



# Comprehensive Annual Financial Report



For the Fiscal Year  
Ended June 30, 2016

Perris, California  
[www.emwd.org](http://www.emwd.org)





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# Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2016



*Prepared by the  
Eastern Municipal Water District  
Finance Department*

*Eastern Municipal Water District, 2270 Trumble Road, Perris, CA 92570*



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# EASTERN MUNICIPAL WATER DISTRICT

Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2016

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# EASTERN MUNICIPAL WATER DISTRICT

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# Introductory Section





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November 03, 2016

Board of Directors  
Eastern Municipal Water District

We are pleased to present the Eastern Municipal Water District's (District) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2016. State law and debt covenants require that the District publish, within six months and 180 days of the close of each fiscal year, respectively, a complete set of audited financial statements. This report is published to fulfill that requirement and to provide the Board of Directors (Board), the public and other interested parties these basic financial statements.

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

Davis Farr LLP, a firm of licensed certified public accountants, has issued an unmodified opinion on the District's financial statements for the year ended June 30, 2016. The independent auditors' report is presented as the first component of the financial section of this report.

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

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

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## *Profile of the District*

The Eastern Municipal Water District was incorporated in 1950 under the Municipal Water District Act of 1911 and the provisions of the California Water Code. Its primary purpose was to import Colorado River water to its service area to augment local water supplies. Prior to the District's formation, the local water supply was primarily from groundwater wells.

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



The District is located in Southern California and its service area lies within western Riverside County, encompassing approximately 555 square miles. In 1951, the District's service area consisted of 86 square miles. Today, growth has resulted from annexations ranging in area from 1 to 72,000 acres. The assessed valuation has grown from \$72.0 million when formed to approximately \$69.1 billion for this past fiscal year. The District is divided into separate regional service areas for water service and sewer service.

Riverside County has a population of 2.3 million people. Of this population, the District serves approximately 804,000 or 34 percent, including the cities of Temecula, Murrieta, Menifee, Hemet, San Jacinto, Moreno Valley, Perris, Wildomar and unincorporated areas in Riverside County. A map of the service area is at page 18 of this report.

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

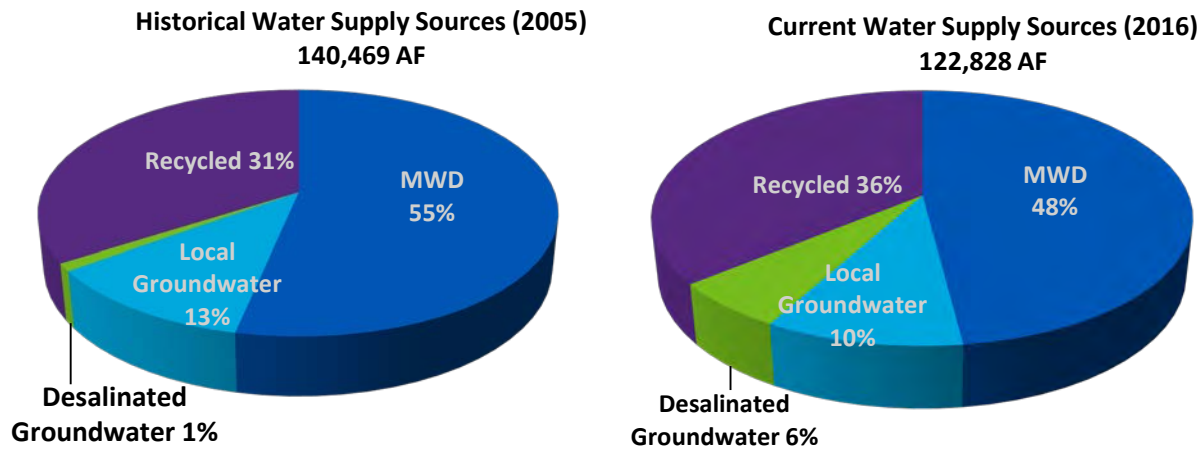
The District's approximately 611 employees are responsible for providing excellent customer service driven by its standards to provide safe, reliable, economical and environmentally friendly services.

## *Water Supply and Reliability*

The District's total water supplies include 16 percent local groundwater, 48 percent imported water and 36 percent recycled water. The sole source of the District's imported water is MWD.

The District has made significant efforts to provide a safe and reliable supply of water and diversify the sources of water. In 2005, 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. In

2016, the District reduced the level of imported water to 48 percent of supply as a result of investments in local groundwater, desalination, and recycled water improvements.



## *Sewer and Recycled Water Services*

For the purposes of transmission, treatment and disposal of wastewater, the District is divided into five sewer service areas: Hemet/San Jacinto, Moreno Valley, Sun City, Temecula Valley, and Perris Valley. Each service area is served by a single regional water reclamation facility (RWRF), for which methods of treatment vary. The facilities are capable of treating 69 million gallons per day (MGD) of wastewater and serve approximately 804,000 people. Customers’ monthly bills include a daily service charge based on household size, which covers the fixed and variable costs of operating the sewer system and contributions to infrastructure replacement costs. They are linked through a network of 1,799 miles of pipeline and 48 active lift stations.

The District currently generates approximately 42 MGD of effluent at its regional water reclamation facilities. The District’s goal is to reuse 100 percent of the water from the treatment plants and offer recycled water for sale to customers within the District’s service area. In doing so, the District reduces the need to import water or to use other local groundwater supplies. In 2016, approximately 44,901 acre feet, or 100 percent of the total recycled water produced, was sold to customers.

## *The Local Economy*

The District is located within Riverside County which is the fourth largest county in State. Riverside County and San Bernardino County comprises the Inland Empire which is one of the fastest growing metropolitan areas in the nation. The Inland Empire covers approximately 27,000 square miles with a population of about 4 million. Job growth in the region exceeded those of the State and other areas in Southern California from 2011 to 2015. This growth has brought the unemployment rate down and contributed to rising personal income which has supported growth in consumer-driven industries such as leisure and hospitality. Wages and salaries increased 3.8 percent in 2015 compared to the State’s 3.0 percent job growth, exceeding the pre-recession numbers. Unemployment rate was down from 8.2 percent in 2014 to 6.5 percent in 2015 and down 13.7 percent from its highpoint in 2010. Other sectors of employment gain in the Inland Empire included business and professional services, transportation, warehousing, construction and manufacturing. Job increases also occurred in wholesale trade and technical services. The State’s inland counties, including Riverside County, are forecast to show above average job growth potential in the next few years.



The Inland Empire is an affordable housing alternative to the higher priced homes in the coastal regions of Southern California. Home sales were up in 2015 as a result of job growth and low interest rates. The area has continued to see a steady increase in real estate prices for the fourth consecutive year due to low inventory of houses for sale and increasing demand resulting from higher income and migration to the region. It is forecast that residential building permits will increase by 22.1 percent in 2016 and 24.6 percent in 2017. Non-residential construction which was depressed from 2009 to 2012 bounced back in 2013 with an increase of new investment in the retail and industrial sectors with several large infrastructure projects and notable growth in the warehousing sector.

The transportation, warehousing and wholesaling industries employed over 150,000 workers in the Inland Empire in 2015. Transportation and warehousing jobs increased 7.3 percent and wholesale industry employment increased by 6.1 percent. The area has benefited from an increase in activity at the Ports of Los

Angeles and Long Beach which have experienced increases of 3.8 percent in 2014 and 1.6 percent in 2015 in cargo passing through these two ports. Forecasted increase in cargo movement in 2016 is 1.6 percent. Also in 2015, online retailer Amazon announced the creation of 1,000 jobs at its three Inland Empire fulfillment centers in addition to 4,000 fulltime jobs created at its regional fulfillment centers since 2012 (one of which is located in the District's service area, Moreno Valley).

The District's population has grown by nearly 49 percent since 2001 and experienced modest new connections during the national economic downturn. The recession had a large impact on Riverside County, however, local recovery has increased over recent years. In 2014, Riverside County added 26,000 jobs which is equivalent to 4.4 percent growth, unemployment decreased from 10.3 percent in 2013 to 8.2 percent in 2014 and 7.1 percent in 2015. Job growth in the County was strongest in construction, leisure and hospitality, education and healthcare and wholesale and retail. The population increased an average of 1.2 percent each year and is projected to increase an average of 2.1 percent through 2020. The County's central location and proximity to the ports of Long Beach and Los Angeles in addition to affordable land and large storage facilities makes it an ideal region for transportation and distribution of goods. As the economic recovery continues to increase the value of real estate in the coastal regions of Southern California, residents and businesses turn their attention to affordable land, housing and rental in Riverside County.

Riverside County's property assessment roll for the fiscal year 2016 has exceeded the record set in fiscal year 2008 with a value of \$255 billion, 5 percent more than the fiscal year 2015 assessment roll of \$242.7 billion. This is the fourth consecutive year of growth and had exceeded its previous peak of \$242.9 billion in 2008.

The District's property assessment roll for its service areas increased \$7.7 billion or 13 percent in fiscal year 2015. Its service areas include the cities of Temecula, Murrieta, Menifee, Hemet, San Jacinto, Moreno Valley, Perris, Wildomar and unincorporated areas in Riverside County. The largest growth among the District's incorporated service areas are in the cities of Menifee, 8.3 percent; Moreno Valley, 8.1 percent; and Perris, 8.2 percent. In 2014, Menifee was the second fastest growing city in Riverside County and the sixth fastest growing city in the state. It has moved forward with a \$100 million capital improvement program encouraging development in the area. The City of Perris has, over the recent years,



introduced additions to its downtown area which include the Drop Zone Waterpark, Big League Dreams sports complex, the completion of a major freeway intersection and exterior facades for many existing downtown buildings. It also recently introduced the \$247 million Metrolink commuter train system stretching 24 miles, linking Perris to Riverside and accommodating approximately 4,000 passengers each day. Other recent year developments in the area include a Walmart Supercenter and a Home Depot e-commerce fulfillment center. Moreno Valley is expanding with new retail and restaurant designations, health care providers, employment centers and industrial development. Recent construction activities in Moreno Valley include Aldi Food Market and Fisker Automotive Technology.

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 logistics center, is located in the District.

### Sound Financial Policies and Practices

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

### Water and Sewer Rates

In 2009, the District implemented its water budget based tiered rate structure for water sales. This rate structure is designed to promote water conservation by encouraging efficient water use and discouraging wasteful water usage. The District’s water budget-based tiered rate structure sets budgets for indoor usage based on gallons per person per day times the number of persons in the home, and for outdoor usage based on each property’s irrigated area times the daily evapotranspiration (ET) rate and a conservation factor based upon the age of the home and model landscaping ordinances then in effect.

	<u>Price/CCF</u>	
<b>Indoor Usage Budget</b> Persons x 60 GPD	Tier 1: \$1.861	} Within budget
<b>Outdoor Usage Budget</b> Irrigated Area x ET Factor x Conservation Factor	Tier 2: \$3.405	
<b>Excessive Use</b> Up to 50% over budget	Tier 3: \$6.102	} Over-budget
<b>Wasteful Use</b> More than 50% over budget	Tier 4: \$11.164	

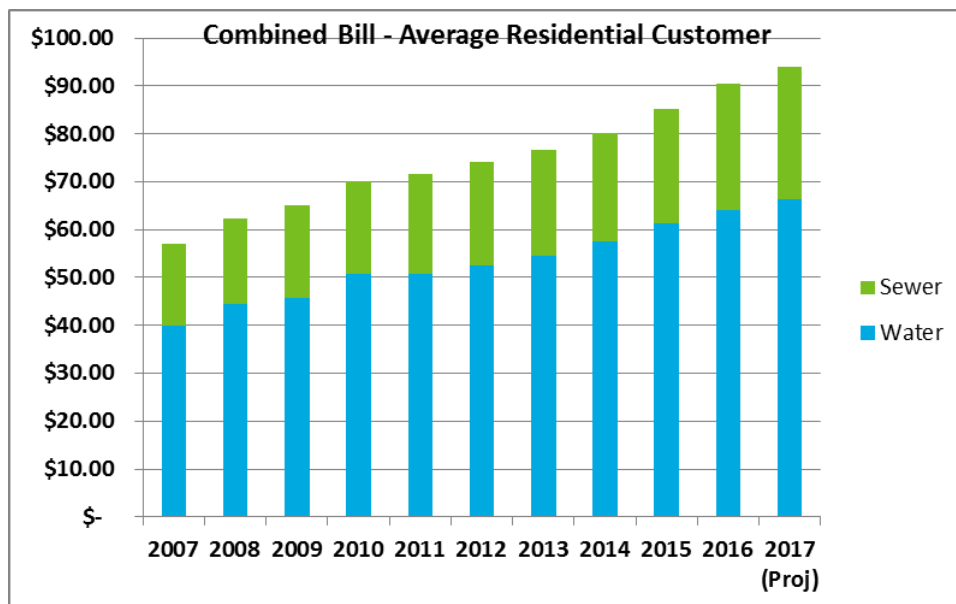
During a water shortage, budgets are adjusted and/or tiers are eliminated to send the strongest pricing signals possible to customers regarding their water use. (See “Drought and Water Shortage Contingency Plan” section below).

