,244,603	\$ 112,808,798	\$ -	\$ (106,756,600)	\$1,041,296,801	\$ 30,473,665

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

5. Noncurrent Liabilities (continued)

Future principal and interest requirements on all long-term debt as of June 30, 2014 is as follows:

Year Ending June 30:	Principal	Interest	Total
2015	\$ 18,721,594	\$ 20,883,703	\$ 39,605,297
2016	19,362,325	20,242,169	39,604,494
2017	20,202,500	19,223,323	39,425,823
2018	19,031,105	18,282,826	37,313,931
2019	19,512,931	17,365,482	36,878,413
2020-24	136,364,722	73,659,925	210,024,647
2025-29	138,800,214	53,399,327	192,199,541
2030-34	150,835,350	30,701,726	181,537,076
2035-39	174,455,000	4,517,486	178,972,486
2040-44	52,295,000	138,868	52,433,868
2045-48	45,475,000	22,353	45,497,353
Sub-total	795,055,741	258,437,188	1,053,492,929
Add: Unamortized premium/discount	6,877,017	-	6,877,017
Total	\$ 801,932,758	\$ 258,437,188	\$ 1,060,369,946

Advances for Construction, Notes and Assessments

Future principal and interest payments on all advances for construction, notes and assessments as of June 30, 2014 are as follows:

Year Ending June 30:	Principal	Interest	Total
2015	\$ 3,958,096	\$ 829,019	\$ 4,787,115
2016	5,732,868	1,125,664	6,858,532
2017	5,803,166	1,055,366	6,858,532
2018	5,874,342	984,188	6,858,530
2019	5,946,911	911,620	6,858,531
2020-24	30,529,722	3,425,416	33,955,138
2025-29	29,990,214	1,562,417	31,552,631
2030-33	17,360,350	304,042	17,664,392
Total	\$105,195,669	\$10,197,732	\$115,393,401

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

5. Noncurrent Liabilities (continued)

Advances for Construction, Notes and Assessments (continued)

Water Conservation Bond Law of 1988 (Proposition 82)

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

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

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

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

The total loan amount to the District for the Hemet Water Filtration Plant is \$42,098,388 repayable in semiannual payments of approximately \$1,052,460 including principal and imputed interest. The loan contract required that the District make certain payments to the State in order to receive loan advances. The District's recorded liability for this obligation has been presented net of these required payments, which totaled \$8,419,718. The loan contract carries no stated interest rate, however interest has been imputed at approximately 2.273 percent with calculated amounts ranging from \$11,825 to \$311,011. Semiannual payments began January 1, 2009 with the final payment scheduled for July 1, 2028.

San Jacinto Z LLC Agreement

The Board approved a settlement agreement with San Jacinto Z LLC (SJZ) on November 16, 2011. The agreement provides for the District to pay \$1,000,000 to SJZ, to be amortized in semi-annual payments over 3 years at an interest rate of 0.92 percent. Payments are due by June 1 and December 1 each year until paid in full. In December 2012, the District executed an additional settlement agreement, which included a loan prepayment of \$442,500.

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

5. Noncurrent Liabilities (continued)

Advances for Construction, Notes and Assessments (continued)

Clean Water State Revolving Fund (SRF)

On June 23, 2009, the District executed a project financing agreement with the State of California Water Resources Control Board to provide financing under the Clean Water State Revolving Fund for the construction costs of the Moreno Valley RWRf Secondary Clarifier and Tertiary Treatment Expansion (SCATT) project. Construction for this project was completed in December 2011. The total loan amount to the District is \$38,302,852 repayable in annual payments of approximately \$2,122,225 including principal and interest beginning July 5, 2013 with the final payment scheduled for July 5, 2032. This agreement was partly funded with U.S. American Recovery and Reinvestment Act of 2009 (ARRA) funds which were used to decrease the interest rate to 1.0 percent.

On September 15, 2009, the District executed a project financing agreement with the State of California Water Resources Control Board to provide financing under the Clean Water State Revolving Fund. This financing agreement is for planning, design and construction costs relating to the Moreno Valley RWRf Acid Phase Anaerobic Digestion (APAD) project. This project consists of upgrading various current and adding new facilities that will result in increased secondary and tertiary treatment capacity for solid waste. Construction for this project was completed in September 2013. The total loan amount to the District is \$43,908,096 repayable in annual payments of \$2,293,874 including principal and interest beginning March 16, 2014 with the final payment scheduled for March 16, 2033.

Clean Water State Revolving Fund (SRF) Construction Advances

On March 23, 2011, the District executed a project financing agreement with the State of California Water Resources Control Board to provide financing under the Clean Water State Revolving Fund. This financing agreement is for planning, design and construction costs relating to the San Jacinto Valley RWRf Title 22 Tertiary Treatment Upgrade and Plant 2 Facilities project. This project consists of modifying and constructing new facilities to increase reliable capacity from 7.5 to 14.0 MGD with improved efficiency and better effluent quality. The agreement provides \$145,000,000 in funding with a future 20-year loan at an interest rate of 2.7 percent. Loan repayment is expected to begin in November 2016. Construction advances and capitalized interest totaling \$110,472,152 for this project were recorded through June 30, 2014.

On August 19, 2011, the District executed a project financing agreement with the State of California Water Resources Control Board to provide financing under the Clean Water State Revolving Fund. This financing agreement is for planning, design and construction costs relating to the Temecula Valley RWRf 18 MGD Reliable Capacity Upgrade project. This project consists of increasing tertiary treatment to comply with reliability standards, effectively attaining the 18 MGD permitted capacity and replacing portions of existing facilities and equipment to improve operational efficiencies. The agreement provides \$18,422,420 in funding with a future 20-year loan at an interest rate of 2.6 percent. Loan repayment is expected to begin in December 2015. Construction advances and capitalized interest totaling \$17,349,965 for this project were recorded through June 30, 2014.

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

5. Noncurrent Liabilities (continued)

Clean Water SRF Construction Advances (continued)

On May 9 2012, the District executed a project financing agreement with the State of California Water Resources Control Board to provide financing under the Clean Water State Revolving Fund. This financing agreement is for construction costs relating to the Enchanted Heights Sewer System project. This project consists of connecting individual residences to a new collection system, including house laterals, and abandoning existing septic tanks. The agreement provides \$5,000,000 in “contingent principal forgiveness” loan funding. The District will be required to repay the principal only if it does not satisfy the conditions for the agreement. The District expects to comply with the terms of the agreement and does not anticipate having to repay the \$5,000,000. Therefore, in accordance with generally accepted accounting principles, funding amounts received during the fiscal year and reimbursable amounts expensed but not claimed as of June 30, 2014 were accounted for as grant revenues and receivables in the financial statements.

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

Revenue Bonds

Future principal and interest payments on all revenue bonds as of June 30, 2014 are as follows:

Year Ending June 30:	Principal	Interest	Total
2015	\$ 7,665,000	\$ 1,798,510	\$ 9,463,510
2016	8,015,000	1,444,835	9,459,835
2017	8,420,000	1,076,060	9,496,060
2018	4,145,000	824,760	4,969,760
2019	4,310,000	609,110	4,919,110
2020-24	9,275,000	782,393	10,057,393
2025-29	20,285,000	289,450	20,574,450
2030-34	23,705,000	224,632	23,929,632
2035-39	60,585,000	134,541	60,719,541
2040-44	22,600,000	21,033	22,621,033
2045-48	26,045,000	6,627	26,051,627
Sub-total	195,050,000	7,211,951	202,261,951
Add: Unamortized premium	3,475,127	-	3,475,127
Total	<u>\$ 198,525,127</u>	<u>\$ 7,211,951</u>	<u>\$ 205,737,078</u>

Eastern Municipal Water District
Notes to the Basic Financial Statements

(continued)

5. Noncurrent Liabilities (continued)

Revenue Bonds

2011A Refunding Revenue Bonds

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

Prepaid Certificates	Principal Prepaid/Retired	Use of Proceeds
2011A Refunding Certificates	\$ 40,175,000	Deposited in 1991A Escrow Fund
2011C Refunding Certificates	3,470,000	Deposited in 1993A Escrow Fund
2008D Refunding Certificates	8,180,000	Retired COPs maturing 2012-2016
2008E Refunding Certificates	10,005,000	Retired COPs maturing 2012-2016

The 2011A Bonds include principal installments due in varying amounts from \$4,145,000 to \$8,420,000 annually from July 1, 2012 to July 1, 2020, with interest payable semiannually at varying rates from 2.00 to 5.00 percent per annum.

2012A Refunding Revenue Bonds

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

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

The 2012A Bonds include principal installments due in varying amounts from \$16,000,000 to \$17,290,000 annually from July 1, 2036 to July 1, 2038, with interest payable monthly at an interest rate level initially set equivalent to a Securities Industry and Financial Market Association (SIFMA)-indexed rate plus 0.02 percent. In May 2014, the interest rate on the 2012A Bonds was reset at the SIFMA rate plus 0.01 percent. The interest rate on the 2012A Bonds resets each time the Bonds are remarketed, which is no less frequently than every 13 months. The future interest amounts are calculated at the rate in effect at June 30, 2014, which was 0.05 percent. The average annual interest rate experienced in the fiscal year was 0.07 percent and the actual interest paid was \$33,005 for the fiscal year.

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

5. Noncurrent Liabilities (continued)

Revenue Bonds (continued)

2013A Refunding Revenue Bonds

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

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

The 2013A Bonds include principal installments due in varying amounts from \$3,805,000 to \$5,370,000 annually from July 1, 2024 to July 1, 2035, with interest payable monthly at an interest rate level equivalent to a SIFMA-indexed rate plus 0.02 percent. The interest rate on the 2013A Bonds resets each time the 2013A Bonds are remarketed, which is generally every 90 – 270 days. In June 2014, the interest rate on the 2013A Bonds was reset at the SIFMA rate plus 0.02 percent. The future interest amounts are calculated at the rate in effect at June 30, 2014, which was 0.06 percent. The average annual interest rate experienced in the fiscal year was 0.08 percent and the actual interest paid was \$43,645 for the fiscal year.

2014A Refunding Revenue Bonds

In June 2014, the District issued \$48,645,000 in Refunding Revenue Bonds, Series 2014A. The net proceeds were used to pay the costs of executing and delivering the 2014A Bonds, and advance refund the 2008E Refunding Certificates of Participation. The 2014A Bonds were issued as a subordinate lien which improves the debt service coverage on the outstanding senior debt, provides for lower debt service from 2014 through 2019, and releases \$4.5 million in reserves for use to fund capital projects, and is supported by a new standby liquidity agreement at a reduced cost.

The proceeds of the 2014A Bonds were deposited in an irrevocable trust with an escrow agent for the payment of the 2008E Certificates, and as a result, these Certificates are considered defeased and the liability for the Certificates has been removed from the Statement of Net Position. The transactions reduced annual debt service payment by \$2.0 to \$2.2 million from 2018 through 2034 and resulted in no economic loss other than the cost to underwrite. The reacquisition price equaled the net carrying amount of the old debt.

The 2014A Bonds include principal installments due in varying amounts from \$5,350,000 to \$6,860,000 annually from July 1, 2040 to July 1, 2047, interest payable monthly at a variable rate for a weekly period. The future interest amounts are calculated at the rate in effect at June 30, 2014, which was 0.01 percent. There has been no interest payment made on this bond as of June 30, 2014.

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

5. Noncurrent Liabilities (continued)

Certificates of Participation

Future principal and interest payments on total certificates of participation as of June 30, 2014 are as follows:

Year Ending June 30:	Principal	Interest	Total
2015	\$ 4,565,000	\$ 16,397,112	\$ 20,962,112
2016	4,645,000	15,884,419	20,529,419
2017	4,970,000	15,349,249	20,319,249
2018	7,960,000	14,777,947	22,737,947
2019	8,170,000	14,197,482	22,367,482
2020-24	90,370,000	62,019,876	152,389,876
2025-29	81,620,000	45,720,254	127,340,254
2030-34	101,300,000	26,290,773	127,590,773
2035-39	105,595,000	2,878,745	108,473,745
2040-44	28,115,000	73,398	28,188,398
2045-48	19,430,000	15,726	19,445,726
Sub-total	456,740,000	213,604,981	670,344,981
Add: Unamortized premium/discount	2,970,090	-	2,970,090
Total	<u>\$ 459,710,090</u>	<u>\$ 213,604,981</u>	<u>\$ 673,315,071</u>

2006A Certificates of Participation

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

The 2006A Certificates include principal installments due in varying amounts from \$2,965,000 to \$6,350,000 annually from July 1, 2013 to July 1, 2035, with interest payable semiannually at rates per annum ranging from 3.75 percent to 5.00 percent.

2007A Refunding Certificates of Participation

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

The 2007A Certificates include principal installments due in varying amounts from \$85,000 to \$6,860,000 annually from July 1, 2013 to July 1, 2023, with interest payable semiannually at rates ranging from 4.00 percent to 5.00 percent.