In 2013, the District implemented a sewer block rate structure based on the number of people occupying a property. 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. Block sewer rates are designed to be more fair and equitable to customers and revenue neutral to the District.

In 2014 and 2015, the District adopted increases in water rates and fixed service charges, with separate capital charges for water and sewer services, to fund water supply reliability and capital replacement projects. In June 2016, the Board approved additional adjustments to the daily service charge for the purpose of covering a portion of the water and sewer systems’ fixed operating costs.

The District’s allocation based tiered water rate structure together with its conservation, outreach, and education programs, is designed to meet State mandated reductions in water usage while also meeting the District’s financial goals. In 2016, as a result of conservation efforts during the extended drought conditions, domestic water sales decreased by 13,600 acre feet or 17 percent from 2015. However, due to the tiered water rate structure and a decrease in water purchases, the corresponding decrease in domestic water dollars sales was only six percent. Overall, total revenues exceeded the fiscal year 2016 forecast, expenses were lower than expected and the resulting net operating margin was well above budget.

The chart below reflects the monthly charges for an average residential customer with a household of 4 people in the District’s service area.



Effective January 1, 2017, the Board approved increases in water use rates, daily service charge and water supply and reliability capital projects charge to recover the increase in imported water cost from the Metropolitan Water District and to provide funds for investing in the preservation and protection of the local water supply. The impact to a typical water bill is approximately \$2.25 per month.

Effective July 1, 2016, sewer rates increased to recover the cost to collect, treat and recycle or dispose of wastewater. Sewer system capital projects charge will also increase to provide funds for future sewer system capital improvement projects essential for maintaining the District’s four water reclamation facilities and meeting regulatory and environmental requirements. The impact to a typical sewer bill is approximately \$1.12 per month.


## Drought and Water Shortage Contingency Plan



In January 2014, the Governor declared a drought state of emergency encouraging 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 is designed to regulate the deliver and consumption of water usage during water shortages. It includes five stages, with the first two stages being voluntary measures to encourage conservation. Stages 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. On April 1, 2015, the Governor issued an executive order including a directive to the State Water Resources Control Board (SWRCB) to impose restrictions to reduce potable urban water use by 25 percent from 2013 levels by February 2016. To implement the Governor’s orders, the SWRCB passed Emergency Water Conservation Regulations. In May 6, 2015, the SWRCB adopted regulations that required the District to effect a 28 percent reduction from 2013 water usage. The District’s Board of Directors took multiple actions to move through various stages of the WSCP in response to the drought, using the allocation-based rate structure to send pricing signals to encourage changes in water use when needed:

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



Throughout the State's mandated water use reductions, the District actively engaged with the State Water Resources Control Board (State Board) members and staff, as well as other water agencies throughout the State on a regulatory approach that would better reflect each water agency's actual water supplies and storage levels. In May 2016, the District self-certified that it had sufficient supplies to meet demands under a difficult stress test that simulated three additional years of severe drought conditions. As a result, the District's required conservation standard was reduced to zero percent, although the District's customers continued to achieve sustained conservation levels nearing a 20 percent cumulative reduction relative to 2013 water use. In June 2016, the District's Board of Directors voted to return customers to a Stage 3c, restoring outdoor water budgets in their entirety.

The financial resiliency demonstrated by the District in the face of a 20 percent reduction in water sales is attributed to the WSCP and the Board of Director's willingness to move customers through the WSCP stages and send the strongest possible pricing signals to encourage conservation.

## ***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 \$398.8 million for the period from 2016 through 2020. 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.

## ***Reserve Policy***

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

## ***Administrative Code and Investment Policy***

In 2013, the Board 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, 2016, the District's total COPs, Bonds, and SRF loans outstanding, was \$911 million, of which 62 percent were fixed interest rate and 28 percent were variable interest rate, with a weighted average cost of funds of 1.85 percent.

During Fiscal Year 2016, the District refunded over \$200 million in parity-lien certificates of participation and SRF loans with subordinate refunding revenue bonds. The sales of fixed-rate refunding bonds generated nearly \$10 million in net present value savings on the 2006A COP.

The District's long-term parity debt is rated AAA, Aa2, AA+ and the subordinate bonds are rated AA+, Aa3, AA by Fitch Ratings, Moody's Investors Service, Inc. and Standard & Poor's Rating Services, respectively.

## Major Initiatives

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

## Highly Reliable Water, Recycled Water and Wastewater Service

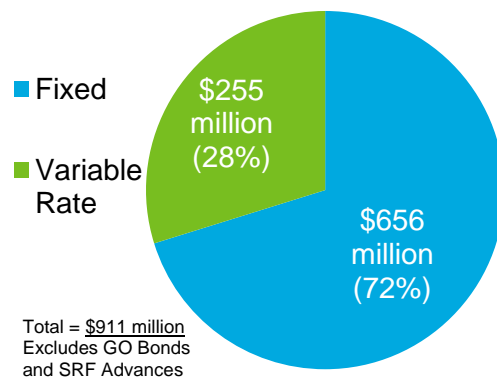
To achieve safe, reliable and cost effective collection and treatment of wastewater and beneficial use of biosolids and a water supply portfolio that achieves an optimum balance of water resources, the District identified and invests in the following initiatives:

### Groundwater Program

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

### Long Term Debt (As of June 30, 2016)



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.

### Temecula Wine Country Pipeline Sewer Project

The District’s Wine Country Phase I sewer project was completed in September 2015. This project included the installation of nearly ten miles of sewer lines in the area to improve groundwater quality by removing the need for septic systems at the wineries and eliminating groundwater contamination resulting from excess capacity in septic systems. With the completion of this project, Riverside County can move forward with its plan to promote the development of Temecula’s Wine Country as a tourist destination.



### Old Town Temecula Sewer Project

In May 2016, the District completed a \$15 million sewer project which added a new parallel sewer system in Old Town Temecula. This new sewer line increases the capacity to accommodate the demands created by the recent and continued growth in the area with the addition of restaurants, shops and residential units.



### Temecula Valley Regional Water Reclamation Facility

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

### San Jacinto Valley Regional Water Reclamation Facility

In 2015, the District completed a \$157 million expansion project for its San Jacinto Valley Regional Water Reclamation Facility, increasing its maximum capacity to 14 million gallons per day. This increased capacity will accommodate anticipated growth in the area’s population and development and is designed to meet more stringent state regulations for the treatment of wastewater and the production of recycled

water. The facility currently treats 7 million gallons per day. The new portion of the plant allows the District to receive wastewater from throughout the San Jacinto Valley and transform it to a tertiary level recycled water which is delivered to the region for non-potable reuse including water for irrigation of crops, golf courses, school fields, parks and landscape medians.

## Sound Planning and Appropriate Investment

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

## Solar Photovoltaic Renewable Energy



The District's goal is to cost effectively implement local renewable energy projects with sufficient generation to meet the District's entire net energy demands while minimizing the District's carbon footprint.

In March 2015, the District's 500 Kilowatt solar renewable energy facility at its Perris headquarters was completed. This facility produces clean, renewable energy in-line with the District's efforts to utilize innovative, non-traditional, revenue-generating concepts to reduce costs and pass on the savings to its customers. When combined with on-site microturbines, the District's headquarter is net energy neutral.

In May 2016, the District completed solar power generation systems at five facilities, an investment that is anticipated to save customers more than \$1.0 million annually. The five solar generation systems will each produce 1,000 kilowatts of power to be used on-site and adjacent supporting infrastructure. The solar generation systems were constructed at regional water reclamation facilities in Perris, Moreno Valley, Temecula, San Jacinto and Sun City to provide energy to power the reclamation process. The Sun City system will provide power to the District's groundwater desalination facilities. Each facility will have an average of 30 percent of its energy usage provided through the solar facilities.

Projected 20-year savings in energy costs avoided is \$37.7 million. The District anticipates receiving \$6.1 million in incentives from the California Solar Initiative based on kilowatt hours produced in the first five years of the project.

Other energy investments include biogas fuel cells at reclamation facilities, lighting retrofits, the ability to switch between gas and electric pumps at many facilities based on hourly tariffs, and the use of local resources including recycled water.

## Superior Customer and Community Service

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

### New Strategic Communications Plan and Logo

In March 2016, the District launched a comprehensive strategic communications plan designed to better deliver information to customers. This launch also included the unveiling of a new logo which will improve the District's visibility within the community and enhance customer and employee safety.



This initiative is a result of a customer survey resulting in requests for enhanced information on water usage, wastewater and recycled water services through the use of modernized modes of communication. More than sixty-percent of customers surveyed indicated that they wished to receive more communications and service options from the District. In response, the District is focusing on a variety of multi-platform communication initiatives, including improved online bill pay functionality, mobile phone integration and increased amount and type of business that can be conducted online.

The District's new logo, with its name more clearly defined, will allow District employees, vehicles and service equipment to be more readily identifiable. This enhances safety, security and accountability by ensuring that customers recognize District staff as their service providers.


## Efficiency and Fiscal Responsibility

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

### Other Post-Employment Benefits

The District established a funding policy to fund its retiree health program through the California Employers' Retiree Benefit Trust (CERBT) and started funding in fiscal year 2013 with a goal to achieve full funding by fiscal year 2034. The District began funding future costs in July 2012 and July 2013 with initial \$2.5 and \$2.7 million deposits to CERBT. During FY2013-2014, the District implemented a new tier of OPEB benefits for future hires that will dramatically improve the plan funding and viability over the long term. In addition, the District adopted funding policy principles that direct how the OPEB Trust will be funded over time, in accordance with sound funding principles. Commencing in FY2015, the District made its full actuarially-determined contribution and intends to continue to do so until its OPEB obligations are





fully funded. This was substantially sooner than anticipated when the OPEB funding policy principles were adopted by the Board of Directors.

## **Debt Portfolio Optimization Project**

The District implemented a debt portfolio optimization project which resulted in the restructuring and refunding of several series of bonds. These financings resulted in the reduction of annual debt service by \$3 to \$12 million per year between 2015 through 2024, released approximately \$50 million in reserve funds to fund capital projects and additional flexibility to fund future projects with the new working lien (subordinate lien).

## **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, 2015. This was the twelfth 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

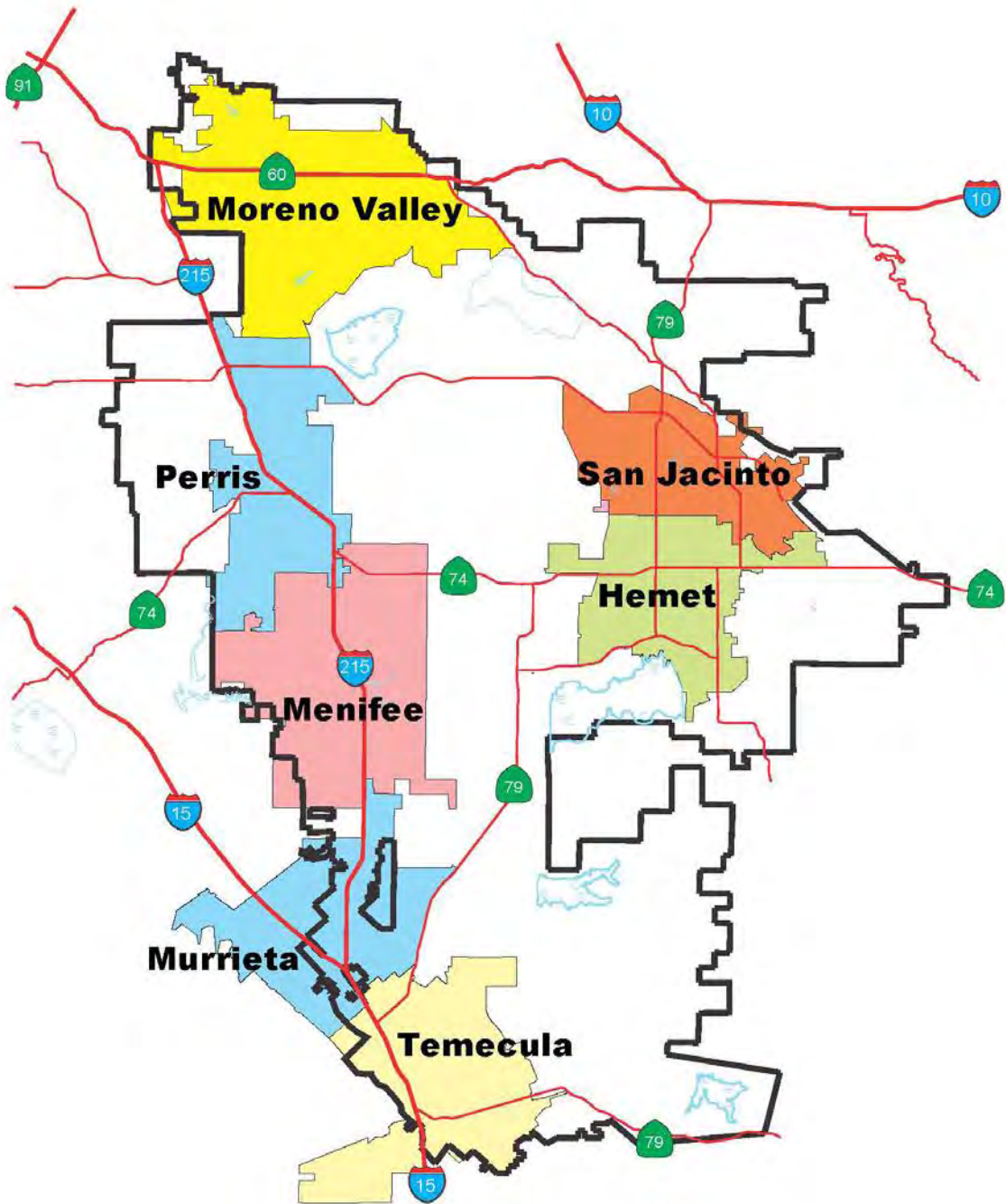
**Eastern Municipal Water District  
California**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2015**