Eastern Municipal Water District
Notes to the Basic Financial Statements

(continued)

5. Noncurrent Liabilities (continued)

Certificates of Participation (continued)

2008A Refunding Certificates of Participation

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

The 2008A Certificates include principal installments due in varying amounts from \$290,000 to \$8,090,000 annually from July 1, 2013 to July 1, 2030, with interest payable monthly at a variable rate for a weekly period. The average annual interest rate experienced in the fiscal year was 0.04 percent and the actual interest paid was \$21,073 plus an additional \$1,522,679 to the counterparty.

The following table incorporates the net swap payments associated with the 2008A Certificates and the related financial instrument. Using a variable interest rate of 0.03 percent as of June 30, 2014, the debt service requirements of the 2008A Certificates and the associated swap payments, assuming the current and the reference interest rates remain the same for their term, are as follows. As rates vary, the variable rate interest payments and net swap payments on the financial instruments will vary. Refer to Note 6 to the basic financial statements for additional information regarding the financial instrument associated with the 2008A Certificates.

Year Ending June 30:	Principal	Interest	Net Payment to Counterparty	Total
2015	\$ 295,000	\$ 16,437	\$ 1,643,874	\$ 1,955,311
2016	305,000	16,372	1,634,661	1,956,033
2017	310,000	16,227	1,625,546	1,951,773
2018	330,000	16,154	1,615,608	1,961,762
2019	335,000	16,054	1,605,570	1,956,624
2020-24	1,845,000	78,675	7,865,873	9,789,548
2025-29	35,710,000	48,855	4,689,210	40,448,065
2030-32	15,930,000	2,820	282,575	16,215,395
Total	\$ 55,060,000	\$ 211,594	\$ 20,962,917	\$ 76,234,511

Eastern Municipal Water District
Notes to the Basic Financial Statements

(continued)

5. Noncurrent Liabilities (continued)

Certificates of Participation (continued)

2008C Refunding Certificates of Participation

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

The 2008C Certificates include principal installments due in varying amounts from \$5,435,000 to \$7,955,000 annually from July 1, 2013 to July 1, 2020, with interest payable monthly at a variable rate for a weekly period. The District may prepay all or part of the certificates at any time at par. The average annual interest rate experienced in the fiscal year was 0.05 percent and the actual interest paid was \$23,143 plus an additional \$2,308,374 to the counterparty.

The table on the following page incorporates the net swap payments associated with the 2008C Certificates and the related financial instrument. Using a variable interest rate of 0.05 percent as of June 30, 2014, the debt service requirements of the 2008C Certificates and the associated swap payments, assuming the current and the reference interest rates remain the same for their term, are as follows. As rates vary, the variable rate interest payments and net swap payments on the financial instruments will vary. Refer to Note 6 to the basic financial statements for additional information regarding the financial instrument associated with the 2008C Certificates. On June 10, 2014, the 2008C COP were remarketed, and the principal payment schedule was amended to begin principal payments in 2040 (last payment in fiscal year ending 2047). The swap agreement was unchanged and therefore net payment to counterparty is based upon the original debt service schedule whereas the principal and interest amendments to the 2008C COP are reflected in the schedule.

Year Ending June 30:	Principal	Interest	Net Payment to Counterparty	Total
2015	\$ -	\$ 19,018	\$ 2,047,557	\$ 2,066,575
2016	-	19,018	1,754,742	1,773,760
2017	-	19,018	1,446,332	1,465,350
2018	-	19,018	1,120,740	1,139,758
2019	-	19,018	777,198	796,216
2020-24	-	95,090	446,482	541,572
2025-29	-	95,090	-	95,090
2030-34	-	95,090	-	95,090
2035-39	-	95,090	-	95,090
2040-44	28,115,000	73,398	-	28,188,398
2045-47	19,430,000	15,726	-	19,445,726
Total	\$ 47,545,000	\$ 564,574	\$ 7,593,051	\$ 55,702,625

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

5. Noncurrent Liabilities (continued)

Certificates of Participation (continued)

2008D Refunding Certificates of Participation

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

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

The remaining 2008D Certificates include principal installments due in varying amounts from \$2,645,000 to \$11,820,000 annually from July 1, 2017 to July 1, 2023, with interest payable monthly at a variable rate for a weekly period. The District may prepay all or part of the remaining certificates at any time at par. The future interest amounts are calculated using the interest rate in effect at June 30, 2014, which was 0.04 percent. The average annual interest rate experienced in the fiscal year was 0.05 percent and the actual interest paid was \$21,969 and \$55,865 for the fiscal years ended June 30, 2014 and June 30, 2013, respectively.

2008E Refunding Certificates of Participation

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

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

In June 2014, the District issued \$48,645,000 in Refunding Revenue Bonds, Series 2014A. The net proceeds (after cost of issuance) were used to prepay the remaining outstanding 2008E Certificates and were deposited in an irrevocable trust with an escrow agent. This was done to improve the debt service coverage, provides lower debt service from 2014 to 2019, and release \$4.5 million in reserves for use in capital projects. The 2008E Certificates are considered defeased and the liability for these Certificates has been removed from the Statement of Net Position.

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

5. Noncurrent Liabilities (continued)

Certificates of Participation (continued)

2008G Certificates of Participation

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

The 2008G Certificates include principal installments due in varying amounts from \$16,000,000 to \$17,290,000 annually from July 1, 2036 to July 1, 2038, with interest payable monthly at a variable rate for a weekly period. The District may prepay all or part of the certificates at any time at par. The future interest amounts are calculated using the interest rate in effect at June 30, 2014, which was 0.01 percent. The average annual interest rate experienced in the fiscal year was 0.05 percent and the actual interest paid was \$23,740 and \$60,629 for the fiscal years ended June 30, 2014 and June 30, 2013, respectively.

2008H Certificates of Participation

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

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

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

5. Noncurrent Liabilities (continued)

General Obligation (GO) Bonds

Future principal and interest payments on total general obligation bonds as of June 30, 2014 are as follows:

Year Ending June 30:	Principal	Interest	Total
2015	\$ 2,520,000	\$ 1,855,658	\$ 4,375,658
2016	955,000	1,784,807	2,739,807
2017	995,000	1,741,233	2,736,233
2018	1,040,000	1,695,407	2,735,407
2019	1,085,000	1,647,265	2,732,265
2020-24	6,190,000	7,432,240	13,622,240
2025-29	6,905,000	5,827,206	12,732,206
2030-34	8,470,000	3,882,280	12,352,280
2035-39	8,275,000	1,504,200	9,779,200
2040	1,580,000	44,437	1,624,437
Sub-total	38,015,000	27,414,733	65,429,733
Add: Unamortized premium/discount	431,800	-	431,800
Total	<u>\$ 38,446,800</u>	<u>\$ 27,414,733</u>	<u>\$ 65,861,533</u>

The District's general obligation bonds are callable prior to maturity, subject to certain call premiums. The liability for the general district bonds and improvements within the respective special districts, and the funds for retirement thereof, are derived from a bond redemption levy based on the assessed valuation within the individual improvement districts. At June 30, 2014, general obligation bonds authorized but not issued total \$547,650,000.

2005A General Obligation Bonds

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

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

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

5. Noncurrent Liabilities (continued)

General Obligation (GO) Bonds (continued)

2009 General Obligation Bonds

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

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

Debt Service Reserve Funds

The District is required to maintain a Debt Service Reserve Fund to be used for the payment of principal and interest of its Certificates of Participation and certain loans in the event that the District has not provided the Trustee with sufficient funds by the installment payment date to make the required installment sale payments. The current required reserve amount as determined by the bond documents and the reserve balance at June 30, 2014 for each outstanding debt issue is as follows:

Description	Required	Actual	Excess
2006A COP	\$ 8,613,961	\$ 8,639,592	\$ 25,631
2007A COP	3,661,088	3,852,604	191,516
2008A COP	5,651,000	5,667,209	16,209
2008D COP	5,476,000	5,533,360	57,360
2008G COP	5,000,000	5,031,145	31,145
2008H COP	14,003,500	14,007,474	3,974
Subtotal - COPs	42,405,549	42,731,384	325,835
Prop. 82 loan - \$3.15M	212,545	212,621	76
Prop. 204 loan - \$2.00M	134,955	135,005	50
Prop. 204 loan - \$42.10M*	1,280,493	1,281,004	511
Subtotal - Loans	1,627,993	1,628,630	637
Total	\$ 44,033,542	\$ 44,360,014	\$ 326,472

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

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

5. Noncurrent Liabilities (continued)

Master Resolution

The District adopted Resolution No. 2667, entitled "A Resolution of the Board of Directors of the Eastern Municipal Water District Providing for the Allocation of Water and Sewer Revenues" (the "Master Resolution") to establish various reserves and covenants of which the following are required to be maintained:

1) Debt Coverage Ratio

The District has covenanted that Net Water and Sewer Revenues shall be at least 1.15 times the sum of all Debt Service on all Parity Obligations, plus the amount of all deposits required to be made to the Operating Reserve Fund. As of June 30, 2014, the District's parity obligation debt service coverage ratio was 2.1 times.

2) Operating Reserve Fund

The District has covenanted that it will maintain a minimum of one quarter of its annual maintenance and operating costs as set forth in its operating budget in a separate reserve fund. The required reserve amounts at June 30, 2014 and 2013 were \$39,394,828 and \$38,365,185, respectively. The actual reserve balances at June 30, 2014 and 2013 were \$41,247,723 and \$38,139,186, respectively.

Standby Certificate Purchase Agreements

Included in long-term debt at June 30, 2014, is \$197,780,000 Variable Rate Certificates of Participation, Series 2008A, 2008C, 2008D, 2008E, 2008G, and 2014A Revenue Bonds (collectively, the Supported Variable Rate Debt). The Supported Variable Rate Debt have a tender provision for certificate holders, on 7 days notice, to tender their certificates/bonds at par value plus accrued interest. In connection with the issuance of the Supported Variable Rate Debt, the District executed Standby Purchase Agreements (SPA) between the Corporation and various banks. The SPA is terminated prior to the expiration date only if there is an occurrence of "events of defaults". As of June 30, 2014, there were no outstanding certificates or bonds that have been tendered but failed to be remarketed. The bank and expiration date for each SPA at June 30, 2014 for each Supported Variable Rate Debt is:

Description	SPA Bank	SPA Expiration Date
2008A COP	Wells Fargo Bank, N.A.	1/31/2015
2008C COP	Mizuho Corporate Bank, Ltd.	*6/01/2014
	U.S. Bank National Association	10/06/2017
2008D COP	U.S. Bank National Association	1/31/2015
2008E COP	Wells Fargo Bank, N.A.	**06/10/2014
2008G COP	Mizuho Corporate Bank, Ltd.	6/26/2015
2014A Bond	Wells Fargo Bank, N.A.	06/12/2017

*Substituted with agreement with US Bank National Association

** 2008E Certificates were advanced refunded and considered defeased in June 2014, by the issuance of 2014A Refunding Revenue Bond.

Eastern Municipal Water District
Notes to the Basic Financial Statements

(continued)

6. Interest Rate Swap Contracts

Plan Description

The fair value balances and notional amounts of financial instruments (instruments) outstanding subject to the requirements of Governmental Accounting Standards Board Statement No. 53 at June 30, 2014, classified by type and the changes in fair value of such instruments for the year then ended are shown in the following table.

	Changes in Fair Value		Fair Value at June 30, 2014		Notional
	Classification	Amount	Classification	Amount	
Cash flow hedges:					
(2008A COP) Pay-fixed interest rate swap					
Deferred outflow		\$ 386,525	Debt	\$ (7,810,487)	\$ 55,060,000
(2008C COP) Pay-fixed interest rate swap – cost of funds					
Deferred outflow		\$(1,783,683)	Debt	\$ (6,309,943)	\$ 45,385,000

The fair values of the interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by each swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

Objective and Terms of Financial Instruments

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

The following table displays the objective and terms of the District's financial instruments outstanding at June 30, 2014, along with the credit rating of the associated counterparty.

Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms	Counterparty Credit Rating
Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2008A COP debt issue	\$ 55,060,000	1/31/2008	7/1/2030	Pay 3.1%; receive 66% of 1-month LIBOR from UBS	S&P: A Moody's: A2
Pay-fixed interest rate swap – cost of funds	Hedge of changes in cash flows on the 2008C COP debt issue	\$ 45,385,000	6/1/08	7/1/2020	Pay 5.135%; receive the variable rate on the EMWD 2008C COPs from AIG	S&P: A- Moody's: Baa1

Eastern Municipal Water District

Notes to the Basic Financial Statements

(continued)

6. Interest Rate Swap Contracts (continued)

Credit Risk

The counterparty credit ratings as of June 30, 2014 are shown in the table on the previous page. If the counterparty credit rating is lowered to or below Baa1 by Moody's Investors Service (Moody's) or BBB+ by Standard & Poor's (S&P), the financial instruments may be terminated. The counterparty credit ratings for UBS either met or exceeded these rating requirements at June 30, 2014; the counterparty credit ratings for AIG were split with the S&P rating exceeding the rating requirement and the Moody's rating being below the rating requirement. As noted below and in the Subsequent Events (Note 15), the District is considering options to novate the swap contracts to a new counterparty with higher credit ratings.