Executive Director/CEO

*Service Area Map and Incorporated Cities*





## Eastern Municipal Water District

List of Elected & Appointed Officials  
June 30, 2016

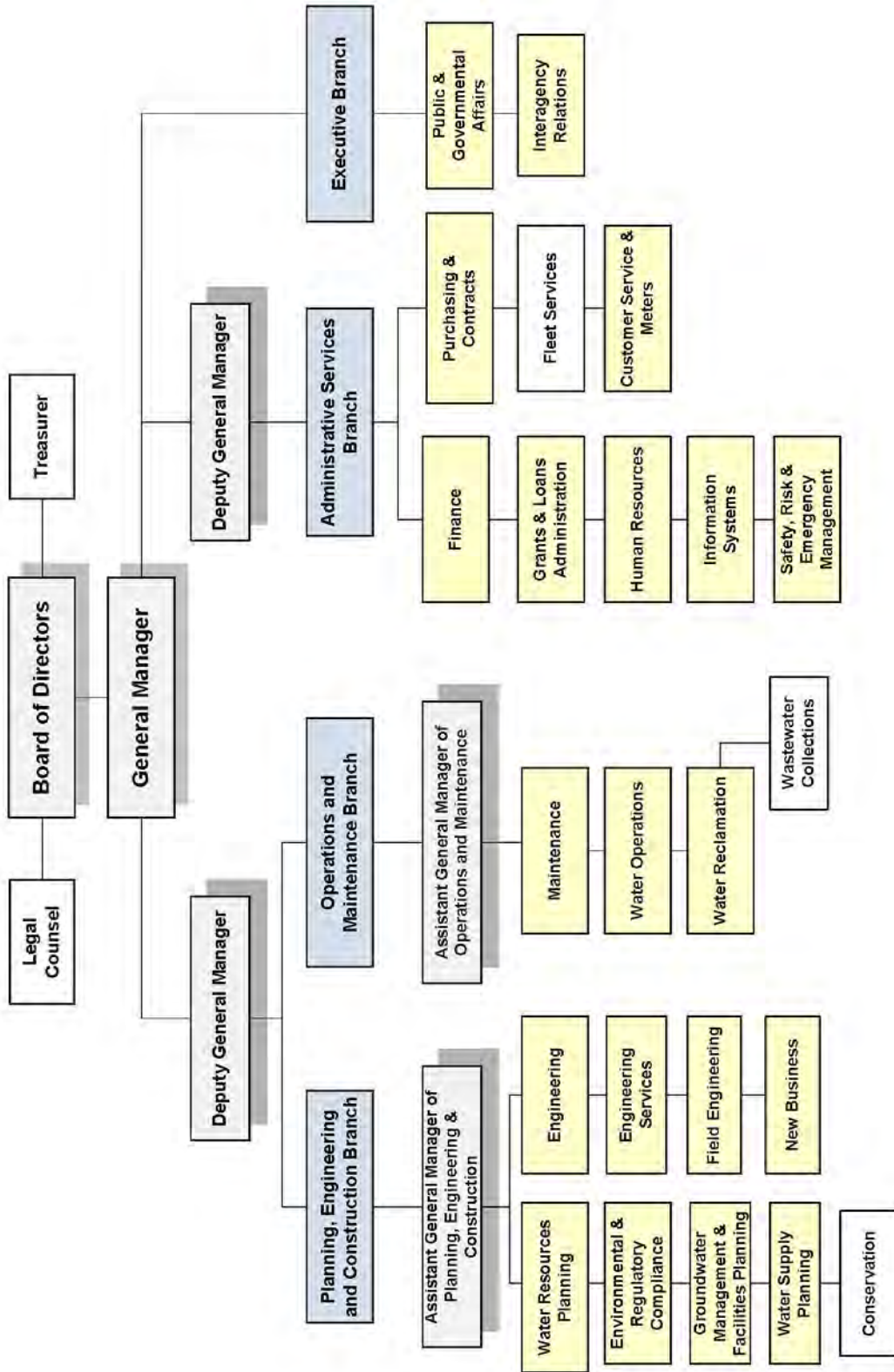
### Board of Directors

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

### Executive 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	Nicolas Kanetis, P.E.
Assistant General Manager	Jeff D. Wall, P.E.
Assistant General Manager	Charles J. Bachmann, P.E.

# Eastern Municipal Water District Organizational Chart





# Financial Section



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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, 2016, 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, 2016, 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.

***Prior-Year Comparative Information***

We have previously audited the District's for the 2015 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated November 23, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis, Schedule of Changes in Net Pension Liability and Related Ratios During the Measurement Period, Schedule of Pension Plan Contributions, and the Schedule of OPEB 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 November 3, 2016 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Irvine California  
November 3, 2016

## Management's Discussion and Analysis

On behalf of the Eastern Municipal Water District (the "District"), we are pleased to offer the following narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2016. We encourage all readers of the District's financial statements to consider the financial information presented in this section in conjunction with the accompanying financial statements, notes, analyses, and additional information furnished in our letter of transmittal at the opening of this report.

### Financial Highlights

- Total assets and deferred outflow of resources of the District exceeded its liabilities and deferred inflow of resources at the close of fiscal year 2016 by \$1.5 billion (net position), an increase of \$42.8 million from fiscal year 2015. This increase is primarily due to an increase in operating revenues of \$5.5 million, an increase in non-operating revenues of \$33.6 million and a combined decrease of \$5.0 million in operating and non-operating expenses.
- Total assets of the District are \$2.8 billion, an increase of \$17.8 million or .7% from the prior fiscal year mostly due to increases of \$112.9 million in capital improvements and \$25.2 million in construction in progress.
- Total liabilities of the District are \$1.2 billion, a decrease of \$14.3 million from the prior fiscal year due to an overall decrease in long-term debt and construction advances of \$23.6 million.
- The District's deferred inflows of resources decreased \$10.7 million or 56.9% in fiscal year 2016 reflecting a decrease of \$10.5 million or 56.5% in deferred actuarial inflow of resources related to pensions.

### Overview of the Financial Statements

The District's basic financial statements include a statement of net position, statement of revenues, expenses and changes in net position, and a statement of cash flows and notes to the basic financial statements. This report also includes other supplementary information in addition to the basic financial statements.

- *Statement of Net Position:* This statement presents information on all of the District's assets and liabilities, and deferred outflows/inflows of resources, with the difference reported as net position. Increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.
- *Statement of Revenue, Expenses and Changes in Net Position:* This statement presents information the current fiscal year's revenue and expense. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal years.
- *Statement of Cash Flows:* This statement provides relevant information about the District's cash receipts and cash payments segregated among operating, capital and related financing, and investing activities.



## Management's Discussion and Analysis (continued)

- *Notes to the Basic Financial Statements:* These notes provide a description of the accounting policies used to prepare the financial statements and present material disclosures required by generally accepted accounting principles that are not otherwise present in the financial statements.

### Financial Analysis

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

**Table 1, Net Position**

#### STATEMENT OF NET POSITION FOR THE FISCAL YEARS ENDED JUNE 30, 2016 and 2015

	2016	2015	Increase (Decrease)	
			Amount	% Change
<b>ASSETS</b>				
Current assets	\$ 233,954,903	\$ 231,991,819	\$ 1,963,084	0.8%
Restricted assets	278,497,660	282,420,596	(3,922,936)	-1.4%
Net capital assets	<u>2,238,812,592</u>	<u>2,219,050,790</u>	<u>19,761,802</u>	<u>0.9%</u>
<b>Total Assets</b>	<u>\$ 2,751,265,155</u>	<u>\$ 2,733,463,205</u>	<u>\$ 17,801,950</u>	<u>0.7%</u>
<b>Total Deferred Outflows of Resources</b>				
	<u>\$ 26,496,525</u>	<u>\$ 26,440,989</u>	<u>\$ 55,536</u>	<u>0.2%</u>
<b>LIABILITIES</b>				
Current liabilities	\$ 78,319,621	\$ 81,530,465	\$ (3,210,844)	-3.9%
Other liabilities	186,616,640	322,507,418	(135,890,778)	-42.1%
Long-term debt outstanding	<u>984,227,736</u>	<u>859,424,428</u>	<u>124,803,308</u>	<u>14.5%</u>
<b>Total Liabilities</b>	<u>\$ 1,249,163,997</u>	<u>\$ 1,263,462,311</u>	<u>\$ (14,298,314)</u>	<u>-1.1%</u>
<b>Total Deferred Inflows of Resources</b>				
	<u>\$ 8,082,538</u>	<u>\$ 18,771,015</u>	<u>\$ (10,688,477)</u>	<u>-56.9%</u>
<b>NET POSITION</b>				
Net investment in capital assets	\$ 1,403,875,420	\$ 1,370,476,337	\$ 33,399,083	2.4%
Restricted	118,614,586	115,037,221	3,577,365	3.1%
Unrestricted	<u>(1,974,861)</u>	<u>(7,842,690)</u>	<u>5,867,829</u>	<u>-74.8%</u>
<b>Total Net Position</b>	<u>\$ 1,520,515,145</u>	<u>\$ 1,477,670,868</u>	<u>\$ 42,844,277</u>	<u>2.9%</u>
<b>Ratio of Liabilities to Assets and Deferred Outflows of Resources</b>				
	<u>45%</u>	<u>46%</u>		

## Management's Discussion and Analysis (continued)

Comparing net position over time may serve as a useful indicator of a district's financial position. As shown on Table 1, The District's statement of net position includes assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$1.5 billion (net position) at the close of fiscal year 2016 representing an increase of \$42.8 million or 2.9% from fiscal year 2015. This increase is due to increases in operating revenues of \$5.5 million and non-operating revenues of \$33.6 million and a combined decrease of \$5.0 million in operating and non-operating expenses.

The ratio of liabilities to assets and deferred outflows of resources increased 1% in fiscal year 2016. This ratio indicates the degree to which the District's assets are financed through borrowing and other obligations.

The District's total assets increased by \$17.8 million or .7% as a result of a \$19.8 million increase in net capital assets. This increase includes the addition of \$113.0 million of operating assets added to the system and \$11.2 million of land, equipment and general facilities offset by a decrease of \$25.2 million in construction in progress and additional accumulated depreciation of \$79.2 million.

The District's total liabilities decreased by \$14.3 million or 1.1% reflecting a \$23.2 million decrease in long-term debt outstanding offset by an increase of \$9.0 million in net pension liability. The decrease in long-term debt outstanding is a combined result of \$17.4 million scheduled debt principal payments made during the fiscal year and the issuance of \$209.2 million, 2016A refunding revenue bonds in April 2016 which provided funds to prepay the outstanding 2006A certificates of participation, certain State Revolving Fund loans and construction advances (discussed in Note 4 to the basic financial statements). The \$9.0 million increase in net pension liability reflects the difference between total pension liability of \$366.2 million and the plan fiduciary net position at the end of fiscal year 2016, \$270 million.

The District's deferred inflows of resources decreased \$10.7 million or 56.9% in fiscal year 2016 reflecting a decrease of \$10.5 million or 56.5% in deferred actuarial inflow of resources related to pensions. This includes a \$5.4 million decrease due to changes in actuarial assumptions (discount rate from 7.5% in fiscal year 2015 to 7.65% in fiscal year 2016) and a \$2.5 million decrease reflecting the difference between projected and actual earnings on pension plan investments.

The District's total net position increased by \$42.8 million or 2.9% in fiscal year 2016 due to increases in the other net position categories consisting of net investment in capital assets which increased by \$33.4 million, net position restricted for debt covenants which increased by \$5.7 million, unrestricted net position which increased by \$5.9 million offset by a decrease in net position restricted for construction of \$2.1 million. The increase in net investment in capital assets is due to the completion of several major construction projects capitalized in fiscal year 2016 increasing the net capital assets total by \$19.8 million and the decrease in long term debt of \$23.2 million due to the issuance of the 2016A refunding revenue bonds to refund the 2006A COP and outstanding State Revolving Fund loans and construction advances for the Sun City, San Jacinto, and Temecula projects which resulted in \$15 million in total net present value savings on the 2006A COP.