Interest Rate Risk

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

Basis Risk

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

Termination Risk

The financial instruments may be terminated by the District or its counterparty if the other party fails to perform under the terms of the contract. In addition, the District has the option to terminate the financial instruments upon proper notification to the counterparties. If the financial instruments are terminated, the District would prospectively pay the variable rates on the 2008A and 2008C COPs rather than fixed rate payments under the financial instruments. The termination could therefore increase the District's total debt service. If, at the time of termination, the financial instrument is in a liability position, the District would be liable to the counterparty for a payment equal to the negative fair value. As of June 30, 2014 and June 30, 2013, the financial instruments had a combined negative fair value of \$14,120,430 and \$15,517,588, respectively. The District is considering options to novate the swap contracts to a new counterparty under substantially similar terms.

Collateral Requirements

The financial instruments include provisions that require the District to post collateral in the event its credit rating falls below A- as issued by Fitch Ratings and Standard & Poor's Rating Services, or A3 as issued by Moody's Investors Service. The collateral posted is required to be in the form of cash or U.S. Treasury securities in the amount of the fair value of the financial instrument, net of agreed upon adjustments. If the District does not post collateral, the financial instruments may be terminated by the counterparties. At June 30, 2014, the aggregate fair value of all financial instruments with these collateral posting provisions is a negative \$14,120,430. If the collateral posting requirements were triggered at June 30, 2014, the District would be required to post \$14,120,430 to its counterparties. The District's credit rating for the 2008A and 2008C Certificates is AA+/Aa2/AA by Fitch Ratings, Moody's Investors Service, Inc. and Standard & Poor's Rating Services, respectively; therefore, no collateral was posted at June 30, 2014.

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

7. Defined Benefit Pension Plan

Plan Description

The District contributes to the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement, disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Copies of PERS' annual financial report can be obtained through their website at: www.calpers.ca.gov/index.jsp?bc=/about/forms-pubs/calpers-reports/comprehensive-annual-financial.xml.

All full-time and certain part-time District employees are eligible to participate in PERS with benefits vesting after five years of service. District employees who retire at age 55 with five years of credited service are entitled to an annual retirement benefit, payable monthly for life, in increasing percentage increments up to the maximum amount of their specific plan during their highest consecutive twelve month period, for each year of credited service. For employees hired prior to November 4, 2010, the maximum amount is 2.5 percent, and for employees hired on or after this date and before January 1, 2013, this amount is 2.0 percent.

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

Funding Policy

The required employer contribution rate is 15.344 percent, as determined by the annual PERS valuation. However, in July 2013, the District prepaid the required contribution as a lump-sum discounted amount of \$7,695,750, which reduced the effective employer contribution rate by \$283,373.

For the 2.5 percent at 55 plans, District employees are required to contribute 8 percent of their annual salary to PERS. Of this 8 percent, the District funds 6.5 percent as agreed to in negotiations with its union. Total required employee contribution for the fiscal year ended June 30, 2014 was \$3,536,624; and of this amount, the District contributed \$2,940,712 on behalf of employees. Total required employee contribution for the fiscal year ended June 30, 2013 was \$3,601,660; and of this amount, the District contributed \$3,151,453 on behalf of employees.

For the 2.0 percent at 55 plan (employees hired after November 2010), District employees are required to contribute 7 percent of their annual salary to PERS. Of this 7 percent, the District funds 3 percent as agreed to in negotiations with its union. Total employee required contribution for the fiscal year ended June 30, 2014 was \$238,485; and of this amount the District contributed \$102,208 on behalf of employees. Total employee required contribution for the fiscal year ended June 30, 2013 was \$182,598; and of this amount the District contributed \$78,256 on behalf of employees.

The contributions were made in accordance with actuarially determined requirements computed through an actuarial valuation performed prior to the beginning of each fiscal year by the PERS Actuarial Division.

Eastern Municipal Water District Notes to the Basic Financial Statements

(continued)

7. Defined Benefit Pension Plan (continued)

Funding Policy (continued)

For the 2.0 percent at 62 plan (employees hired after January 2013), District employees are required to contribute 6.25 percent of their annual salary to PERS. Employees are responsible for the entire 6.25% (as agreed to in negotiations with its unions, effective July 28, 2013). Total employee required contribution for the fiscal year ended June 30, 2014 was \$40,956; the amount contributed by the District on behalf of the employees (for pay periods prior to July 28, 2014) was \$568. Total employee required contribution for the fiscal year ended June 30, 2013 was \$2,133; and of this amount the District contributed \$768 on behalf of employees.

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, 2013 to June 30, 2014 has been determined by an actuarial valuation of the plan as of June 30, 2011. The contribution rate for the indicated period is 15.344 percent of payroll for the Retirement Program. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2014, the contribution rate, as modified by any amendments for the year, is multiplied by the payroll of covered employees that were paid during the period from July 1, 2013 to June 30, 2014.

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

Valuation date	June 30, 2011
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll
Average remaining period	23 years as of the valuation date
Asset valuation method	15 year smoothed market
Actuarial assumptions:	
Investment rate of return	7.75% (net of administrative expenses) 3.55% to 14.45% depending on age, service, and type of employment
Projected salary increases	
Inflation rate	3.00%
Payroll growth	3.25%
Individual salary growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%.

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

Eastern Municipal Water District
Notes to the Basic Financial Statements

(continued)

7. Defined Benefit Pension Plan (continued)

Trend Information

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

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

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06/30/12	\$ 10.95	100%	\$ -
06/30/13	10.24	100%	-
06/30/14	10.74	100%	-

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

Actuarial Valuation Date	(A) Entry Age Actuarial Accrued Liability (AAL)	(B) Actuarial Value of Assets	(C) Unfunded AAL (UAAL) (A)-(B)	Actuarial Funded Ratio (B)/A)	(D) Covered Payroll	UAAL as a Percentage of Covered Payroll (C)/(D)
06/30/12	\$ 294.70	\$ 237.98	\$ 56.71	80.8%	\$ 47.99	118.2%

8. Defined Contribution Plan

The District maintains the EMWD Security Trust 401a Plan, a defined contribution money purchase pension plan that is qualified under Internal Revenue Code Section 401(a). The District has an agreement with Nationwide Retirement Solutions (Nationwide) whereby Nationwide receives, invests, and reports on the funds sent to them on behalf of eligible employees. Contribution requirements of the District are established and may be amended through the memorandum of understanding between the District and its union. Employees are vested in the funds contributed on their behalf after one year of service and have several investment options within the lineup of funds available at Nationwide. The 401a Plan was adopted in January 1978 and may be amended by the District, provided Nationwide joins in such amendment. The District's required contributions to the 401a Plan are 7.15 percent of each eligible employee's compensation, up to a maximum annual compensation of \$16,500. The District's contributions to the 401a Plan were \$731,090 and \$716,696 in fiscal years ended June 30, 2014 and 2013, respectively.

In July 2011, the District executed a plan amendment to its 401a Plan to provide for a contribution to this 401a Plan on behalf of the General Manager in accordance with his employment contract. Contributions to this 401a Plan were \$35,661 and \$22,769 in fiscal years ended June 30, 2014 and 2013, respectively.

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

9. Postemployment Benefits Other Than Pensions

Plan Description

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

Tier 1 (hired prior to 8/1/05) – District pays up to the greater of Blue Shield or Kaiser Southern CA non-Medicare (basic) premium coverage, less retiree cost-sharing contributions. The cost-sharing monthly contribution is up to \$43.33 for family coverage and required starting on December 16, 2014 and \$86.67 starting on December 16, 2015.

Tier 2 (hired from 8/1/05 to 3/26/14) – District pays the greater of Tier 1 contribution (after cost sharing) or PEMHCA published average of the four health benefit plans that had the largest state enrollment, multiplied by vesting percentage according to PEMHCA section 22893. Vesting percentages range from 50% to 100% for retirees with CalPERS service of 10 year to 20 years or more. Under the PEMHCA section 22893 the District's monthly contribution for Tier 2 is up to \$1,515 and \$1,559 in 2013 and 2014.

Tier 3 (hired after 3/26/14) – District's contribution is PEMHCA minimum amount of \$115/month and \$119/month in 2013 and 2014.

The District also provides healthcare benefits to elected official retirees in accordance with the District's Ordinance No. 70. This plan contributes up to the District's contribution amount for employees and dependent coverage.

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

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

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

9. Postemployment Benefits Other Than Pensions (continued)

Funding Policy and Annual OPEB Cost

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

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

On April 18, 2012, the Board of Directors approved an initial prefunding amount of ten percent of the property tax revenues received in the prior fiscal year. This amount was calculated as \$2,724,025 based on fiscal year ended June 30, 2013 revenues. In addition to this payment, the District contributed annual estimated pay-as-you-go costs totaling \$3,399,110 to the CERBT Program to maximize investment earnings on these funds. Both of these contributions were made in July 2013. The District continued to fund annual pay-as-you-go costs directly and in July 2014, requested reimbursement from CERBT for actual fiscal year pay-as-you-go contributions made during the fiscal year ended June 30, 2014.

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

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

9. Postemployment Benefits Other Than Pensions (continued)

Funding Policy and Annual OPEB Cost (continued)

Contribution rates:

District 100% of pay-as-you-go amounts for employee and elected official monthly health care and life premiums; additionally prefund \$2,724,025 with CERBT for FY2013/14.

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

Annual required contribution (ARC)	\$8,469,000
Interest on net OPEB obligation (NOO)	2,887,000
Amortization on NOO	<u>(2,998,000)</u>
Annual OPEB cost	8,358,000
Contributions made	(6,123,135)
Implied subsidy benefit payments	<u>(108,000)</u>
Increase in net OPEB obligation	2,126,865
Net OPEB obligation – beginning of year	<u>50,212,171</u>
Net OPEB obligation – end of year	<u>\$52,339,036</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation (liability) for 2012 through 2014 are shown in the following table.

Plan	Year Ended	Annual OPEB Cost	Actual Contributions	Percentage of OPEB Cost Contributed	Net OPEB Obligation
Retired Employees/Elected	06/30/12	\$ 15,286,000	\$ 2,620,589	17.1%	\$ 44,191,171
Officials Healthcare and Life	06/30/13	11,852,000	5,740,000	48.4%	50,212,171
Insurance Plans	06/30/14	8,358,000	6,231,135	74.55%	52,339,036

Funded Status and Funding Progress

The funded status of the plans as of June 30, 2013, the plan's most recent actuarial valuation date, is shown in the following table (dollar amounts in thousands). Actuarially determined amounts were not calculated separately for each plan. The Schedule of Funding Progress, presented as required supplementary information following the notes to the basic financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability.