## Management's Discussion and Analysis (continued)

**Table 2, Changes in Net Position**

### CHANGES IN NET POSITION FOR THE FISCAL YEARS ENDED JUNE 30, 2016 and 2015

	2016	2015	Increase (Decrease)	
			Amount	% Change
<b>REVENUES</b>				
Operating revenues	\$ 206,291,091	\$ 200,808,420	\$ 5,482,671	2.7%
Non-operating revenues	111,747,507	78,102,583	33,644,924	43.1%
<b>Total Revenues</b>	<b>318,038,598</b>	<b>278,911,003</b>	<b>39,127,595</b>	<b>14.0%</b>
<b>EXPENSES</b>				
Operating expenses	276,768,470	279,653,042	(2,884,572)	-1.0%
Non-operating expenses	36,071,890	28,110,148	7,961,742	28.3%
<b>Total Expenses</b>	<b>312,840,360</b>	<b>307,763,190</b>	<b>5,077,170</b>	<b>1.6%</b>
<b>Increase (Decrease) in</b>				
<b>Net Position before Transfers</b>	<b>5,198,238</b>	<b>(28,852,187)</b>	<b>34,050,425</b>	<b>-118.0%</b>
Capital contributions	37,646,039	59,211,012	(21,564,973)	-36.4%
<b>Change in Net Position</b>	<b>42,844,277</b>	<b>30,358,825</b>	<b>12,485,452</b>	<b>41.1%</b>
<b>Net Position - Beginning of Year</b>	<b>1,477,670,868</b>	<b>1,550,571,926</b>	<b>(72,901,058)</b>	<b>-4.7%</b>
<b>Effect of adoption of GASB 68</b>	<b>-</b>	<b>(103,259,883)</b>	<b>103,259,883</b>	<b>100.0%</b>
<b>Net Position - End of Year</b>	<b>\$ 1,520,515,145</b>	<b>\$ 1,477,670,868</b>	<b>\$ 42,844,277</b>	<b>2.9%</b>

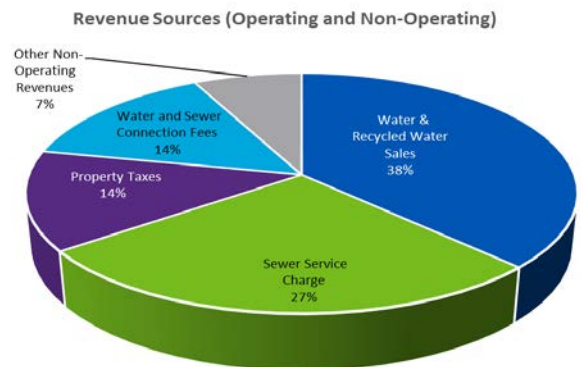
## Management's Discussion and Analysis (continued)

### Changes in Financial Performance of the District

The District's statement of revenue, expenses, and changes in net position reports the results of its operations for the fiscal year ended June 30, 2016. A summary of the changes in net position for the fiscal years ended June 30, 2016 and June 30, 2015 is reported on Table 2 of the previous page.

#### Revenues

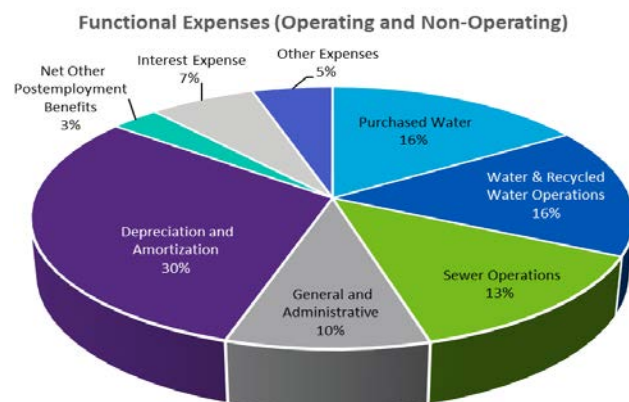
The District's operating revenues include water sales, sewer service charge and recycled water sales. Operating revenues, which were \$5.5 million or 2.7% higher in fiscal year 2016 compared to fiscal year 2015, reflects a \$10.0 million increase in sewer service charge revenue offset by a decrease of \$4.8 million in water sales revenue. The \$10.0 million increase in sewer revenue is due to a combination of increases in new sewer connections and increased sewer capital fixed charge and rate increases approved by the Board effective July 1, 2015. The \$4.8 million decrease in water sales revenue reflects an 11,643 acre feet decrease in water volumes sold as a result of water conservation efforts related to drought conditions partially offset by rate increases effective January 1, 2016.



Non-operating revenues, which include property taxes, water and sewer connection fees and other revenues were \$33.6 million or 43.1% higher in fiscal year 2016 compared to fiscal year 2015. Water and sewer connection fees increased by \$17.4 million due to new connections, which were 68% higher, in addition to a rate increase effective January 1, 2016.

#### Expenses

The District's operating expenses include the cost of purchased water, water service operating cost, sewer service operating cost, recycled water operating cost, general and administrative cost, depreciation cost and other employment benefit cost. Total operating expenses were \$2.9 million or 1% lower in fiscal year 2016 compared to fiscal year 2015 mainly due to an \$8.7 million or 14.7% decrease in the cost of purchased water. This cost, which is 18.2% of total operating expenses and 44.8% of total water sales, was lower due to the decreased demand for water which resulted in the purchase of 8,105 acre feet less treated and untreated water in fiscal year 2016. Depreciation expense was \$6.5 million or 7.3% higher than prior year's expense due to the addition of \$118.2 million of depreciable assets in fiscal year 2016.





## Management's Discussion and Analysis (continued)

### Capital Contributions

Capital contributions revenue was \$21.6 million or 36.4% lower in fiscal year 2016 compared to fiscal year 2015 due a decrease of \$22.3 million or 39% in developer contributions.

### Capital Assets

The District reported net capital assets of \$2,238.8 million in fiscal year 2016 compared to \$2,219.0 million in fiscal year 2015. A comparison of changes in capital assets is provided in Table 3 below.

**Table 3, Capital Assets**

	2016	2015	Increase/(Decrease)	
			Amount	% Change
Land	\$ 56,160,972	\$ 50,138,199	\$ 6,022,773	12.0%
Tunnel Water Seepage Agreement	1,750,900	1,750,900	-	0.0%
Water capacity rights	30,074,350	30,074,350	-	0.0%
Water plant, lines and equipment	1,148,804,466	1,114,327,333	34,477,133	3.1%
Sewer plant, lines and equipment	1,872,527,632	1,794,063,993	78,463,639	4.4%
Equipment and general facilities	134,118,749	128,875,812	5,242,937	4.1%
Construction in progress	93,124,927	118,345,825	(25,220,898)	-21.3%
Total capital assets	3,336,561,996	3,237,576,412	98,985,584	3.1%
Less accumulated depreciation	(1,097,749,404)	(1,018,525,622)	(79,223,782)	7.8%
Net capital assets	\$ 2,238,812,592	\$ 2,219,050,790	\$ 19,761,802	0.9%

Significant additions resulted from the completion and capitalization of \$112.0 million in construction in progress. Other additions to capital assets include \$34.8 million in contributed capital from developers. Most of the contributed assets were water and sewer line additions related to development in the area.

The three largest District projects that were capitalized in fiscal year 2016 include \$18.6 million of the Phase 2A Solar Photovoltaic Renewable Energy Initiative, \$15.2 million of the Temecula Old Town Sewer Improvements and \$5.5 million of the Longview 5.6 million gallon (MG) tank.

The Phase 2A Solar Photovoltaic Renewable Energy Initiative project constructed elevated pads along with the design and construction of solar system at Moreno Valley, Sun City, Perris Valley, and San Jacinto Valley Regional Water Reclamation Facilities (RWRF). The District expects to receive approximately \$5.3 million in incentives from California Solar Incentives. The project, which offsets the energy usage previously provided at each facility by a third party provider, was substantially complete as of May 19, 2016 with final work to be completed in 2016. It is anticipated that this local, sustainable power system will produce nearly 20% of the District's electricity demand.

The Temecula Old Town Sewer Improvements project includes the design and construction of approximately 3,000 linear feet of a 15-inch diameter relief sewer. This project, which will improve the overall sewer system capacity in the Temecula Old Town area, was substantially complete as of April 29, 2016 and final work was completed on May 16, 2016.

## Management's Discussion and Analysis (continued)

The Longview 5.6 million gallon (MG) tank project includes the design and construction of a potable water storage tank. This project was substantially complete as of June 30, 2016 with final work to be completed in 2016.

The District had \$78.7 million in construction contract commitments as of June 30, 2016 (refer to Note 10 of the financial statements for further information regarding these commitments).

During the year, additions to construction in progress totaled approximately \$86.9 million. Some of the major projects currently underway and where expenditures in fiscal year 2016 exceeded \$2.0 million include:

	Millions
• Fifty-eight water and sewer projects between \$100,000 - \$500,000	\$ 13.4
• Remaining water and sewer projects with expenses less than \$100,000	11.0
• Seven water and sewer projects between \$1,000,000 - \$2,000,000	10.6
• Solar Photovoltaic Renewable Energy Initiative Phase 2A	8.2
• Temecula Old Town Sewer Improvements	8.0
• San Jacinto Valley RWRf Expansion to 14 MGD	6.7
• North Trumble Road and Perris Valley RWRf Case Road Recycled Storage Ponds, No. 1	5.4
• Temecula Valley RWRf 23 MGD Expansion	4.6
• Seven water and sewer projects between \$500,000 - \$1,000,000	4.3
• AC/OMC Public Access Areas Renovation Project	3.0
• Solar Photovoltaic Renewable Energy Initiative Phase 2B	2.7
• Well 38 Drilling (Well 28 replacement)	2.5
• Brackish Water Well 93 Equipping	2.3
• Wine Country Phase I - Armada Place Lift Station	2.2
• Salt Creek Regional Sewer Improvements	2.0
	<u>\$ 86.9</u>

### Long-Term Liabilities

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

The District had a total of \$1,170.8 million of outstanding debt and other noncurrent liabilities at June 30, 2016, a net decrease of \$11.1 million or .9% from the prior year. Total debt increased \$116.0 million to \$996.7 million due to the issuance of the 2016A Revenue Bonds. To reduce debt service costs, the District refunded the 2006A COP with the 2016A Revenue Bonds. Proceeds of this bond issue also paid off certain State Revolving Fund loans and an outstanding \$140.5 million of State Revolving Fund construction advance (refer to Note 4 of the financial statements for more detail). The amount of debt and amortizations due within one year total \$18.9 million.



## **Management's Discussion and Analysis (continued)**

Other long-term liabilities increased \$9.7 million mainly due to the \$9.0 million increase in net pension liability which reflects the difference between total pension liability of \$366.2 million and the plan fiduciary net position at the end of fiscal year 2016, \$270 million.

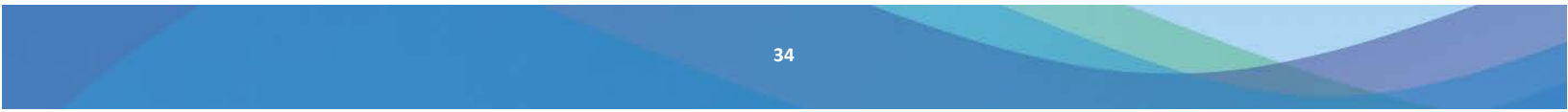
The District's parity COP and Revenue Bond debt has been assigned an AAA, Aa2 and AA+ rating and the subordinate Refunding Revenue Bonds and Revenue Bonds have been assigned ratings of AA+, Aa3, and AA from Fitch Ratings, Moody's Investors Service, Inc., and Standard & Poor's Rating Services, respectively. More detailed information about the District's long-term debt and other noncurrent liabilities is presented in Note 4 to the financial statements.

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

This financial report is designed to provide Eastern Municipal Water District's elected officials, citizens, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability of the money it receives. If you have any questions regarding any of the information provided in this report or need additional financial information, please contact the District's Finance Department at 2270 Trumble Road, P.O. Box 8300, Perris, CA 92572-8300. General information relating to the District can be found on its website <http://www.emwd.org>.