Actuarial accrued liability (a)	\$ 94,723
Actuarial value of plan assets (b)	<u>6,956</u>
Unfunded actuarial accrued liability (funding excess) (a) – (b)	\$ 87,767
Funded ratio (b)/(a)	7.0%
Covered Payroll – active plan members (c)	\$ 51,485
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ((a)-(b))/(c)	170.5%

Eastern Municipal Water District

Notes to the Basic Financial Statements

(continued)

9. Postemployment Benefits Other Than Pensions (continued)

Funded Status and Funding Progress (continued)

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

Actuarial Methods and Assumptions

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

Valuation date	June 30, 2013		
Actuarial cost method	Entry age normal		
Amortization method	Level percent of payroll		
Remaining amortization period	26 years as of the valuation date		
Asset valuation method	Gains and losses spread over a 5-year rolling period		
Actuarial assumptions:			
Pre-funding	10% of property tax revenue, grading to full ARC less expected benefit payments for 2023/24		
Investment rate of return	Ranges from 5.75% in 2013/14 to 7.25% in 2030/31		
General inflation rate	3.00%		
Payroll growth	3.25%		
Healthcare cost trend rate	Fiscal	<u>(% Increase Over Prior Year)</u>	
	<u>Year</u>	<u>Non-Medicare</u>	<u>Medicare</u>
	2013	Actual PEMHCA ¹ / Kaiser A Premiums	
	2014	Actual PEMHCA / Kaiser A Premiums	
	2015	8.0%	8.3%
	2014-2021	Decreases 0.5%	Decreases 0.5% to
	2021+	each year 5.0%	0.6% each year 5.0%
	<u>Active</u>	<u>Retired</u>	<u>Total</u>
Plan participants ²	617	354	971

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

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

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

10. Restricted and Unrestricted Net Position

Restricted Net Position

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

Unrestricted Net Position

As required by GASB Statement No. 34, net position has been classified according to guidelines established for restricted assets. However, the unrestricted net position, although not legally restricted, has been established pursuant to Board Resolution No. 3359 and is primarily composed of reserves for various purposes. The unrestricted net position at June 30, 2014 consists of:

Replacement and system betterment reserve	\$ 108,389,061
Operational debt service reserve	19,269,663
General liability and workers compensation reserve	787,486
Other reserves	<u>5,907,583</u>
Total unrestricted net position	<u><u>\$ 134,353,793</u></u>

11. Commitments

Construction Contracts

The District is committed to approximately \$42,441,662 of open construction contracts as of June 30, 2014. The contracts with the largest remaining balances include:

	Contract Amount	Balance To Complete
Rebid – Wine Country PH 1 Pipelines	\$ 14,351,066	\$ 8,567,655
SJVRWRF Title 22 & Plant 2 Facilities	116,205,729	6,334,948
Olive Ave Sewer Improvements PH1	6,666,666	6,323,916
Longview Tank	4,243,659	3,762,039
Lettermen Booster Pump Station	4,852,519	3,385,911
Watson Rd & Longview LN Pipelines	3,861,777	3,117,327
MVRWRF & TVRWRF Maintenance Building	3,180,800	2,982,902
Daily II Reservoir	3,361,392	2,978,779
Watson Road Booster	3,111,000	2,274,021
MVRWRF Dewatering Odor Control & Conveyance	2,454,111	980,045
Total	<u><u>\$ 162,288,719</u></u>	<u><u>\$ 40,707,543</u></u>

Eastern Municipal Water District
Notes to the Basic Financial Statements

(continued)

11. Commitments (continued)

Claims and Judgments

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

The District maintains excess insurance coverage of \$10,000,000 per occurrence with a \$750,000 self-insured retention per incident for losses sustained because of liability imposed on the District by the Workers' Compensation Act. For general liability, the District maintains excess insurance coverage of \$10,000,000 per occurrence with a \$1,000,000 self-insured retention.

Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. The liability for claims and judgments is included in other accrued expenses. The District did not have any nonincremental claims adjustment expenses that needed to be included as part of the unpaid claims liability. In November 2012, a structured workers compensation settlement was reached, which included a present value of \$5.3 million in future payments calculated using a discount rate of 3 percent over 30 years. Changes in claims payable for the years ended June 30 are as follows:

	Beginning Balance June 30, 2013	Additions	Reductions	Ending Balance June 30, 2014	Due Within One Year
General liability claims	\$ 405,000	\$ 26,693	\$ (152,144)	\$ 279,549	\$ 279,549
Workers compensation claims	7,009,780	1,401,297	(1,215,268)	7,195,809	1,500,000
General damage claims	-	214,236	(214,236)	-	-
Dental claims	11,115	797,346	(766,799)	41,662	41,662
Total unpaid claims	\$ 7,425,895	\$ 2,439,572	\$ (2,348,447)	\$ 7,517,020	\$ 1,821,211

	2014	2013
Unpaid claims, beginning	\$ 7,425,895	\$ 5,691,584
Incurred claims and changes in estimates	2,439,572	3,822,316
Claim payments	(2,348,447)	(2,088,005)
Unpaid claims, ending	\$ 7,517,020	\$ 7,425,895

There was no significant reduction in insurance coverage by major categories of risk from fiscal year 2013 to 2014. There were no settlements that exceeded insurance coverage for the two prior fiscal years ended June 30, 2014 and 2013. However, the settlement discussed above did exceed the District's coverage at the time of the legal decision and the District subsequently purchased excess insurance coverage.

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

11. Commitments (continued)

Soboba Settlement Act

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

The Settlement Agreement provides that:

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

The District's share for the construction of the facilities and use of Tribe's water is estimated to be \$8,966,222. The District and local agencies established a financing plan for the construction costs of the facilities. This plan is based upon the repayment schedule for the 2008H COP and requires the local agencies to contribute towards principal payments totaling \$12,998,778 and interest payments at their proportionate share. All amounts paid or accrued relating to the financing plan are recorded on the District's books.

In association with this settlement agreement, the stipulated judgment required that a watermaster be established to develop and implement a water management plan and administer the provisions of the judgment. The Hemet-San Jacinto Watermaster (Watermaster) was established on April 18, 2013 and began operations in June 2013. Prior to formation of the Watermaster, the local agencies established an interim plan for imported water deliveries from MWD for in-lieu and replenishment water. The local agencies have agreed that the District will continue to purchase and deliver in-lieu and replenishment water and bill the agencies directly on behalf of the Watermaster. The District recorded a \$388,326 receivable from Watermaster for outstanding billings of water purchased and delivered to other agencies at June 30, 2014.

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

11. Commitments (continued)

Soboba Settlement Act (continued)

In addition, the District established a methodology for valuing its share of the native groundwater in the Hemet-San Jacinto Groundwater Basin, including additions and withdrawals and recorded \$2,091,314 and \$1,173,899 in water inventory for the fiscal years ended June 30, 2014 and June 30, 2013, respectively. The District's methodology identifies various water layers in the basin and assigns a zero dollar value to native water, with additions of imported Settlement Agreement water valued at purchase cost and withdrawals valued at a weighted average cost of all inventory layers. The following table illustrates the changes in water inventory for the fiscal years ended June 30, 2014 and June 30, 2013.

	Beginning Balance June 30, 2013	Additions	Reductions	Ending Balance June 30, 2014
Acre feet	86,834	4,544	(14,045)	77,333
Dollar value	\$ 2,279,683	\$ 193,198	\$ (381,567)	\$ 2,091,314

Special Funding District Bonds

These bonds are not direct liabilities of the District, and their payment is secured by valid liens on certain lands. Reserves have been established from the bond proceeds to meet delinquencies, should they occur. Neither the faith and credit nor the taxing power of the District is pledged to the payment of the bonds. If delinquencies occur beyond the amounts held in those reserves, the District has no duty to pay those delinquencies out of any other available funds. The District acts solely as an agent for those paying assessments or special taxes and the bondholders. The Special Funding District Bonds outstanding at June 30, 2014 and 2013, were \$214,697,804 and \$203,520,562 respectively, and are not included in the District's financial statements.

12. Contingencies

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

13. Santa Ana Watershed Project Authority

The District became a member of the Santa Ana Watershed Project Authority (SAWPA) in September 1984. SAWPA was formed in 1975, pursuant to the provisions of Article 1, Chapter 5, Division 7, Title 1 of the Government Code of the State of California relating to the joint exercise powers common to public agencies. The purpose of SAWPA is to undertake projects for water quality control and protection and pollution abatement in the Santa Ana Watershed. The authority is governed by a 5-member Commission, consisting of one member from each of the five-member agencies; an alternate from each member agency is also designated. The Commission members select a Commissioner and an alternate.

According to the latest available audited financial statements, as of June 30, 2013 SAWPA had total assets of \$185,329,072 and total net assets of \$67,377,974. SAWPA Financial Statements can be obtained by contacting SAWPA at 11615 Sterling Avenue, Riverside, CA 92503 or at www.sawpa.org. The District does not have a measurable equity interest in SAWPA.

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

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, 2014 and 2013, the amount of refundable deposits were \$23,720,014 and \$20,996,140, respectively. However, when a project is closed, the developer is refunded only the amount remaining after offsetting all accumulated construction in progress costs. If costs exceed the deposit amount during the project, the developer is billed for additional deposits.

15. Subsequent Event

In October 2014, the District issued \$45,175,000 Refunding Water and Wastewater Revenue Bonds, Series 2014B to prepay the outstanding 2008D Revenue Refunding Variable Rate Certificates of participation. In October 2014, the District issued \$54,765,000 Refunding Water and Wastewater Revenue Bonds, Series 2014C to prepay the outstanding 2008A Revenue Refunding Variable Rate Certificates of Participation.

Both the 2014B and 2014C Revenue Bonds were issued in the variable rate mode as a subordinate lien. The refundings permitted the release of debt service reserve funds and will improve debt service coverage ratios from 2015 through 2019.

On October 31, 2014, the District entered into a Novation Confirmation which transferred the swap from UBS to Wells Fargo Bank, N.A. This novation allowed the District to achieve a higher rated counterparty and move any swap termination payments down to a subordinate lien level.

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

Pension Plan

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

Actuarial Valuation Date	(A) Entry Age Actuarial Accrued Liability (AAL)	(B) Actuarial Value of Assets	(C) Unfunded AAL (UAAL) (A)-(B)	Actuarial Funded Ratio (B)/A)	(D) Covered Payroll	UAAL as a Percentage of Covered Payroll (C)/(D)
06/30/10	\$ 253.25	\$ 207.39	\$ 45.85	81.9%	\$ 46.01	99.7%
06/30/11	277.96	222.35	55.61	80.0%	47.59	116.9%
06/30/12	294.70	237.98	56.71	80.8%	47.99	118.2%

Other Postemployment Benefits Plan

The following table (dollar amounts in millions) shows a three-year history for the funded status of the District's agent multiple-employer defined benefit OPEB plan. The information reflects the most recent valuation and the previous biennial valuation

Fiscal Year Impacted	Actuarial Valuation Date	(A) Entry Age Actuarial Accrued Liability (AAL)	(B) Actuarial Value of Assets	(C) Unfunded AAL (UAAL) (A)-(B)	Actuarial Funded Ratio (B)/A)	(D) Covered Payroll	UAAL as a Percentage of Covered Payroll (C)/(D)
06/30/12	06/30/11	120.3	-	120.3	N/A	47.6	252.7%
06/30/13	06/30/11	130.1	2.7	127.5	2.0%	49.2	259.3%
06/30/14	06/30/13	94.7	6.9	87.8	7.0%	51.5	170.5%

Statistical Section

Recycled Water Service

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



Recycled Water System

Miles of pipeline	215
Number of storage tanks	4
Active pumping stations	21
Active accounts	316
Total acre feet per year produced	37,467
Maximum storage capacity	6,184 acre feet



Eastern Municipal Water District

Statistical Section

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

Contents

Financial Trends

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

Revenue Capacity

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

Debt Capacity

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

Demographic and Economic Information

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

Operating Information

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

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

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

<u>Fiscal Year</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013¹</u>	<u>2014</u>
Net investment in capital assets	\$ 747,790,921	\$ 864,024,679	\$ 963,472,752	\$ 1,097,667,937	\$ 1,084,747,657	\$ 1,153,155,186	\$ 1,182,870,831	\$ 1,231,275,509	\$ 1,239,753,130	\$ 1,300,393,466
Restricted for debt service/covenants	50,932,809	58,964,117	57,377,104	56,443,385	58,248,958	65,090,658	65,433,313	64,333,290	73,268,230	70,625,613
Restricted for construction	179,216,380	193,659,075	238,268,776	133,617,326	169,061,541	150,977,362	127,083,266	99,513,601	56,375,249	45,199,054
Unrestricted	96,710,649	86,541,422	62,672,401	101,896,457	120,482,286	129,229,640	136,478,455	126,867,540	148,512,588	134,353,793
Total net position	\$ 1,074,650,759	\$ 1,203,189,293	\$ 1,321,791,033	\$ 1,389,625,105	\$ 1,432,540,442	\$ 1,498,452,846	\$ 1,511,865,865	\$ 1,521,989,940	\$ 1,517,909,197	\$ 1,550,571,926
% Increase	8.4%	12.0%	9.9%	5.1%	3.1%	4.6%	0.9%	0.7%	-0.3%	2.2%

Note:

1. Change from prior year includes a net prior period adjustment of (\$4,026,052). Change in net position for fiscal year 2013 is (\$54,691).