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# Basic Financial Statements







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**EASTERN MUNICIPAL WATER DISTRICT**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2016**  
(with prior year data for comparison purposes only)

	JUNE 30	
	2016	2015
<b>Assets:</b>		
<b>Current assets:</b>		
Cash and investments	\$ 175,841,205	\$ 180,865,999
Utility accounts receivable, net of allowance	26,457,291	23,346,319
Property taxes receivable	12,161,501	12,072,798
Accrued interest receivable	996,089	1,002,052
Other receivables	5,980,706	4,948,563
Prepaid expenses	4,446,067	3,187,899
Materials and supplies inventory	3,631,231	3,264,481
Water inventory	2,602,072	2,532,821
Grants receivable	1,838,741	770,887
<b>Total current assets</b>	<b>233,954,903</b>	<b>231,991,819</b>
<b>Noncurrent assets:</b>		
Restricted assets:		
Debt service covenants cash and investments	99,120,043	101,974,320
Property taxes receivable	1,530,827	1,284,134
Soboba reimbursement receivable	12,998,778	12,998,778
Construction cash and investments	164,582,603	165,982,447
Notes receivable	265,409	180,917
<b>Total restricted assets</b>	<b>278,497,660</b>	<b>282,420,596</b>
Capital assets:		
Land	56,160,972	50,138,199
Tunnel water seepage agreement	1,750,900	1,750,900
Structures, improvements and water rights	3,051,406,448	2,938,465,676
Equipment and general facilities	134,118,749	128,875,812
Construction in progress	93,124,927	118,345,825
<b>Total capital assets</b>	<b>3,336,561,996</b>	<b>3,237,576,412</b>
Less accumulated depreciation	<b>(1,097,749,404)</b>	<b>(1,018,525,622)</b>
<b>Total net capital assets</b>	<b>2,238,812,592</b>	<b>2,219,050,790</b>
<b>Total noncurrent assets</b>	<b>2,517,310,252</b>	<b>2,501,471,386</b>
<b>Total assets</b>	<b>2,751,265,155</b>	<b>2,733,463,205</b>
<b>Deferred outflows of resources:</b>		
Accumulated decrease in fair value of swap contracts	1,471,875	-
Deferred outflows - pension contributions	8,782,080	8,160,464
Deferred charges on debt refundings	16,242,570	18,280,525
<b>Total deferred outflow of resources</b>	<b>26,496,525</b>	<b>26,440,989</b>

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

**EASTERN MUNICIPAL WATER DISTRICT**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2016**  
(with prior year data for comparison purposes only)

	JUNE 30	
	2016	2015
<b>Liabilities:</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 24,118,347	\$ 25,451,048
Accrued salaries and benefits	2,329,084	3,376,404
Customer deposits	8,852,801	8,011,610
Compensated absences	8,039,211	7,690,507
Accrued interest payable	9,451,267	8,582,690
Other payables	2,763,161	3,276,890
Advances for construction, notes and assessments	2,937,873	6,434,899
Revenue bonds	14,764,632	9,336,283
Certificates of participation	140,399	4,528,785
General obligation bonds	1,015,393	975,393
Advances from developers	1,831,406	1,570,498
Capital lease payable	10,970	14,458
Unearned revenue	175,800	175,800
Other accrued expenses payable	1,889,277	2,105,200
Total Current Liabilities	<b>78,319,621</b>	<b>81,530,465</b>
<b>Noncurrent liabilities:</b>		
Compensated absences	6,393,301	6,320,819
Advances for construction, notes and assessments	87,849,361	112,917,460
Revenue bonds	648,817,910	411,071,428
Certificates of participation	207,248,872	300,487,521
General obligation bonds	33,905,509	34,920,903
State revolving fund construction advances	1,360,338	140,525,331
Advances from developers	16,087,549	16,889,638
Capital lease payable	12,782	27,116
Other accrued expenses payable	5,645,832	5,617,870
Net other postemployment benefits obligation	51,636,947	51,927,505
Net pension liability	96,207,666	87,209,140
Fair value of swap contracts	15,678,309	14,017,115
Total Noncurrent liabilities	<b>1,170,844,376</b>	<b>1,181,931,846</b>
Total liabilities	<b>1,249,163,997</b>	<b>1,263,462,311</b>
<b>Deferred inflows of resources:</b>		
Accumulated decrease in fair value of swap contracts	-	189,319
Deferred inflows actuarial	8,082,538	18,581,696
<b>Total deferred inflows of resources</b>	<b>8,082,538</b>	<b>18,771,015</b>
<b>Net position:</b>		
Net investment in capital assets	1,403,875,420	1,370,476,337
Restricted for debt service covenants	80,348,698	74,689,785
Restricted for construction	38,265,888	40,347,436
Unrestricted	(1,974,861)	(7,842,690)
Total Net Position	<b>\$ 1,520,515,145</b>	<b>\$ 1,477,670,868</b>

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

**EASTERN MUNICIPAL WATER DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**  
(with prior year data for comparison purposes only)

	JUNE 30	
	2016	2015
<b>Operating revenues:</b>		
Water sales - domestic	\$ 107,319,708	\$ 113,859,511
Water sales - irrigation	5,137,718	3,435,641
Sewer service charge	87,184,856	77,120,505
Recycled water sales	6,648,809	6,392,763
Total operating revenues	<u>206,291,091</u>	<u>200,808,420</u>
<b>Operating expenses:</b>		
Purchased water	50,334,462	59,040,009
Water operations	43,582,087	45,691,510
Sewer operations	42,095,206	42,743,947
Recycled water operations	6,287,916	6,101,759
General and administrative	29,687,364	28,677,026
Depreciation and amortization	95,302,858	88,830,791
Net other postemployment benefits	9,478,577	8,568,000
Total operating expenses	<u>276,768,470</u>	<u>279,653,042</u>
Operating income (loss)	<u>(70,477,379)</u>	<u>(78,844,622)</u>
<b>Nonoperating revenues (expenses):</b>		
Property taxes - general levy	32,271,305	30,843,713
Property taxes - general bond levy	4,605,485	3,256,867
Availability (standby) assessments	5,784,242	5,735,466
Water and sewer connection fees	45,715,784	28,307,625
Interest - operations and restricted funds	3,405,039	3,092,643
Net increase (decrease) in fair value of investments	1,607,359	(226,469)
Net increase (decrease) upon hedge termination	-	(5,504,869)
Interest - general obligation bond funds	44,559	45,068
Grant revenues	-	1,717,926
Other revenues	18,313,734	10,834,613
Gain (loss) on disposal of capital assets	(5,675,444)	(1,734,798)
Interest - certificates of participation and revenue bonds	(17,416,679)	(14,861,357)
Interest - general obligation bonds	(1,750,298)	(1,792,037)
Interest - other	(1,383,723)	(1,451,147)
General obligation fund service fees	(47,422)	(49,317)
Other expenses	(9,798,324)	(8,221,492)
Total nonoperating revenues (expenses)	<u>75,675,617</u>	<u>49,992,435</u>
Income (loss) before contributions	<u>5,198,238</u>	<u>(28,852,187)</u>
<b>Capital contributions:</b>		
Developer contributions	34,802,124	57,086,793
Capital grants	2,823,624	2,112,456
Other capital contributions	20,291	11,763
Total capital contributions	<u>37,646,039</u>	<u>59,211,012</u>
Change in net position	<u>42,844,277</u>	<u>30,358,825</u>
Total net position - Beginning of year	1,477,670,868	1,550,571,926
Effect of adoption of GASB 68	-	(103,259,883)
Total net position - End of Year	<u>\$ 1,520,515,145</u>	<u>\$ 1,477,670,868</u>

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

**EASTERN MUNICIPAL WATER DISTRICT**  
**Statement of Cash Flows**  
For the Fiscal Year Ended June 30, 2016  
(with prior year data for comparison purposes only)

	<b>June 30</b>	
	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities</b>		
Receipts from customers	<b>\$ 205,000,210</b>	\$ 208,502,289
Receipts from availability (standby) assessments	<b>5,846,619</b>	5,974,527
Other receipts	<b>18,313,734</b>	11,010,413
Payments for water	<b>(50,428,849)</b>	(59,507,971)
Payments to employee for services	<b>(86,519,225)</b>	(82,038,728)
Payments to suppliers for goods and services	<b>(49,322,014)</b>	(53,861,384)
Payments for energy and utilities	<b>(13,793,022)</b>	(16,169,325)
Net cash (used for) provided by operating activities	<b>29,097,453</b>	13,909,821
 <b>Cash flows from noncapital financing activities</b>		
Proceeds from property taxes, general levy	<b>32,120,225</b>	30,702,597
Proceeds from operating grants	-	2,131,438
Net cash (used for) provided by noncapital financing	<b>32,120,225</b>	32,834,035
 <b>Cash flows from capital and related financing activities</b>		
Acquisitions and construction of capital assets	<b>(81,757,041)</b>	(103,414,173)
Proceeds from sale of capital assets	<b>384,123</b>	550,776
Proceeds from long-term debt issuance	<b>250,119,230</b>	230,376,166
Proceeds from SRF construction advances	<b>6,613,954</b>	27,374,469
Repayment of notes, bonds and certificates of participations	<b>(280,450,169)</b>	(168,661,594)
Interest paid	<b>(21,715,206)</b>	(19,614,425)
Proceeds from property taxes, GO bond levy	<b>4,358,792</b>	3,512,148
Proceeds from water and sewer connection fees	<b>45,715,784</b>	28,307,625
Proceeds from developer advances	<b>5,911,966</b>	6,961,362
Repayments of developer advances	<b>(6,453,147)</b>	(12,221,240)
Proceeds from capital grants	<b>1,712,200</b>	4,843,739
Net cash (used for) capital and related financing activities	<b>(75,559,514)</b>	(1,985,147)
 <b>Cash flows from investing activities</b>		
Purchases of investments	<b>(87,161,110)</b>	(50,278,142)
Proceeds from sales and maturities of investments	<b>132,069,303</b>	69,665,325
Proceeds from earnings on investments	<b>3,455,561</b>	3,075,104
Net cash provided by investing activities	<b>48,363,754</b>	22,462,287
 <b>Total (decrease) increase in cash and cash equivalents</b>	<b>34,079,081</b>	67,220,996
<b>Cash and cash equivalents at beginning of year</b>	<b>224,495,777</b>	157,274,781
<b>Cash and cash equivalents at end of year</b>	<b>\$ 258,574,858</b>	\$ 224,495,777

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



**EASTERN MUNICIPAL WATER DISTRICT**  
**Statement of Cash Flows**  
For the Fiscal Year Ended June 30, 2016  
(with prior year data for comparison purposes only)

	June 30	
	2016	2015
<b>Reconciliation of loss from operations to net cash provided by (used for) operating activities:</b>		
Loss from operations	\$ (70,477,379)	\$ (78,844,622)
Adjustments to reconcile loss from operations to net cash provided by (used for) operating activities:		
Depreciation and amortization expense	95,302,858	88,830,791
Other revenues	14,319,943	8,574,068
(Increase) decrease in utility accounts receivable	(3,110,972)	6,234,678
(Increase) decrease in other receivables	(926,196)	390,385
(Increase) decrease in prepaid expenses	(1,258,168)	(186,237)
(Increase) decrease in materials and supplies inventory	(366,750)	(127,732)
(Increase) decrease in water inventory	(69,251)	(441,507)
(Increase) decrease in notes receivable	(84,492)	(152,701)
(Increase) decrease in accounts payable	(1,332,701)	(10,050,344)
(Increase) decrease in accrued expenses	(1,749,010)	1,258,460
(Increase) decrease in customer deposits	841,191	(164,146)
(Increase) decrease in settlement payable	-	-
(Increase) decrease in compensated absences	421,186	600,590
(Increase) decrease in net other postemployment benefits obligation	(290,558)	(411,531)
(Increase) decrease in net pension liability	8,998,526	(12,021,563)
(Increase) decrease in deferred inflows	820,112	18,581,696
(Increase) decrease in deferred outflows	(11,940,886)	(8,160,464)
Net cash (used for) provided by operating activities	\$ 29,097,453	\$ 13,909,821
<b>Reconciliation of cash and cash equivalent to statement of net position:</b>		
Current cash and investments	\$ 175,841,205	\$ 180,865,999
Restricted cash and investments:		
Debt service/covenants	99,120,043	101,974,320
Construction	164,582,603	165,982,447
Total cash and investments	439,543,851	448,822,766
Less investments	180,968,993	224,326,989
<b>Cash and cash equivalents</b>	<b>\$ 258,574,858</b>	<b>\$ 224,495,777</b>
<b>Noncash capital, financing, and investing activities</b>		
Capital asset contributions from developers	\$ 34,802,124	\$ 57,086,793
Net increase (decrease) in fair value of investments	1,607,359	(226,469)
Termination of interest rate swap hedge effectiveness	-	(5,504,869)
Amortization of bond premiums, discounts, and loss on debt refundings	286,127	579,335

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

**EASTERN MUNICIPAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 Description of Reporting Entity and Summary of Significant Accounting Policies**

Reporting Entity

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

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

The District formed the Eastern Municipal Water District Financing Authority (Financing Authority) on April 1, 2015, under the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4, Chapter 5, Division 7, Title 1 of the California Government Code. The Financing Authority was formed to enable the District to finance, refinance, or provide interim financing for the acquisition, construction, and operation of water supplies, water and wastewater infrastructure, water rights, public facilities, other public capital improvements, or other projects whenever there is significant public benefits. The Financing Authority is a blended component unit of the District.

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

**EASTERN MUNICIPAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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

Basis of Accounting and Measurement Focus

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

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

Implementation of Governmental Accounting Standards Board (GASB) Pronouncements

In February 2015, GASB issued Statement No. 72, Fair Value Measurement and Application. This statement addresses accounting and financial reporting issues related to fair value measurements and provides guidance for determining a fair value measurement for financial reporting purposes. It also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2015. The District implemented this Statement in the fiscal year ended June 30, 2016.

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.

**EASTERN MUNICIPAL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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

Classification of Revenues and Expenses

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

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

Capital Assets

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

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

**EASTERN MUNICIPAL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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

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

<u>Assets</u>	<u>Years</u>
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 \$324,530 at June 30, 2016.

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 10 to the basic financial statements for more information regarding water inventory).

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).



**EASTERN MUNICIPAL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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

Restricted Assets (continued)

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 \$8,934,160 at June 30, 2016.

Property Taxes

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

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.

**EASTERN MUNICIPAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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

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 vacation and sick leave 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.

Pensions

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

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

Valuation Date (VD)	June 30, 2014
Measurement Date (MD)	June 30, 2015
Measurement Period (MP)	June 30, 2014 to June 30, 2015

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section of deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expenses/expenditures) until then. The District has three items that qualify for reporting in this category: the accumulated decrease in fair value of swap contracts, the deferred outflows on pension contributions and the deferred charges on debt refundings. These are reported on the Statement of Net Position.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and will not be recognized as inflow of resources (revenue) until that time. The District has one item that qualify for reporting in this category, the deferred inflow – actuarial. This is reported on the Statement of Net Position.

**EASTERN MUNICIPAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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

Fair Value Measurements

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

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

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

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

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

Use of Estimates

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

Prior Year Data

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

**EASTERN MUNICIPAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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

Interest Rate Swap Contracts

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

Fair values of these interest rate swap contracts are reported as liabilities, and its changes in the fair value are reported as deferred outflows of resources in the statement of net position. As of June 30, 2016, all potential hedging instruments of the District are considered effective hedges.

**NOTE 2 Cash and Investments**

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

	<b>2016</b>	<b>2015</b>
Current assets	<b>\$ 175,841,205</b>	\$ 180,865,999
Restricted assets:		
Debt service covenants	<b>99,120,043</b>	101,974,320
Construction	<b>164,582,603</b>	165,982,447
Totals	<b>\$ 439,543,851</b>	\$ 448,822,766

Cash and investments consisted of the following:

Cash and investments consisted of the following:

	<b>2016</b>	<b>2015</b>
Cash on hand	<b>\$ 4,900</b>	\$ 4,900
Deposits with financial institutions	<b>21,068,145</b>	4,537,008
Investments	<b>418,470,806</b>	444,280,858
Total cash and investments	<b>\$ 439,543,851</b>	\$ 448,822,766

Cash and cash equivalents consisted of the following:

	<b>2016</b>	<b>2015</b>
Demand accounts and on hand	<b>\$ 21,058,060</b>	\$ 4,541,908
Local Agency Investment Fund (LAIF)	<b>149,052,916</b>	138,853,543
Investment Trust of California (CalTRUST)	<b>56,566,480</b>	41,032,598
Money Market Mutual Funds	<b>31,897,402</b>	40,067,728
Total cash and investments	<b>\$ 258,574,858</b>	\$ 224,495,777

**EASTERN MUNICIPAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 2 Cash and Investments (cont'd)**

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.

<b>Investment Types Authorized by State Law</b>	<b>Authorized by Investment Policy</b>	<b>Maximum Maturity*</b>	<b>Maximum Percentage of Portfolio*</b>	<b>Maximum Investment in One Issuer*</b>
U.S. treasury obligations	Yes	5 Years	None	None
U.S. agency securities	Yes	5 Years	None	None
Bankers' acceptances	Yes	180 Days	40%	30%
Negotiable certificates of deposit	Yes	1 Year	30%	25%
Commercial paper	Yes	270 Days	25%	10%
Repurchase agreements	No <sup>1</sup>	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	\$60,000,000
CA local agency securities	Yes	5 Years <sup>2</sup>	30% <sup>3</sup>	25% <sup>3</sup>
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 FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 2 Cash and Investments (cont'd)**

Investments Authorized by Debt Agreements

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

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

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.

**EASTERN MUNICIPAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 2 Cash and Investments (cont'd)**

Interest Rate Risk (continued)

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

Investment Type	Months				
	Total	12 or Less	13 to 24	25 to 60	More than 60
U.S. Agency Securities:					
Federal Farm Credit Bank (FFCB)	\$ 20,035,550	\$ -	\$ 15,020,750	\$ 5,014,800	\$ -
Federal Home Loan Bank (FHLB)	10,000,350	-	10,000,350	-	-
Federal Home Loan Mortgage Corp. (FHLMC)	10,002,950	-	10,002,950	-	-
Federal National Mortgage Assn. (FNMA)	15,002,500	-	15,002,500	-	-
Corporate - Fixed	67,613,480	17,252,271	35,856,813	14,504,396	-
Corporate - Floating	14,865,950	-	8,011,660	6,854,290	-
Municipal	40,300,574	2,251,790	9,543,561	6,914,933	21,590,290
LAIF	149,052,916	149,052,916	-	-	-
Investment Trust of California (CalTRUST)	56,566,480	56,566,480	-	-	-
Money Market Mutual Funds	16,294,247	16,294,247	-	-	-
Held by Trustee:					
Money Market Mutual Funds	15,603,155	15,603,155	-	-	-
Guaranteed Investment Contracts (GICs)*	3,132,654	-	-	-	3,132,654
<b>Total Investments</b>	<b>\$418,470,806</b>	<b>\$257,020,859</b>	<b>\$103,438,584</b>	<b>\$ 33,288,419</b>	<b>\$ 24,722,944</b>

\* 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, 2016, 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, 2016 the District had \$14,865,950 invested in corporate floating notes.

**EASTERN MUNICIPAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 2 Cash and Investments (cont'd)**

Credit Risk

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

Category	Total	Minimum Legal Rating	Rating at June 30, 2016			
			AAA	AA	A	Not Rated
U.S. Agency						
FFCB	\$ 20,035,550	N/A	\$ 10,020,650	\$ 10,014,900	\$ -	\$ -
FHLB	10,000,350	N/A	-	10,000,350	-	-
FHLMC	10,002,950	N/A	-	10,002,950	-	-
FNMA	15,002,500	N/A	10,001,700	5,000,800	-	-
Corporate - Fixed	67,613,480	A	3,216,275	32,716,534	31,680,671	-
Corporate - Floating	14,865,950	A	-	14,865,950	-	-
Municipal	40,300,574	N/A	4,051,800	33,364,367	2,884,407	-
LAIF	149,052,916	N/A	-	-	-	149,052,916
CalTRUST	56,566,480	N/A	-	56,566,480	-	-
Money Market Mutual Funds	16,294,247	AAA*	16,294,247	-	-	-
Held by Trustee:						
Money Market Mutual Funds	15,603,155	N/A	15,603,155	-	-	-
Guaranteed Investment Contracts	3,132,654	N/A	-	-	-	3,132,654
<b>Total Investments</b>	<b>\$418,470,806</b>		<b>\$ 59,187,827</b>	<b>\$172,532,331</b>	<b>\$ 34,565,078</b>	<b>\$152,185,570</b>

\* Money market mutual funds are rated AAAm by S&P and Aaa-mf by Moodys at June 30, 2016. 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, 2016.

**EASTERN MUNICIPAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 2 Cash and Investments (cont'd)**

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of a failure of the counter party (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits. As of June 30, 2016, 100 percent of the District's investments were held in collateralized accounts in the District's name.

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF), which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized costs of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded at fair market value. Additional information about the State of California's LAIF can be found on their website: [www.treasurer.ca.gov/pmia.laif](http://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 FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 2 Cash and Investments (cont'd)**

Fair Value Measurement

The District categorizes its fair value investments within the fair value hierarchy established by generally accepted accounting principles. The District has the following recurring fair value measurements as of June 30, 2016:

<b>Category</b>	<b>Fair Value Hierarchy</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Investments reported at Fair Value				
U.S. Agency				
FFCB	\$ 20,035,550	\$ -	\$ 20,035,550	\$ -
FHLB	10,000,350	-	10,000,350	-
FHLMC	10,002,950	-	10,002,950	-
FNMA	15,002,500	-	15,002,500	-
Corporate - Fixed	67,613,480	-	67,613,480	-
Corporate - Floating	14,865,950	-	14,865,950	-
Municipal	40,300,574	-	40,300,574	-
LAIF	149,052,916	-	149,052,916	-
CalTRUST	56,566,480	-	56,566,480	-
Money Market Funds	16,294,247	-	16,294,247	-
Sub-total	<u>399,734,997</u>	<u>-</u>	<u>399,734,997</u>	<u>-</u>
Other Investments				
Money Market Funds	15,603,155	-	-	-
Guaranteed Investment Contracts	3,132,654	-	-	-
Sub-total	<u>18,735,809</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Investments</b>	<u><u>\$ 418,470,806</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 399,734,997</u></u>	<u><u>\$ -</u></u>

**EASTERN MUNICIPAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 3 Capital Assets**

The capital asset activity for the fiscal year ended June 30, 2016 was as follows:

	Beginning Balance June 30, 2015	Additions	Reductions	Ending Balance June 30, 2016
<b>Capital assets, not being depreciated</b>				
Land	\$ 50,138,199	\$ 6,140,122	\$ (117,349)	\$ 56,160,972
Tunnel Water Seepage Agreement	1,750,900			1,750,900
Construction in progress	118,345,825	86,903,276	(112,124,174)	93,124,927
Total capital assets not being depreciated	170,234,924	93,043,398	(112,241,523)	151,036,799
<b>Capital assets, being depreciated</b>				
Water plant, lines and equipment	1,114,327,333	43,974,005	(9,496,872)	1,148,804,466
Water capacity rights	30,074,350			30,074,350
Sewer plant, lines and equipment	1,794,063,993	86,077,283	(7,613,644)	1,872,527,632
Equipment and general facilities	128,875,812	10,153,715	(4,910,778)	134,118,749
Total capital assets being depreciated	3,067,341,488	140,205,003	(22,021,294)	3,185,525,197
<b>Less accumulated depreciation for</b>				
Water plant, lines and equipment	395,676,440	40,840,272	(8,203,533)	428,313,179
Water capacity rights	8,062,864	722,730		8,785,594
Sewer plant, lines and equipment	522,943,757	47,772,156	(4,132,656)	566,583,257
Equipment and general facilities	91,842,561	5,967,700	(3,742,887)	94,067,374
Total accumulated depreciation	1,018,525,622	95,302,858	(16,079,076)	1,097,749,404
Total capital assets being depreciated, net	2,048,815,866	44,902,145	(5,942,218)	2,087,775,793
<b>Capital assets, net</b>	<b>\$ 2,219,050,790</b>	<b>\$ 137,945,543</b>	<b>\$ (118,183,741)</b>	<b>\$ 2,238,812,592</b>

Net interest cost capitalized during fiscal year ended June 30, 2016 was \$4,565,063.



**EASTERN MUNICIPAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 4 Long-Term Liabilities**

Long-term liability activity for the year ended June 30, 2016 is as follows:

	Ending Balance 30-Jun-15	Additions	Reductions	Ending Balance 30-Jun-16	Due Within One Year
Long-Term Debt					
Advances for Construction, Notes and Assessments:					
CA DWR Prop 82	\$ 1,471,545	\$ -	\$ (1,471,545)	\$ -	\$ -
CA DWR Prop 204	932,464	-	(932,464)	-	-
CA DWR Prop 204 (HWFP)	24,352,774	-	(2,353,731)	21,999,043	802,475
SWRCB SRF loan (APAD)	39,679,975	-	(2,126,424)	37,553,551	2,135,398
SWRCB SRF loan (SCATT)	34,800,815	-	(3,566,176)	31,234,639	-
SWRCB SRF loan (TVRWRF)	18,114,786	-	(18,114,786)	-	-
Total notes payable	119,352,359	-	(28,565,126)	90,787,233	2,937,873
Capital Lease Obligations	41,574	-	(17,822)	23,752	10,970
Revenue Bonds:					
2011A refunding	34,165,000	-	(8,015,000)	26,150,000	8,420,000
2012A refunding	50,000,000	-	-	50,000,000	-
2013A refunding	54,575,000	-	-	54,575,000	-
2014A refunding	48,645,000	-	-	48,645,000	-
2014B refunding	45,175,000	-	-	45,175,000	-
2014C refunding	54,765,000	-	(305,000)	54,460,000	310,000
2015A refunding	50,000,000	-	-	50,000,000	-
2015B	74,430,000	-	-	74,430,000	-
2016A refunding	-	209,230,000	-	209,230,000	3,900,000
Unamortized premium	8,652,711	43,654,227	(1,389,396)	50,917,542	2,134,632
Total revenue bonds	420,407,711	252,884,227	(9,709,396)	663,582,542	14,764,632
Certificates of Participation:					
2006A	94,430,000	-	(94,430,000)	-	-
2007A refunding	20,225,000	-	(90,000)	20,135,000	100,000
2008C refunding	47,545,000	-	-	47,545,000	-
2008H	140,035,000	-	-	140,035,000	-
Net unamort prem/disc	2,781,306	-	(3,107,035)	(325,729)	40,399
Total COPs	305,016,306	-	(97,627,035)	207,389,271	140,399
General Obligation Bonds:					
2005A	12,870,000	-	(480,000)	12,390,000	495,000
2009	22,625,000	-	(475,000)	22,150,000	500,000
Net unamort prem/disc	401,296	-	(20,393)	380,903	20,393
Total GO bonds	35,896,296	-	(975,393)	34,920,903	1,015,393
Sub-total long term debt	880,714,246	252,884,227	(136,894,772)	996,703,701	18,869,267
Other Noncurrent Liabilities					
Compensated absences	14,011,326	8,264,845	(7,843,659)	14,432,512	8,039,211
Total long-term liabilities	\$ 894,725,572	\$ 261,149,072	\$ (144,738,431)	\$ 1,011,136,213	\$ 26,908,478