Source: Eastern Municipal Water District

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

Fiscal Year	Operating Revenues		Operating Expenses ³		Operating Loss	Total Nonoperating Revenues/ (Expenses) ⁴	Income Before Capital Contributions	Capital Contributions ⁵	Change in Net Position
	Water ¹	Wastewater ²	Water	Wastewater					
2005	66,258,221	41,238,057	85,135,040	59,332,209	(36,970,971)	89,195,075	52,224,104	30,613,539	82,837,643
2006	77,611,474	47,407,080	96,891,371	67,918,954	(39,791,771)	120,029,885	80,238,114	48,300,420	128,538,534
2007	92,679,789	53,066,742	113,677,146	77,853,830	(45,784,445)	106,629,828	60,845,383	57,756,357	118,601,740
2008	94,135,642	56,972,828	122,519,535	90,017,563	(61,428,628)	90,911,996	29,483,368	38,350,704	67,834,072
2009	103,013,429	62,611,918	122,515,771	94,629,395	(51,519,819)	59,613,648	8,093,829	34,821,508	42,915,337
2010	102,747,031	65,937,963	134,462,273	96,301,243	(62,078,522)	51,691,692	(10,386,830)	49,369,637	38,982,807
2011	102,009,545	67,114,654	137,981,887	98,467,509	(67,325,197)	41,208,043	(26,117,154)	39,530,173	13,413,019
2012	104,741,242	71,118,648	148,531,957	107,780,498	(80,452,565)	33,845,761	(46,606,804)	56,730,879	10,124,075
2013	112,456,804	74,633,171	154,950,442	108,169,114	(76,029,581)	45,528,065	(30,501,516)	30,446,825	(54,691)
2014	122,724,175	79,225,506	163,774,490	111,720,396	(73,545,205)	57,381,626	(16,163,579)	48,826,308	32,662,729

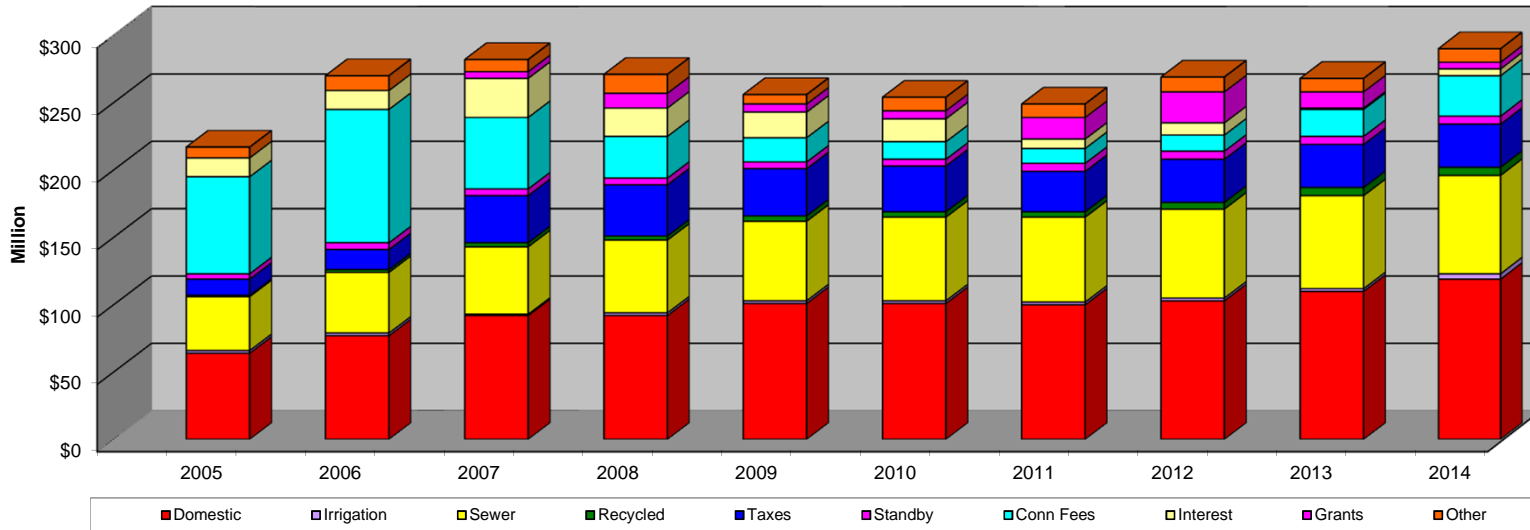
Notes:

1. Increased construction activity relating to growth and market conditions accounts for the increases in contributed infrastructure from 2004-2007. This amount decreased for 2008, 2009 and 2011 due to lower construction activity, and increased in 2010 due to District-wide efforts to close out construction projects.
2. GASB Statement No. 45 was implemented in 2008; net other postemployment benefits expense of \$6.2, \$8.9, \$11.1, \$11.5, \$15.3, \$11.9 and \$8.4 million for 2008-2014, respectively, is included.
3. The District implemented a budget-based tiered water rate structure for single and multifamily residential and landscape customers beginning April 2009. This structure was designed to be revenue neutral, but significant billings were in the higher-use wasteful tiers. Billings in these tiers decreased beginning in 2010 due to conservation efforts.

Source: Eastern Municipal Water District

REVENUES BY SOURCE LAST TEN FISCAL YEARS

Fiscal Year	Domestic Water		Ag & Irrig Water		Sewer Service Charges		Recycled Water		Taxes & Assmnts ¹		Standby Assmnts		Connect Fees ²		Interest Income ³		Grants ⁴		Other		Total Revenues
	Sales	% of Total	Sales	% of Total	Charges	% of Total	Sales	% of Total	Assmnts	% of Total	Assmnts	% of Total	Fees ²	% of Total	Income ³	% of Total	Total	% of Total	Total	% of Total	
2005	64,092,906	29.5%	2,165,315	1.0%	39,739,370	18.3%	1,498,687	0.7%	11,517,848	5.3%	4,354,591	2.0%	72,445,434	33.4%	13,576,749	6.3%	-	0.0%	7,693,026	3.5%	217,083,926
2006	76,543,807	28.5%	1,067,667	0.4%	45,462,646	16.9%	1,944,434	0.7%	14,747,589	5.5%	4,518,411	1.7%	99,485,272	37.1%	13,804,446	5.2%	-	0.0%	10,808,046	4.0%	268,382,318
2007	91,596,156	32.5%	1,083,633	0.4%	50,318,414	17.9%	2,748,328	1.0%	34,849,428	12.4%	4,667,297	1.7%	52,894,363	18.8%	29,287,538	10.4%	4,598,769	1.6%	9,321,989	3.3%	281,365,915
2008	91,864,344	34.0%	2,271,298	0.8%	54,408,172	20.1%	2,564,656	0.9%	37,648,103	13.9%	4,868,154	1.8%	30,706,687	11.4%	20,579,581	7.7%	11,261,996	4.2%	13,867,981	5.2%	270,040,972
2009	100,967,796	38.9%	2,045,633	0.8%	58,889,788	22.7%	3,722,130	1.4%	35,102,975	13.5%	5,015,076	1.9%	17,789,045	6.9%	19,093,011	7.4%	6,466,818	2.5%	10,224,676	4.0%	259,316,948
2010	100,699,778	39.8%	2,047,253	0.8%	61,885,298	24.5%	4,052,665	1.6%	33,559,211	13.3%	5,246,008	2.1%	13,010,929	5.1%	16,028,408	6.3%	6,063,577	2.4%	10,510,099	4.2%	253,103,226
2011	100,198,290	40.1%	1,811,255	0.7%	62,609,731	25.1%	4,504,923	1.8%	30,354,685	12.2%	5,569,818	2.2%	10,815,294	4.3%	7,553,352	3.0%	16,137,906	6.5%	10,117,631	4.1%	249,672,885
2012	103,226,203	38.4%	1,515,039	0.6%	65,983,462	24.5%	5,135,186	1.9%	31,730,750	11.8%	5,600,661	2.1%	12,150,826	4.5%	9,208,523	3.4%	22,926,555	8.5%	11,533,511	4.3%	269,010,716
2013	110,468,194	41.1%	1,988,610	0.7%	68,957,128	25.7%	5,676,043	2.1%	32,555,228	12.1%	5,635,153	2.1%	20,364,185	7.6%	831,935	0.3%	12,503,511	4.7%	9,579,321	3.6%	268,559,308
2014	118,695,153	40.9%	4,029,022	1.4%	73,100,086	25.2%	6,125,420	2.1%	32,578,837	11.2%	5,700,591	2.0%	30,149,861	10.4%	4,923,583	1.7%	5,214,780	1.8%	9,622,670	3.3%	290,140,003



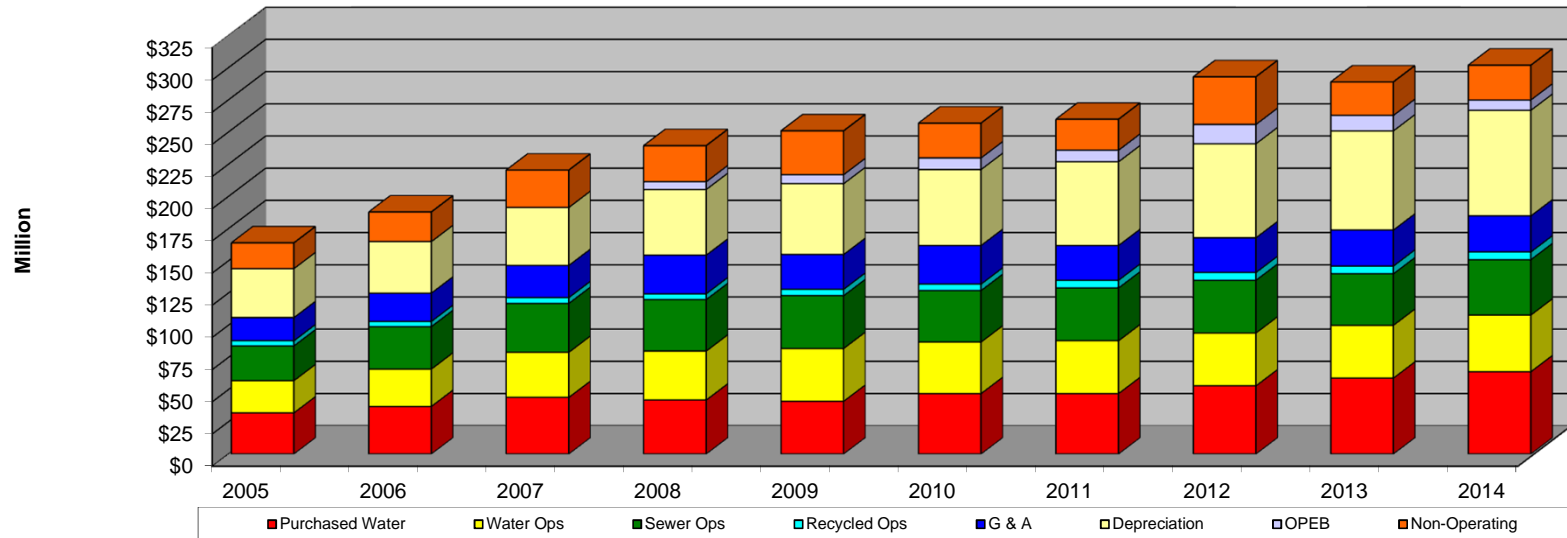
Notes:

1. In 2007, the District received its full share of property taxes, which were lower for the prior two years due to the state mandated property tax shift from local governments. The increase is also due to a 20% increase in assessed valuations and growth in customer base.
2. The decrease in connection fees is due to lower construction activity in 2007-2012 relating to the nationwide financial recession. The increased amount in 2013 relates to added connections and a rate increase in January 2013.
3. Increased interest income for 2007-2008 is due to a higher average portfolio balance and higher average yields. For 2008-2010, the increased amounts relate to invested COP and GO bond issuance funds. For 2011, the decrease primarily relates to a lower level of invested construction funds and recording a \$3.2 million decrease in fair value of investments. The decreased amount for 2012 relates mainly to lower average yields. The decreased amount for 2013 primarily relates to recording a \$3.7 million decrease in fair value of investments and lower average yields for the year.
4. Grant revenues were separately stated beginning 2007; previously, these amounts were shown as capital contributions or other revenue. Amounts include operating and capital grant revenues.

Source: Eastern Municipal Water District

**EXPENSES BY FUNCTION
LAST TEN FISCAL YEARS**

Fiscal Year	Purchased Water	% of Total	Water Operations	% of Total	Sewer Operations	% of Total	Recycled Water Operations	% of Total	General & Admin ¹	% of Total	Depr. & Amort	% of Total	Net OPEB ²	% of Total	Total Non-Operating Expenses ³	% of Total	Total Expenses
2005	\$ 32,380,524	19.6%	\$ 25,111,134	15.2%	\$ 27,194,672	16.5%	\$ 3,789,915	2.3%	\$ 18,418,043	11.2%	\$ 37,572,961	22.8%	-	0.0%	\$ 20,392,573	12.4%	\$ 164,859,822
2006	36,817,458	19.6%	29,030,238	15.4%	33,061,321	17.6%	4,289,919	2.3%	21,520,070	11.4%	40,091,319	21.3%	-	0.0%	23,333,879	12.4%	188,144,204
2007	43,866,732	19.9%	35,332,561	16.0%	37,404,662	17.0%	4,379,135	2.0%	25,292,047	11.5%	45,255,839	20.5%	-	0.0%	28,989,556	13.1%	220,520,532
2008	41,653,430	17.3%	38,447,533	16.0%	39,976,740	16.6%	5,071,116	2.1%	30,138,792	12.5%	51,030,538	21.3%	6,218,949	2.6%	28,020,506	11.6%	240,557,604
2009	41,318,803	16.4%	40,834,689	16.3%	41,160,507	16.4%	4,749,447	1.9%	27,471,196	10.9%	54,545,053	21.7%	7,065,471	2.8%	34,077,953	13.6%	251,223,119
2010	46,936,179	18.2%	39,967,447	15.5%	39,657,747	15.4%	5,466,039	2.1%	30,256,670	11.7%	59,347,777	23.0%	9,131,657	3.5%	27,061,214	10.5%	257,824,730
2011	46,489,850	17.9%	41,364,910	15.9%	41,247,883	15.9%	6,103,502	2.3%	26,707,578	10.3%	65,354,991	25.1%	9,180,682	3.5%	23,720,625	9.1%	260,170,021
2012	52,697,993	18.0%	40,789,231	13.9%	41,308,806	14.1%	5,748,205	2.0%	27,112,598	9.3%	73,369,622	25.0%	15,286,000	5.2%	36,751,795	12.5%	293,064,250
2013	58,445,847	20.3%	40,994,915	14.2%	40,279,734	14.0%	5,992,260	2.1%	28,392,519	9.8%	77,162,281	26.7%	11,852,000	4.1%	25,490,370	8.8%	288,609,926
2014	63,850,688	21.1%	44,193,507	14.6%	42,710,741	14.1%	5,992,372	2.0%	28,352,049	9.4%	82,037,529	27.2%	8,358,000	2.8%	26,563,390	8.8%	302,058,276



Notes:

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

Source: Eastern Municipal Water District

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

Fiscal Year	← Gallons Produced ¹ →				← Water →					Gallons of Wastewater Treated	← Total Direct Rate Water →		
	Purchased	Wells	Desalters	Total	Domestic	Ag & Irrig	Total	Unbilled Total	Avg %		Base Rate ^{2,5}	Usage Rate ^{3,5}	Sewer ⁴
2005	24,532	5,352	217	30,101	26,247	1,698	27,945	2,156	7.2%	15,805	7.70	31.04	17.40
2006	25,818	6,353	944	33,115	29,688	771	30,459	2,656	8.0%	16,352	8.15	32.36	18.86
2007	29,866	6,071	1,613	37,550	33,883	1,263	35,146	2,404	6.4%	16,786	8.43	34.40	19.64
2008	28,254	6,591	982	35,827	32,284	1,537	33,821	2,006	5.6%	16,906	10.04	36.38	20.58
2009	25,390	6,332	1,455	33,177	30,721	1,225	31,946	1,231	3.7%	16,482	10.52	41.52	21.88
2010	23,042	5,555	1,816	30,413	27,001	1,116	28,117	2,296	7.5%	16,436	10.52	46.32	22.73
2011	21,611	5,220	1,943	28,774	25,958	857	26,815	1,959	6.8%	16,805	10.52	48.26	22.90
2012	22,365	5,244	1,783	29,392	27,154	690	27,844	1,548	5.3%	16,425	10.52	47.50	23.96
2013	23,709	5,683	1,909	31,301	28,078	860	28,938	2,363	7.6%	16,363	10.52	49.92	24.72
2014	25,057	6,192	1,820	33,069	28,982	1,820	30,802	2,267	6.9%	16,389	10.77	52.50	25.90

Notes:

The information shown does not include recycled water.

1. Gallons are presented in millions.

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

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

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

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

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

Fiscal Year	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009³</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Water Rates										
Monthly base rate (meter size)										
<=1"	\$ 7.70	\$ 8.15	\$ 8.43	\$ 10.04	\$ 10.52	\$ 10.52	\$ 10.52	\$ 10.55	\$ 10.52	\$ 10.77
1 1/2"	11.56	12.23	12.65	15.06	27.68	27.68	27.68	27.76	27.68	28.29
2"	15.39	16.30	16.85	20.08	51.40	51.40	51.40	51.55	51.40	52.62
3"	30.78	32.61	33.70	40.15	171.25	171.25	171.25	171.72	171.25	175.20
4"	38.48	40.76	42.16	50.19	270.40	270.40	270.40	271.15	270.40	276.49
6"	53.87	57.06	59.01	70.26	505.53	505.53	505.53	506.91	505.53	517.08
8"	61.56	65.21	67.40	80.30	633.28	633.28	633.28	635.01	633.28	647.88
Usage rate (per billing unit)¹	\$ 31.04	\$ 32.36	\$ 34.40	\$ 36.38	\$ 41.52	\$ 46.32	\$ 48.26	\$ 47.50	\$ 49.92	\$ 52.50
Sewer Rates (avg per month)²	\$ 17.40	\$ 18.86	\$ 19.64	\$ 20.58	\$ 21.88	\$ 22.73	\$ 22.90	\$ 23.96	\$ 24.72	\$ 25.90

Notes:

The information shown does not include recycled water.

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

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

2. In February 2013, a new block rate sewer methodology was implemented, which uses number of household occupants. Previously, the District charged all customers a fixed daily service rate for sewer service for each of its 5 sewer service areas. The average per month is calculated as the weighted average daily rate, times 365 days per year, divided by 12 months per year.

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

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

← Treated and Untreated Water →

Fiscal Year	Residential	Commercial	Industrial	Public Agency	Construction & Temporary	Irrigation	Agricultural	Total	Recycled	Total
2005	108,865	2,427	131	545	852	1,518	544	114,882	122	115,004
2006	119,340	2,677	132	582	910	1,793	554	125,988	164	126,152
2007	125,433	2,827	134	607	849	1,972	574	132,396	204	132,600
2008	128,184	3,103	135	614	737	2,146	603	135,522	230	135,752
2009	129,242	3,282	137	608	557	2,236	627	136,689	260	136,949
2010	133,320	3,276	140	597	373	2,260	649	140,615	266	140,881
2011¹	131,308	3,240	142	596	327	2,285	670	138,568	265	138,833
2012	132,080	3,272	144	625	353	2,310	694	139,478	283	139,761
2013	133,279	3,308	142	646	373	2,344	692	140,784	297	141,081
2014	134,656	3,347	136	679	426	2,412	721	142,377	316	142,693

**WATER SERVICE TYPE BY CUSTOMER CATEGORY
FISCAL YEAR 2014**

	Residential	Commercial	Industrial	Public Agency	Construction & Temporary	Irrigation	Agricultural	Total
Domestic	134,656	3,346	136	647	426	2,406	597	142,214
Agricultural	-	1	-	4	-	4	124	133
Wholesale	-	-	-	28	-	2	-	30
Total	134,656	3,347	136	679	426	2,412	721	142,377

Note:

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

Source: Eastern Municipal Water District

**LARGEST DOMESTIC WATER CUSTOMERS
AS OF JUNE 30, 2014**

<u>Customer Name</u>	<u>Annual Water Sales in Acre Feet</u>	<u>Annual Revenues</u>	<u>Percentage</u>
1 City of Perris ¹	2,166	\$ 2,443,803	20.6%
2 Western Municipal Water District ^{1,2}	1,678	1,833,521	15.4%
3 City of Moreno Valley	969	1,355,933	11.4%
4 Moreno Valley School District	1,138	1,327,397	11.2%
5 Valley-Wide Recreation Park	956	1,280,660	10.8%
6 Val Verde Unified School District	714	914,135	7.7%
7 City of Murrieta	608	863,558	7.3%
8 Riverside County EDA	626	788,372	6.6%
9 Country Meadows II Assoc.	495	683,796	5.8%
10 City of San Jacinto	357	392,724	3.3%
Total	<u>9,707</u>	<u>\$ 11,883,899</u>	
Total domestic water sales	88,944	\$ 118,695,153	
Percentage of total	10.9%	10.0%	

Notes:

For compliance with GASB Statement No. 34, data for fiscal year ended June 30, 2005 is not available.
Data includes potable water sales to all non-agricultural customers.

1. Wholesale customer.

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

Source: Eastern Municipal Water District

**LARGEST AGRICULTURAL & IRRIGATION WATER CUSTOMERS
AS OF JUNE 30, 2014**

<u>Customer Name</u>	<u>Annual Water Sales in Acre Feet</u>	<u>Annual Revenues</u>	<u>Percentage</u>
1 Kevin and Pauline Doan	176	\$ 199,451	19.0%
2 Norco Ranch Romoland	120	135,813	12.9%
3 C & R Farms	296	114,886	10.9%
4 Abacherli Dairy	94	106,825	10.2%
5 AGRI Empire	202	104,713	10.0%
6 Metropolitan Water District	85	96,610	9.2%
7 HP Mobile Estates	79	89,196	8.5%
8 Valley Wide Recreation & Park	82	79,779	7.6%
9 Mt San Jacinto College	53	62,686	6.0%
10 Demler Egg Ranch	109	62,372	5.9%
Total	<u>1,296</u>	<u>\$ 1,052,331</u>	
Total ag. & irrigation water sales	5,584	\$ 4,029,022	
Percentage of total	23.2%	26.1%	

Notes:

For compliance with GASB Statement No. 34, data for fiscal year ended June 30, 2005 is not available.

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

Source: Eastern Municipal Water District

**LARGEST RECYCLED WATER CUSTOMERS
AS OF JUNE 30, 2014**

<u>Customer Name</u>	<u>Annual Water Sales in Acre Feet</u>	<u>Annual Revenues</u>	<u>Percentage</u>
1 Inland Empire Energy Center LLC	1,726	\$ 581,687	25.4%
2 Rancho Casa Loma	4,698	277,930	12.1%
3 Agri Empire	3,009	233,659	10.2%
4 A G Sod Farms	2,629	229,636	10.0%
5 Valley Wide Recreation	517	174,283	7.6%
6 Don Bean Farms	1,947	169,690	7.4%
7 Hemet Golf Club Landmark	401	162,138	7.1%
8 The Golf Club at Rancho California	477	160,593	7.0%
9 Scott Bros Dairy	2,636	150,248	6.6%
10 Pechanga Water Systems	446	150,174	6.6%
Total	18,486	\$ 2,290,038	
Total recycled water sales	37,467	\$ 6,125,420	
Percentage of total	49.3%	37.4%	

Notes:

For compliance with GASB Statement No. 34, data for fiscal year ended June 30, 2005 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, 2014**

<u>Customer Name</u>	<u>Annual Revenues</u>	<u>Percentage</u>
1 Pechanga Resort and Casino	\$ 496,291	25.5%
2 Stonegate at Towngate	287,519	14.8%
3 Murrieta Valley Unified School Distric	214,496	11.0%
4 Val Verde School District	175,560	9.0%
5 Hemet Unified School District	135,151	6.9%
6 Rancho Bella Vista HOA	134,560	6.9%
7 Waterstone at Murrieta Apartments	131,935	6.8%
8 Palm Court Apartments	130,197	6.7%
9 Westwind Enterprises	128,736	6.6%
10 Sienna Pointe Apartments	112,410	5.8%
Total	\$ 1,946,855	
Total sewer revenue	\$ 73,100,086	
Percentage of total revenue	2.7%	

Note:

For compliance with GASB Statement No. 34, data for fiscal year ended June 30, 2005 is not available.

Source: Eastern Municipal Water District

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

Rates Effective Beginning January	Full Service Domestic		Interim Agricultural Program ¹		Long Term Seasonal Storage		
	Treated	Untreated	Treated	Untreated	Treated	Untreated	
2005	Tier 1	443	331	329	241	325	238
	Tier 2	524	412	n/a	n/a	n/a	n/a
2006	Tier 1	453	331	339	241	335	238
	Tier 2	549	427	n/a	n/a	n/a	n/a
2007	Tier 1	478	331	364	241	360	238
	Tier 2	574	427	n/a	n/a	n/a	n/a
2008	Tier 1	508	351	394	261	390	258
	Tier 2	606	449	n/a	n/a	n/a	n/a
2009	Tier 1	579	412	465	322	436	294
	Tier 2	695	528	n/a	n/a	n/a	n/a
2010	Tier 1	701	484	615	416	558	366
	Tier 2	811	594	n/a	n/a	n/a	n/a
2011	Tier 1	744	527	687	482	601	409
	Tier 2	869	652	n/a	n/a	n/a	n/a
2012	Tier 1	794	560	765	537	651	442
	Tier 2	920	686	n/a	n/a	n/a	n/a
2013	Tier 1	847	593	n/a	n/a	n/a*	n/a*
	Tier 2	997	743	n/a	n/a	n/a	n/a
2014	Tier 1	890	593	n/a	n/a	n/a*	n/a*
	Tier 2	1,032	735	n/a	n/a	n/a	n/a

Notes:

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

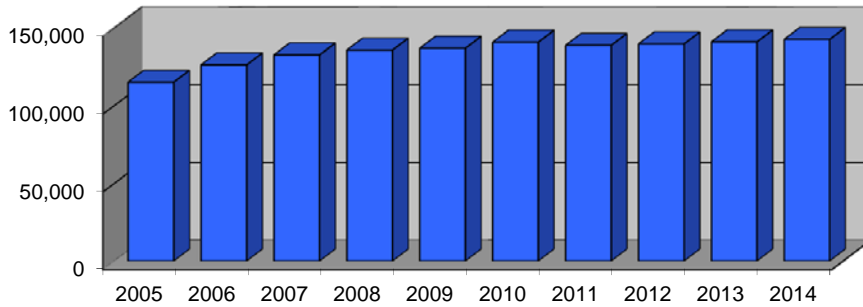
* MWD is continuing discussions with member agencies on the replenishment program.