**EASTERN MUNICIPAL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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

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

	Date of Issue	Original Issue	Revenue Sources	Lien	Final Maturity Date	Interest Rates
<b>Advances for construction, notes and assessments:</b>						
CA DWR Prop 204 (HWFP) <i>Hemet Water Filtration Plant Construction Project</i>	3/3/05	\$ 42,098,388	(a)	Subordinate	7/1/28	Imputed -2.273%
SWRCB SRF loan (APAD) <i>Moreno Valley RWRF Acid Phase Anaerobic Digestion Project</i>	9/15/09	43,908,096	(a)	Subordinate	3/16/33	0.422%
SWRCB SRF loan (SCATT) <i>Moreno Valley RWRF Secondary Clarifier &amp; Tertiary Treatment Expansion Project</i>	6/23/09	38,302,852	(a)	Subordinate	7/5/32	1.0%
<b>Revenue Bonds:</b>						
2011A Refunding	7/20/11	56,225,000	(a)	Senior	7/1/20	4% to 5%
2012A Refunding	7/19/12	50,000,000	(a)	Senior	7/1/38	Variable
2013A Refunding	3/25/13	54,575,000	(a)	Senior	7/1/35	Variable
2014A Refunding	6/11/14	48,645,000	(a)	Subordinate	7/1/47	Variable
2014B Refunding	10/8/14	45,175,000	(a)	Subordinate	7/1/47	Variable
2014C Refunding	10/30/14	54,765,000	(a)	Subordinate	7/1/30	Variable
2015A Refunding	6/23/15	50,000,000	(a)	Subordinate	7/1/39	Variable
2015B	6/18/15	74,430,000	(a)	Subordinate	7/1/39	4% to 5%
2016A Refunding	4/5/16	209,230,000	(a)	Subordinate	7/1/39	2% to 5%
<b>Certificates of Participation:</b>						
2007A Refunding	5/16/07	20,710,000	(a)	Senior	7/1/23	4% to 5%
2008C Refunding <sup>1</sup>	6/1/08	54,400,000	(a)	Senior	7/1/46	Variable
2008H	8/28/08	140,035,000	(a)	Senior	7/1/35	5.0%
<b>General Obligation Bonds:</b>						
2005A	6/7/15	18,255,000	(b)	N/A	9/1/35	4% to 5%
2009	8/12/09	31,625,000	(b)	N/A	9/1/39	4.25% to 5.625%

(a) Net water and sewer revenues

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

<sup>1</sup> The 2008C Certificates were remarketed in June 10, 2014. As a result, the principal payment schedule was amended to begin July 1, 2039 with the last payment scheduled in July 1, 2046. The swap agreement was unchanged and therefore the net payment to the counterparty is based on the original debt schedule.

**EASTERN MUNICIPAL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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

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

Year ending June 30:	Principal	Interest	Total
2017	\$ 16,673,843	\$ 25,276,231	\$ 41,950,074
2018	16,223,462	27,694,458	43,917,920
2019	16,747,174	26,809,225	43,556,399
2020	17,286,687	25,859,809	43,146,496
2021	17,953,311	24,806,579	42,759,890
2022-2026	127,605,744	114,427,706	242,033,450
2027-2031	161,470,273	90,959,149	252,429,422
2032-2036	184,850,491	61,537,533	246,388,024
2037-2041	177,070,000	34,165,029	211,235,029
2042-2046	172,345,000	14,995,353	187,340,353
2047-2048	37,505,000	418,170	37,923,170
Sub-total	945,730,985	446,949,242	1,392,680,227
Add: Unamortized premium/discount	50,972,716	-	50,972,716
Total	\$ 996,703,701	\$ 446,949,242	\$ 1,443,652,943

Advances for Construction, Notes and Assessments

Advances for construction, notes and assessments include project financing agreements executed with the State of California Department of Water Resources and the State of California Water Resources Control Board between March 2005 and September 2009. These agreements, detailed in the summary of major terms of outstanding long-term debt, provide financing for various projects and construction costs.

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

Year ending June 30:	Principal	Interest	Total
2017	\$ 2,937,873	\$ 408,461	\$ 3,346,334
2018	5,586,698	934,320	6,521,018
2019	5,651,156	869,862	6,521,018
2020	5,716,687	804,331	6,521,018
2021	5,783,311	737,707	6,521,018
2022-2026	29,955,744	2,649,345	32,605,089
2027-2031	26,415,273	927,520	27,342,793
2032-2033	8,740,491	91,706	8,832,197
Total	\$ 90,787,233	\$ 7,423,252	\$ 98,210,485

**EASTERN MUNICIPAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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

Advances for Construction, Notes and Assessments (continued)

On January 25, 2016, the District executed a project financing agreement with the State of California Water Resources Control Board to provide financing, under the Clean Water State Revolving Fund, for planning, design and construction costs related to the North Trumble and PVRWRF Case Road Recycled Storage Ponds project. This agreement provides \$11,246,300 in funding with a future 30-year loan at an interest rate of 1.0 percent. Contingent on the District's performance of its obligations under this agreement, the estimated amount of principal that will be due to the State Water Board is \$7,798,170 with the remaining balance of \$3,448,130 awarded as a grant. Loan repayment is expected to begin in November 2017. Construction advances and capitalized interest totaling \$1,360,388 for this project were recorded through June 30, 2016.

Debt service requirements to maturity for this construction advance is not included in the debt schedule because the requirements have not yet been determined by the lending party. A schedule of payments will be determined upon completion of the funding for the project and payments will begin approximately one year after completion of construction.

Revenue Bonds

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

Future principal and interest payments on all revenue bonds as of June 30, 2016 are as follows:

<u>Year ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 12,630,000	\$ 13,473,907	\$ 26,103,907
2018	9,485,000	15,744,475	25,229,475
2019	9,905,000	15,322,090	25,227,090
2020	10,330,000	14,858,207	25,188,207
2021	10,870,000	14,344,332	25,214,332
2022-2026	60,655,000	67,994,085	128,649,085
2027-2031	94,835,000	55,594,334	150,429,334
2032-2036	70,380,000	44,468,434	114,848,434
2037-2041	160,620,000	32,535,957	193,155,957
2042-2046	142,155,000	14,477,748	156,632,748
2047-2048	30,800,000	390,680	31,190,680
	612,665,000	289,204,249	901,869,249
Add: Unamortized premium/discount	50,917,542	-	50,917,542
Total	<u>\$ 663,582,542</u>	<u>\$ 289,204,249</u>	<u>\$ 952,786,791</u>

**EASTERN MUNICIPAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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

2016A Refunding Revenue Bond

In April 2016, the District issued \$209,230,000 in refunding revenue bonds, Series 2016A. The net proceeds were used to current refund the outstanding 2006A COPs; prepay the DWR Prop 82 and 204 SRF loans; and prepay the SWRCB SRF loan (TVRWRF) and \$148.4 million in construction advances for the SWRCB SRF Loan (SJRWF Title 22 Tertiary Treatment Upgrade).

A portion of the proceeds of the 2016A Bonds were deposited in an irrevocable trust with an escrow agent for the payment of the 2006A COPs 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 refunding of the 2006A Certificates of Participation resulted in \$15.3 million net present value savings and resulted in no economic loss other than the cost to underwrite.

The 2016A Bonds include principal installments due in varying amounts from \$3,900,000 to \$9,940,000 annually from July 1, 2016 to July 1, 2045, with interest payable semiannually at a fixed rate of 2.31 percent.

Certificates of Participation

The outstanding certificates of participation were issued to provide financing for various construction projects and facility improvements. Outstanding certificates of participation are detailed in the summary of major terms of outstanding long-term debt.

Future principal and interest payments on total certificates of participation are as follows:

<b>Year ending June 30:</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2017	\$ 100,000	\$ 9,651,312	\$ 9,751,312
2018	100,000	9,319,731	9,419,731
2019	105,000	8,970,002	9,075,002
2020	105,000	8,600,878	8,705,878
2021	115,000	8,179,484	8,294,484
2022-2026	30,420,000	36,956,673	67,376,673
2027-2031	32,890,000	29,328,172	62,218,172
2032-2036	96,335,000	14,041,048	110,376,048
2037-2041	10,650,000	953,229	11,603,229
2042-2046	30,190,000	517,605	30,707,605
2047	6,705,000	27,490	6,732,490
	207,715,000	126,545,624	334,260,624
Add: Unamortized premium/discount	(325,729)	-	(325,729)
Total	\$ 207,389,271	\$ 126,545,624	\$ 333,934,895

**EASTERN MUNICIPAL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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

General Obligation (GO) Bonds

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

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

Year ending June 30:	Principal	Interest	Total
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	1,135,000	1,596,393	2,731,393
2021	1,185,000	1,545,056	2,730,056
2022-2026	6,575,000	6,827,603	13,402,603
2027-2031	7,330,000	5,109,123	12,439,123
2032-2036	9,395,000	2,936,345	12,331,345
2037-2040	5,800,000	675,843	6,475,843
Sub-total	34,540,000	23,774,268	58,314,268
Add: Unamortized premium/discount	380,903	-	380,903
Total	\$ 34,920,903	\$ 23,774,268	\$ 58,695,171

The general obligation bonds are callable prior to maturity, subject to certain call premiums. The liability for the general district bonds and improvements within the respective special districts, and the funds for retirement thereof, are derived from a bond redemption levy based on the assessed valuation within the individual improvement districts. At June 30, 2016, general obligation bonds authorized but not issued total \$547,650,000.



**EASTERN MUNICIPAL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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

Debt Service Reserve Funds

The District is required to maintain a Debt Service Reserve Fund to be used for the payment of principal and interest 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, 2016 for each outstanding debt issue is as follows:

<u>Description</u>	<u>Required</u>	<u>Actual</u>	<u>Excess (Deficiency)</u>
2007A COP	\$ 4,233,578	\$ 4,233,578	\$ -
2008H COP	14,003,500	14,269,639	266,139
Total COPs	18,237,078	18,503,217	266,139
Hemet WFP SRP - \$4.21M <sup>1</sup>	1,473,444	1,491,717	18,273
Total Debt Service Reserve Funds	<u>\$ 19,710,522</u>	<u>\$ 19,994,934</u>	<u>\$ 284,412</u>

<sup>1</sup> 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).

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, 2016, the District’s parity and subordinate obligation debt service coverage ratios were 4.3 times and 2.9 times, respectively.

2) Operating Reserve Fund

The District has covenanted that it will maintain a minimum of one quarter of its annual maintenance and operating costs as set forth in its operating budget in a separate reserve fund. The required reserve amount at June 30, 2016 was \$35,546,471 and the actual reserve balance was \$48,335,099.

**EASTERN MUNICIPAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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

Standby Certificate Purchase Agreements

Included in long-term debt at June 30, 2016 are \$245,825,000 Variable Rate Certificates of Participation, Series 2008C, 2014A, 2014B, 2014C, and 2015A Revenue Bonds (collectively, the Supported Variable Rate Debt). The Supported Variable Rate Debt have a tender provision for certificate holders on seven-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, 2016, 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, 2016 for each Supported Variable Rate Debt is:

Description	SPA Bank	SPA Expiration Date
2014C Bond	Wells Fargo Bank, N.A.	10/27/2017
2008C COP	U.S. Bank National Association	12/11/2017
2014B Bond	U.S. Bank National Association	10/06/2017
2015A Bond	MUFG Union Bank	06/22/2018
2014A Bond	Wells Fargo Bank, N.A.	06/12/2017

**NOTE 5 Interest Rate Swap Contracts**

Plan Description

The fair value balances and notional amounts of financial instruments (instruments) outstanding at June 30, 2016, 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, 2016		
	Classification	Amount	Classification	Amount	Notional
Cash flow hedges:					
2014C Bonds	Pay-fixed interest swap				
	Deferred inflow	\$ (3,322,702)	Debt	\$ (11,944,545)	\$ 54,460,000
2008C COP	Pay-fixed interest swap - cost of funds				
	Deferred inflow	\$ 1,661,508	Debt	\$ (3,733,764)	\$ 34,100,000

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

**EASTERN MUNICIPAL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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

Objective and Terms of Financial Instruments

The District entered into the financial instruments to increase interest rate savings realized by refunding various outstanding 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, 2016, along with the credit rating of the associated counterparty.