Source: Metropolitan Water District of Southern California (MWD)

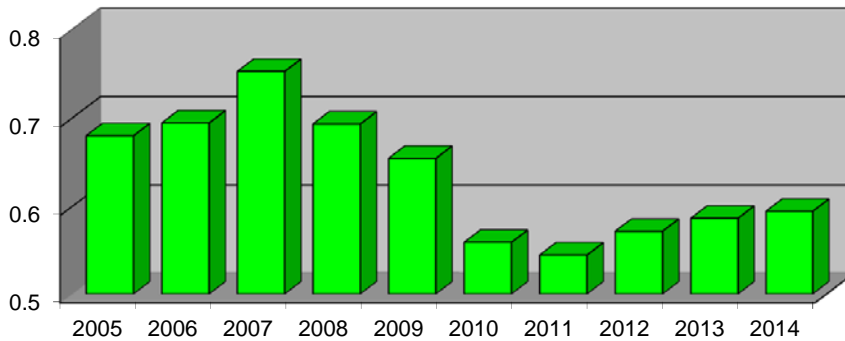
**ANNUAL DOMESTIC CONSUMPTION (AF)
LAST TEN FISCAL YEARS**

Fiscal Year	Usage (AF)	Active Accounts¹	Average AF per Account
2005	77,066	114,882	0.68
2006	87,488	125,988	0.69
2007	99,658	132,396	0.75
2008	93,956	135,522	0.69
2009	89,448	136,689	0.65
2010	78,621	140,615	0.56
2011	75,461	138,568	0.54
2012	79,752	139,478	0.57
2013	82,591	140,784	0.59
2014	84,650	142,377	0.59

Number of Active Accounts



Average AF/Account



Notes:

Amounts exclude wholesale accounts.

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

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

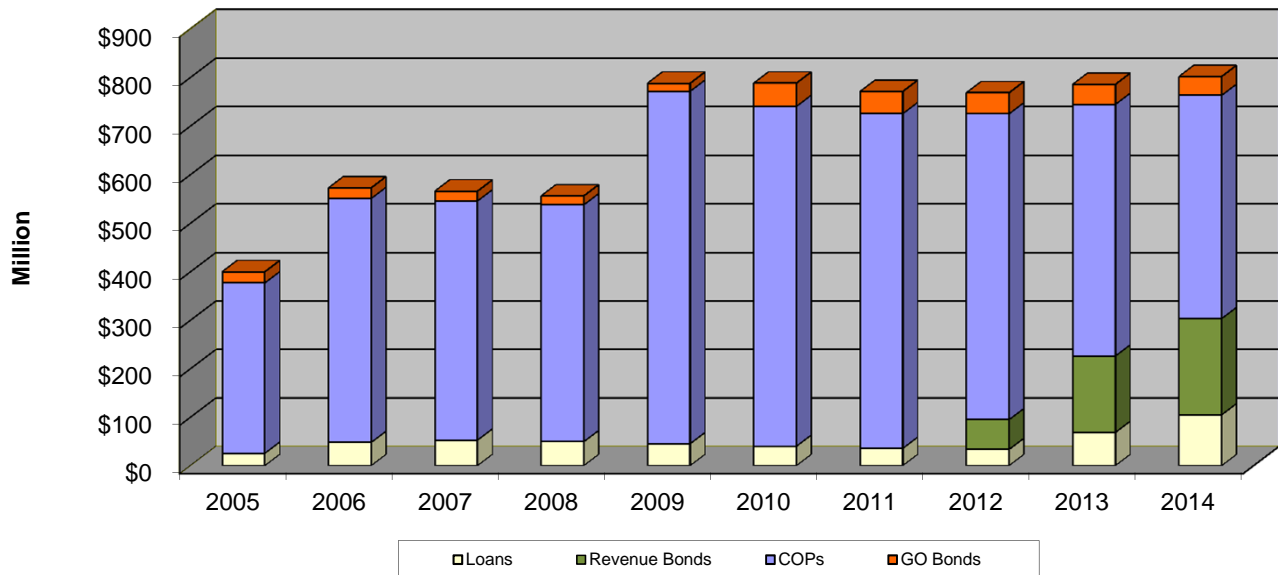
The increase for 2013 and 2014 is mainly due to increased usage relating to warmer weather patterns.

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

Source: Eastern Municipal Water District

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

Fiscal Year	Loans ¹	Revenue Bonds ²	Certificates of Participation ^{3,4}	General Obligation Bonds ^{4,5}	Total	Percentage of Personal Income ⁶	Debt per Capita ⁷
2005	25,705,169	-	351,615,000	22,695,000	400,015,169	0.84%	638
2006	48,103,473	-	502,990,000	21,675,000	572,768,473	1.11%	862
2007	52,874,716	-	493,190,000	19,945,000	566,009,716	1.01%	814
2008	49,630,496	-	488,460,000	18,140,000	556,230,496	0.91%	777
2009	45,407,198	-	726,270,000	16,260,000	787,937,198	1.23%	1,086
2010	40,279,228	-	700,311,094	47,672,284	788,262,606	1.21%	1,068
2011	35,818,082	-	689,723,765	45,481,394	771,023,241	1.22%	1,014
2012	33,651,101	61,452,320	630,227,034	43,145,504	768,475,959	1.18%	1,000
2013	68,749,388	157,648,717	518,338,874	40,949,446	785,686,425	1.13%	1,011
2014	105,195,668	198,525,127	459,710,090	38,446,800	801,877,685	1.11%	1,022



Notes:

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

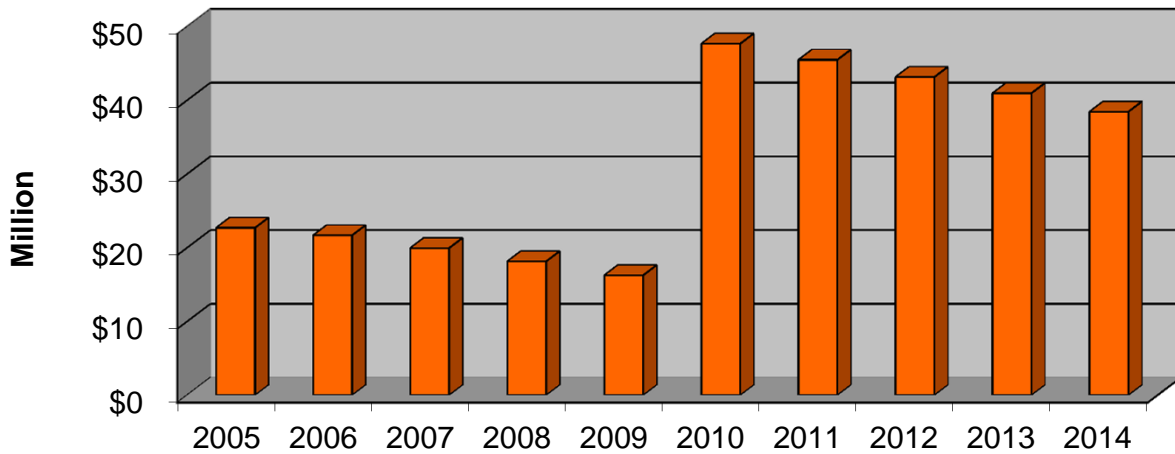
See the schedule of Demographic and Economic Statistics for personal income and population data.

1. The \$38 million construction advance for the SCATT project converted to a loan in 2013. In 2014, the \$44 million construction advance for the APAD project converted to a loan.
2. The District issued \$56 million of Refunding Revenue Bonds in 2012. With the added premium and reserve funds, the issuance of these bonds refunded \$62 million of COPs. In 2013, the District issued \$104.6 million of Refunding Revenue Bonds which refunded \$104.6 million of COPs. The District issued \$49 million of Refunding Revenue Bonds in 2014.
3. The District issued over \$160 million of new COPs in 2006 and another \$240 million in 2010.
4. Beginning 2010, amounts shown include net debt premium/discount and deferred refunding charges, if applicable. Beginning 2012, deferred charges on debt refundings are excluded and shown as a separate line item in the financial statements.
5. The District issued \$32 million of new GO Bonds in 2009.
6. Based upon Riverside County personal income amounts. The District is located in the County of Riverside. See the personal income amounts on the Demographic and Economic Statistics schedule.
7. Based upon approximate population of District service area. See the Demographic and Economic Statistics schedule for amounts.

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

Fiscal Year	General Obligation Bonds^{1,2}	Assessed Value³	Percentage of Assessed Value	Debt per Capita⁴
2005	\$ 22,695,000	\$ 36,317,993,384	0.06%	36
2006	21,675,000	45,799,534,361	0.05%	33
2007	19,945,000	57,857,155,353	0.03%	29
2008	18,140,000	68,127,605,656	0.03%	25
2009	16,260,000	67,617,348,347	0.02%	22
2010	47,672,284	56,743,387,948	0.08%	65
2011	45,481,394	54,294,174,863	0.08%	60
2012	43,145,504	53,890,135,705	0.08%	56
2013	40,949,446	53,506,155,585	0.08%	53
2014	38,446,800	55,926,804,094	0.07%	49

Total Bonds Outstanding



Notes:

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

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

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

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

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

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

Source: Eastern Municipal Water District

**PARITY DEBT SERVICE COVERAGE
FISCAL YEARS 2005 - 2014**

	2005	2006	2007	2008	2009 ¹	2010	2011	2012	2013	2014
OPERATING REVENUES:										
Water sales	\$ 66,258,221	\$ 77,611,474	\$ 92,679,789	\$ 94,135,642	\$ 103,013,429	\$ 102,747,031	\$ 102,479,984	\$ 104,741,242	\$ 110,468,195	\$ 122,724,175
Sewer service sales	39,739,370	45,462,646	50,318,414	54,408,172	58,889,788	61,885,298	62,840,013	65,983,462	70,945,738	73,100,086
Recycled water	1,498,687	1,944,434	2,748,328	2,564,656	3,722,130	4,052,665	4,504,923	5,135,186	5,676,043	6,125,420
Total operating revenues	107,496,278	125,018,554	145,746,531	151,108,470	165,625,347	168,684,994	169,824,920	175,859,890	187,089,976	201,949,681
OPERATING EXPENSES:										
Water purchases	32,380,524	36,817,458	43,866,732	41,653,430	41,318,803	46,936,179	46,489,850	52,697,993	58,445,847	63,850,688
Water operations	25,111,134	29,030,238	35,332,561	38,447,533	40,834,689	39,967,447	41,364,910	40,789,231	40,994,915	44,193,507
Sewer operations	30,984,587	37,351,240	41,783,797	45,047,856	45,909,954	45,123,786	47,351,385	47,057,011	46,271,994	48,703,113
Other Post Employment Benefits (OPEB) Contribution ²	-	-	-	-	-	-	-	2,620,589	5,740,000	6,123,000
General & administrative	18,418,043	21,520,070	25,292,047	30,138,792	27,471,196	30,256,670	27,408,299	27,112,598	28,392,519	28,352,049
Total operating expenses	106,894,288	124,719,006	146,275,137	155,287,611	155,534,642	162,284,082	162,614,444	170,277,422	179,845,275	191,222,357
OPERATING INCOME (LOSS)	601,990	299,548	(528,606)	(4,179,141)	10,090,705	6,400,912	7,210,476	5,582,468	7,244,701	10,727,324
NON-OPERATING REVENUES:										
Property taxes - general purpose	8,707,881	11,213,568	31,293,863	34,528,767	33,149,232	29,474,227	25,884,964	26,574,300	27,243,491	28,061,489
Standby charges	4,354,591	4,518,411	4,667,297	4,868,154	5,015,076	5,246,008	5,569,818	5,600,661	5,635,153	5,700,591
Water and sewer connection fees	72,445,434	99,485,272	52,894,363	30,706,687	17,789,045	13,010,929	10,815,294	12,150,826	20,364,185	30,149,861
Interest income ³	13,354,263	13,545,983	28,899,522	20,128,848	18,706,820	16,681,744	7,664,191	7,431,966	4,485,217	3,133,313
Grant revenues	-	-	-	11,261,996	6,466,818	6,063,577	16,137,906	22,926,555	12,503,511	5,214,780
Other income/(expense)	3,077,188	7,088,624	4,093,851	8,812,367	1,767,759	487,672	1,727,067	(4,563,952)	2,967,319	947,126
Total non-operating revenues	101,939,357	135,851,858	121,848,896	110,306,819	82,894,750	70,964,157	67,799,240	70,120,356	73,198,876	73,207,160
NON-OPERATING EXPENSES:										
Parity debt service interest payments (DWR/BOR)	-	-	-	-	1,163,677	1,003,731	881,803	777,734	1,154,948	1,215,506
Debt service interest payments (COP/Bonds) ⁴	15,358,957	18,404,817	22,670,400	21,953,962	23,564,234	21,413,765	20,981,966	19,124,680	18,531,971	14,783,498
Total non-operating expenses	15,358,957	18,404,817	22,670,400	21,953,962	24,727,911	22,417,496	21,863,769	19,902,414	19,686,919	15,999,004
EXCESS OF REVENUE OVER EXPENSES BEFORE EXTRAORDINARY ITEM										
	87,182,390	117,746,589	98,649,890	84,173,716	68,257,544	54,947,573	53,145,947	55,800,410	60,756,658	67,935,480
Add back for parity debt	15,358,957	18,404,817	22,670,400	21,953,962	24,727,911	22,417,496	21,863,769	19,902,414	19,686,919	15,999,004
Net revenues for debt coverage	102,541,347	136,151,406	121,320,290	106,127,678	92,985,455	77,365,069	75,009,716	75,702,824	80,443,577	83,934,484
Parity debt: COP & Loan principal and interest	24,113,957	27,374,817	32,005,400	28,708,962	39,853,513	38,759,515	38,435,569	41,159,796	39,384,199	39,534,461
PARITY DEBT SERVICE COVERAGE RATIO	4.3	5.0	3.8	3.7	2.3	2.0	2.0	1.8	2.0	2.1

Source: Eastern Municipal Water District

Notes:

1. 2009 amounts were restated for net internal service funds included in other non-operating income rather than general and administrative expense.
2. Beginning FY 2012, OPEB contribution expense is separated from Water and Sewer operating expense. Total Annual OPEB Cost was \$11,505,000 and \$15,286,000 in FY 2012 and FY 2013 respectively. See Note 9.
3. Beginning FY 2012, excludes change in fair market value of investments (unrealized gain/loss) as these are non-cash items.
4. 2011, 2012, and 2013 COP/Bond interest expense amounts include \$8,713,038, \$1,323,083, and \$2,781,718 of capitalized construction period interest, respectively. See Note 15 to the basic financial statements.

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

Calendar Year	Population ¹	Personal Income ² (thousands of \$)	Per Capita Personal Income ²	Unemployment Rate ²
2004	627,386	\$ 47,545,905	\$ 26,837	6.0%
2005	664,807	51,506,970	27,743	5.4%
2006	695,209	55,776,492	28,873	5.0%
2007	715,664	60,993,887	30,309	6.0%
2008	725,610	64,062,308	30,871	8.5%
2009	737,868	64,995,060	30,808	13.4%
2010	760,128	63,184,275	29,433	14.7%
2011	768,264	65,107,626	29,563	13.6%
2012	776,986	69,522,078	31,074	12.2%
2013	784,834	72,015,057	31,742	10.3%

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

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

**PRINCIPAL EMPLOYERS
FISCAL YEAR ENDED JUNE 30, 2014**

Employer	No. of Employees	Percentage of Total Employment
County of Riverside	20,808	2.4%
March Air Reserve Base	8,500	1.0%
Stater Brothers Markets	6,900	0.8%
University of California, Riverside	5,514	0.6%
Kaiser Permanente Riverside Medical Ctr	5,270	0.6%
Pechanga Resort & Casino	4,500	0.5%
Corona-Norco Unified School District	4,300	0.5%
Wal-Mart	4,068	0.5%
Riverside Unified School District	4,000	0.5%
Hemet Unified School District	3,572	0.4%
Total	<u>67,432</u>	7.9%
Total Employment	<u>855,300</u>	

- Notes: For compliance with GASB Statement No. 34, data for fiscal year ended June 30, 2004 is not available.
Data is for the County of Riverside. The District is located within the County.

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

**EMPLOYEES BY FUNCTION
LAST NINE FISCAL YEARS**

	2006	2007	2008	2009	2010	2011	2012	2013 ⁵	2014
<u>Operations and Maintenance Division</u>									
Water Operations and Distribution	60	57	66	63	63	64	64	65	66
Water Reclamation	75	76	82	82	87	90	90	86	87
Maintenance Services	19	20	20	22	17	17	17	15	15
Auto Shop and Fabrication Shop	14	14	14	13	14	16	15	16	15
Wastewater Collection	13	15	15	14	15	15	13	14	14
Mechanical Services	26	27	27	27	30	30	30	28	29
Electrical and Controls	20	20	21	22	21	22	23	24	24
Buildings, Grounds, and Pipeline Maintenance	36	37	37	37	35	37	34	34	34
Total Operations & Maintenance Division	263	266	282	280	282	291	286	282	284
<u>Engineering Division</u>									
General Engineering ¹	61	52	56	57	55	53	52	43	44
Construction Management and Inspections	36	44	39	40	38	39	39	35	33
New Business Development ¹	20	34	28	25	25	26	20	17	18
Total Engineering Division	117	130	123	122	118	118	111	95	95
<u>Planning and Resources Division</u>									
Planning and Resources ^{2,3}	12	13	17	19	19	19	20	20	19
Environmental and Regulatory Compliance	8	9	7	8	8	9	9	9	10
Water Quality and Laboratory	17	18	15	15	14	15	15	14	14
Source Control	12	10	10	10	8	9	9	9	10
Total Planning and Resources Division	49	50	49	52	49	52	53	52	53
<u>Executive and Administration</u>									
Executive and Administration	8	8	10	10	10	10	11	12	12
Public and Governmental Affairs ⁴	3	3	3	2	3	3	11	11	11
Human Resources	12	12	13	13	13	13	13	11	12
Billing/Customer Service	41	47	49	49	60	62	58	55	53
Meter Reading	24	25	25	25	24	24	24	21	19
Finance and Accounting	18	18	20	21	21	22	26	22	22
Information Systems	37	35	33	33	34	33	34	33	31
Purchasing, Warehouse and Records Mgmt	28	28	28	29	26	27	30	28	27
Community Involvement ^{2,4}	10	13	9	9	9	8	-	-	-
Total Executive and Administration	181	189	190	191	200	202	207	193	187
Total Filled Positions End of Year	610	635	644	645	649	663	657	622	619
Total Authorized Positions Start of Year	Not Available	Not Available	670	667	676	690	667	636	633
Change in Authorized Positions from Prior Year	Not Available	Not Available	Not Available	(3)	9	14	(23)	(31)	(3)
Number of Vacant Positions as of June 30	Not Available	Not Available	26	22	27	27	10	13	10
Vacancy Rate as of June 30			3.9%	3.3%	4.0%	3.9%	1.5%	2.0%	1.6%

Notes:

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

All directors and managers are included with their divisions.

Temporary, contract and summer help employees are not included.

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

The General Engineering department was reorganized again in 2012.

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

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

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

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

Source: Eastern Municipal Water District

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

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
<u>POTABLE WATER SYSTEM</u>										
Miles of pipeline:										
transmission and distribution: ¹	2,051	2,345	2,442	2,437	2,444	2,421	2,428	2,430	2,443	2,448
as-built	1,747	1,817	1,944	2,038	2,157	2,260	2,280	2,296	2,366	2,376
construction in progress	304	528	498	399	287	161	148	134	77	72
Number of storage tanks ²	77	78	79	78	77	77	77	77	77	77
Maximum storage capacity (million gallons)	188	193	193	193	193	193	191	191	191	191
Number of active pumping plants	80	82	83	81	84	84	83	83	83	83
Number of active wells:										
domestic	18	18	18	18	18	18	21	21	18	18
desalter ⁶	2	9	7	5	5	7	7	8	7	11
Domestic well production capacity:										
gallons per minute	19,000	19,747	22,076	21,597	21,806	20,361	22,326	22,285	23,292	23,382
million gallons per day	27.4	28.4	31.8	31.1	31.4	29.3	32.1	32.1	33.5	33.7
acre feet per year	30,407	31,852	35,609	34,836	35,173	32,843	36,013	35,945	37,570	37,715
Number of water treatment plants:										
desalter	1	2	2	2	2	2	2	2	2	2
filtration	1	1	2	2	2	2	2	2	2	2
Treatment plant capacity: (million gallons per day)										
desalter plants	3.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
filtration plants	11.4	11.4	21.4	32.0	32.0	32.0	32.0	32.0	36.0	36.0
Number of service connections: ⁷										
active domestic accounts	112,845	123,384	128,506	129,344	131,392	133,810	135,233	136,478	140,653	142,244
active agriculture accounts	139	130	129	140	143	146	124	122	131	133
<u>SEWER SYSTEM</u>										
Miles of sewer lines: ^{1,3}	1,500	1,750	1,857	1,721	1,729	1,727	1,736	1,756	1,780	1,799
as-built	1,156	1,218	1,335	1,407	1,539	1,607	1,626	1,639	1,725	1,735
construction in progress	344	532	522	314	190	120	110	117	55	64
Number of treatment plants	5	5	5	5	5	5	5	5	5	5
Treatment plant average design capacity (MGD) ⁴	50	56	56	56	60	60	60	60	68	68
Average million gallons per day treated	43.3	44.8	46.0	46.2	45.2	45.0	46.0	45.0	44.8	44.9
Percentage of capacity utilized	87%	80%	82%	82%	75%	75%	77%	75%	66%	66%
Number of active lift stations	43	46	46	46	46	46	46	47	48	48
<u>RECYCLED WATER SYSTEM</u>										
Miles of pipeline:										
transmission and distribution: ¹	159	174	192	201	202	199	202	206	213	215
as-built	135	149	156	165	172	178	179	186	196	198
construction in progress	24	25	36	36	30	21	23	20	17	17
Number of active pumping facilities	15	17	17	17	19	20	20	20	21	21
Maximum storage capacity (acre feet) ⁵	6,670	6,571	6,694	6,764	5,776	5,714	5,714	5,721	5,736	6,184
<u>GENERAL INFORMATION</u>										
Service area (annexed property):										
acres	346,148	346,337	346,425	346,449	346,691	346,732	346,732	346,732	346,745	346,745
square miles	540.9	541.2	541.3	541.3	541.7	541.8	541.8	541.8	541.8	541.8
Gross service area (square miles)	555	555	555	555	555	555	555	555	555	555
Average years of service of employees	10.63	9.80	9.98	10.05	10.20	10.47	10.84	11.39	11.31	12.11

Notes:

1. Miles of pipelines as-built excludes open construction in progress (CIP). CIP reflects what was recorded as open projects as of the year end date.
2. Potable water storage tanks and capacity decreased in 2008 and 2009 due to conversion to recycled water.
3. Miles of sewer lines decreased in 2008 because the District transferred sewer lines to the City of San Jacinto. Decrease is reflected in each as-built amount.
4. The Sun City RWRf (3 MGD) was formerly included in the total capacity although it was decommissioned. Amounts are now reflected as average design capacity. The Perris RWRf expansion to 23 MGD was completed in 2013.
5. Recycled storage decreased in 2009 due to a change in the reporting method to show only tertiary-treated water dedicated to distribution. Prior years included capacity for secondary-treated storage. Decrease in 2010 relates to lower capacity for Winchester ponds due to operational assessments. Increase in 2014 storage is due to more accurate measurements from recent surveys, plus a conversion of some secondary storage to tertiary storage.
6. Desalter wells formerly inactive were placed back into service during 2014.
7. Starting 2013, the number of customer connections billed within the year was used instead of the number of customers as of June 30th.

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
2005	\$ 88,297,280	\$ 259,410	0.3%
2006	103,371,554	384,329	0.4%
2007	121,769,923	724,045	0.6%
2008	126,144,814	1,155,769	0.9%
2009	139,863,262	1,386,075	1.0%
2010	142,354,003	1,035,076	0.7%
2011	143,427,078	734,381	0.5%
2012	149,580,286	703,666	0.5%
2013	159,559,632	717,146	0.4%
2014	170,496,733	851,419	0.5%
Total	\$ 1,344,864,565	\$ 7,951,316	0.6%

Note: Excludes sales collected by other agencies.

Source: Eastern Municipal Water District

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

Fiscal Year	Year End A/R Balance	Reserves	% of A/R
2005	\$ 5,973,588	\$ 91,578	1.5%
2006	7,350,203	187,390	2.5%
2007	9,278,477	368,961	4.0%
2008	9,375,405	690,461	7.4%
2009	10,377,183	838,543	8.1%
2010	9,603,615	678,848	7.1%
2011	11,170,339	610,537	5.5%
2012	13,072,905	676,182	5.2%
2013	14,195,028	842,850	5.9%
2014	13,805,842	850,608	6.2%

Note: Reserves equal accounts over 60 days.

Source: Eastern Municipal Water District



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Water
Wastewater
Recycled Water

Our Mission

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