<u>Type</u>	<u>Objective</u>	<u>Notional Amount</u>	<u>Effective Date</u>	<u>Maturity Date</u>	<u>Terms</u>	<u>Counterparty Credit Rating</u>
Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2014C debt issue	\$ 54,460,000	11/1/14	7/1/30	Pay 3.1%, receive 66% of one-month LIBOR from WFB	S&P: AA- Moody's: Aa2
Pay-fixed interest rate swap - cost of funds	Hedge of changes in cash flows on the 2008C COP debt issue	\$ 34,100,000	12/1/14	7/1/20	Pay 5.125% receive the SIFMA Swap Index from WFB	S&P: AA- Moody's: Aa2

Credit Risk

The counterparty credit ratings as of June 30, 2016 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 Wells Fargo Bank either met or exceeded these rating requirements at June 30, 2016.

Interest Rate Risk

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

**EASTERN MUNICIPAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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

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 2014C COP financial instrument, which may be different from the variable rate payments made on the 2014C COP debt. The District is exposed to basis risk should the floating rate that it receives on a swap be less than the variable rate the District pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost savings from the swap may not be realized.

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 2014C 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.

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, 2016, the aggregate fair value of all financial instruments with these collateral posting provisions is a negative \$15,678,708. If the collateral posting requirements were triggered at June 30, 2016, the District would be required to post \$15,678,708 to its counterparty. The District's credit rating for the 2008C Certificates and 2014C Bonds is AA+/Aa2/AA and AA-/Aa3/AA by Fitch Ratings, Moody's Investors Service, Inc. and Standard & Poor's Rating Services, respectively; therefore, no collateral was posted at June 30, 2016.

**EASTERN MUNICIPAL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 6 Defined Benefit Pension Plan**

Plan Description

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

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members who must be public employees and beneficiaries. Benefits are based on years of credited service equal to one year of full-time employment. The Plans' provisions and benefits in effect at June 30, 2016 are summarized as follows:

	<u>Miscellaneous</u>		
	<u>Prior to 11/1/10</u>	<u>11/1/10-1/1/13</u>	<u>On or after 1/1/2013</u>
Hire date			
Benefit formula	2.5% @ 55	2% @55	2% @62
Benefit vesting schedule	5 years of service	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life	Monthly for life
Retirement age	50-55	50-55	62-67
Monthly Benefits as a % of eligible compensation	2.5%	2.0% to 2.5%	2.0% to 2.5%
Required employee contribution rates	8.0%	7.0%	6.25%
Required employer contribution rates	17.812%	17.812%	17.812%

Employees Covered

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

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

**EASTERN MUNICIPAL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 6 Defined Benefit Pension Plan (cont'd)**

Contribution Description

Section 20814 ( c ) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following the notice of a change in the rate. The total plan contributions are determined through the CalPERS annual actuarial valuation report. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ending June 30, 2015 (the measurement date), the District's average contribution rate is 16.136 percent of annual payroll. District contribution rates may change if plan contracts are amended. It is the responsibility of the District to make necessary accounting adjustments to reflect the impact due to any District Paid Member Contributions or situations where members are paying the portion of the District contribution.

Actuarial Methods and Assumptions Used To Determine Total Pension Liability

For the measurement period ending June 30, 2015 (the measurement date), the total pension liability was determined using the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.00%
Investment Rate of Return	7.65% Net of Pension Plan Investment Expenses, including inflation
Mortality Rate Table	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.0% until Purchasing Protection Allowance Floor on Purchasing Power applies, 2.0% thereafter

All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality, and retirement rates. The Experience Study Report can be obtained at the CalPERS website under Forms and Publications.



**EASTERN MUNICIPAL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 6 Defined Benefit Pension Plan (cont'd)**

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the current 7.65 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50 percent used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

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

In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11 to 60 years) using a building block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set to the single equivalent rate calculated above and rounded down to the nearest one quarter of a percent.

The table on the following page reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

**EASTERN MUNICIPAL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 6 Defined Benefit Pension Plan (cont'd)**

Discount Rate (continued)

The target allocation shown was adopted by the Board effective July 1, 2014.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1 - 10<sup>1</sup></u>	<u>Real Return Years 11<sup>2</sup></u>
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
	<u>100.0%</u>		

<sup>1</sup>An expected inflation of 2.5% used for this period

<sup>2</sup>An expected inflation rate of 3.0% used for this period

Pension Plan Fiduciary Net Position

The plan fiduciary net position disclosed in the GASB 68 accounting valuation report may differ from the plan assets reported in the actuarial valuation report due to several reasons. First, CalPERS must keep Reserves for Deficiencies and Fiduciary Self Insurance. These amounts are excluded for rate setting purposes in the actuarial valuation report while required to be included for GASB reporting purposes. In addition, differences may result from early CAFR closing and final reconciled reserves.

**EASTERN MUNICIPAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 6 Defined Benefit Pension Plan (cont'd)**

Changes in Net Pension Liability

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

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	<u>(a)</u>	<u>(b)</u>	<u>(c) = (a) - (b)</u>
<b>Balance at 6/30/2014 (VD)</b>	<b>\$ 352,896,476</b>	<b>\$ 265,687,336</b>	<b>\$ 87,209,140</b>
<b>Changes Recognized for the Measurement Period:</b>			
Service Cost	7,679,279	-	7,679,279
Interest on the Total Pension Liability	26,241,865	-	26,241,865
Changes of Benefit Terms	-	-	-
Differences between Expected and Actual Experience	(117,683)	-	(117,683)
Changes of Assumptions	(6,714,237)	-	(6,714,237)
Contributions from the Employer	-	8,161,529	(8,161,529)
Contributions from Employees (1)	-	4,204,174	(4,204,174)
Net Investment Income	-	6,028,932	(6,028,932)
Benefit Payments, including Refunds of Employee Contributions	(13,746,546)	(13,746,546)	-
Administrative Expense	-	(303,937)	303,937
<b>Net Changes during 2013-2014</b>	<b><u>\$ 13,342,678</u></b>	<b><u>\$ 4,344,152</u></b>	<b><u>\$ 8,998,526</u></b>
<b>Balance at 6/30/2015 (MD)</b>	<b><u>\$ 366,239,154</u></b>	<b><u>\$ 270,031,488</u></b>	<b><u>\$ 96,207,666</u></b>

(VD) Valuation Date

(MD) Measurement Date

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

**EASTERN MUNICIPAL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 6 Defined Benefit Pension Plan (cont'd)**

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

The following presents the net pension liability of the Plan as of the Measurement Date, calculated using the discount rate of 7.65 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.65 percent) or 1 percentage point higher (8.65 percent) than the current rate:

	<b>Discount Rate</b>	<b>Current</b>	<b>Discount Rate</b>
	<b>-1%</b>	<b>Discount</b>	<b>+1%</b>
	<b><u>(6.65%)</u></b>	<b><u>Rate (7.65%)</u></b>	<b><u>(8.65%)</u></b>
Plan's Net Pension Liability/(Asset)	\$ 147,740,083	\$ 96,207,666	\$ 53,636,233

Subsequent Events

There were no subsequent events that would materially affect the results presented in this disclosure.

Recognition of Gains and Losses

Under GASB 68, deferred inflows and deferred outflows of resources related to pensions are recognized in pension expense systematically over time.

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

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

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

The expected average remaining service lifetime (EARSL) is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired as of the beginning of the measurement period).

**EASTERN MUNICIPAL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 6 Defined Benefit Pension Plan (cont'd)**

The EARS� for the Plan for the June 30, 2015 measurement period is 5.0 years, which was obtained by dividing the total service years of 6,115 (the sum of remaining service lifetimes of the active employees) by 1,233 (the total number of participants). Note that inactive employees and retirees have remaining service lifetimes equal to 0. Also note that total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

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

As of the start of the measurement period (June 30, 2014), the Total Pension Liability is \$352,896,476. For the measurement period ending June 30, 2015 (the measurement date), the District recognized a pension expense of \$6,660,897 for the plan.

As of June 30, 2015, the District reported other amounts for the Plan as deferred outflow and deferred inflow of resources related to pensions as follows:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Pension contributions subsequent to measurement date	\$ 8,782,080	\$ -
Changes in Assumptions	-	(5,371,390)
Differences between Expected and Actual Experience	-	(94,146)
Net Difference between Projected and Actual Earnings on Pension Plan Investments	-	(2,617,002)
Total	<u>\$ 8,782,080</u>	<u>\$ (8,082,538)</u>

The amounts above are net inflows and outflows recognized in the 2014-2015 measurement period expense.

**EASTERN MUNICIPAL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 6 Defined Benefit Pension Plan (cont'd)**

The \$8,782,080 reported as deferred outflows of resources related to employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<b>Measurement Period Ended June 30, 2016</b>	<b>Deferred Outflows/(Inflows) of Resources</b>
2016	\$ (3,181,991)
2017	(3,181,991)
2018	(3,181,991)
2019	1,463,435
2020	-
Remaining	-

**NOTE 7 Defined Contribution Plan**

The District maintains the EMWD 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 401(a) Plan are 7.15 percent of each eligible employee's compensation, up to a maximum annual compensation of \$16,500. The District's contribution to the 401(a) Plan was \$754,071 for the fiscal year ended June 30, 2016.

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. Contribution to this 401(a) Plan was \$43,050 the fiscal year ended June 30, 2016.

The district provides a voluntary 457 deferred compensation plan for employees to contribute to their retirement on a tax-deferred basis. In October 2013, the District executed an amendment to its 401(a) Plan to provide for a matching contribution for those employees contributing to the 457 deferred compensation plan. The District's matching contributions will be paid into the 401(a) plan based upon the employee's annual base pay at a rate of 0.5% in Year 1 of the labor contract (fiscal year 2013-2014), 1.0% in Year 2 (fiscal year 2014-2015), and 1.5% in Year 3 (fiscal year 2015-2016). Matching contributions to the 401(a) plan totaled \$605,574 for the fiscal year ended June 30, 2016.



**EASTERN MUNICIPAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 8 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 August 1, 2005) – 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 was up to \$86.67 for family coverage and required starting on December 16, 2015 and December 16, 2016. The District's monthly contribution was \$1,556 in 2015 and \$1,703 in 2016.

Tier 2 (hired from August 1, 2005 to March 26, 2014) – 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 was up to \$1,605 in 2015 and \$1,727 in 2016.

Tier 3 (hired after March 26, 2014) – District's contribution was the PEMHCA minimum amount of \$122/month in 2015 and \$125/month in 2016.

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

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

The benefit provisions for 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 FINANCIAL STATEMENTS  
JUNE 30, 2016**

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

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](http://www.calpers.ca.gov/index.jsp?bc=/about/forms-pubs/calpers-reports/comprehensive-annual-financial.xml).

The District's total contribution for the fiscal year ended June 30, 2016 was \$9,769,135. This total included a pay-as-you-go contribution of \$3,276,000 and CERBT trust contributions of \$6,493,135.

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 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 FINANCIAL STATEMENTS  
JUNE 30, 2016**

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

Contribution rates:

District	100% of pay-as-you-go amounts for employee and elected official monthly health care and life premiums
Plan members	Retirees pay the portion of the premium not paid by the District; for example, if they elect a more expensive plan than Blue Shield HMO or PERS Kaiser

Annual required contribution	\$ 9,769,135
Interest on net OPEB obligation	3,032,566
Amortization of net OPEB obligation	<u>(3,323,124)</u>
Annual OPEB cost	9,478,577
Contributions Made	<u>(9,769,135)</u>
Decrease in Net OPEB obligation	(290,558)
Net OPEB obligation, beginning of year	<u>51,927,505</u>
Net OPEB obligation, end of year	<u><u>\$ 51,636,947</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation (liability) for 2014 through 2016 are shown in the following table.

<u>Plan</u>	<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Actual Contributions</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
Retired Employees/Elected	06/30/14	\$ 8,358,000	\$ 6,123,135	73.3%	\$ 52,339,036
Officials Healthcare and Life	06/30/15	8,568,000	8,842,531	103.2%	51,927,505
Insurance Plans	06/30/16	9,478,577	9,769,135	103.1%	51,636,947

**EASTERN MUNICIPAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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

Funded Status and Funding Progress

The funded status of the plans as of June 30, 2015, the plan's most recent actuarial valuation date, is shown in the following table. 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	\$ 100,353,312
Actuarial value of plan assets	<u>(14,204,337)</u>
Unfunded actuarial accrued liability	86,148,975
Funded ratio	14.2%
Covered payroll	\$ 47,804,000
Unfunded actuarial accrued liability as a percentage of covered payroll	180.2%

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.

**EASTERN MUNICIPAL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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

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, 2015			
Actuarial cost method	Entry age normal			
Amortization method	Level percent of payroll			
Remaining amortization method	24 years as of valuation date			
Actuarial assumptions:				
Prefunding	100% of Annual Required Contribution (ARC)			
Investment rate of return	7.00%			
Payroll growth	3.00%			
Healthcare cost trend rate:				
	<u>Year</u>	<u>PPO</u>	<u>HMO</u>	<u>PEMHCA</u>
	2015	Actual	Actual	Actual
	2016	Actual	Actual	Actual
	2017	7.0%	6.5%	4.0%
	2018	6.5%	6.0%	4.0%
	2019	6.0%	5.5%	4.0%
	2020	5.5%	5.0%	4.0%
	2021+	5.0%	5.0%	4.0%
Plan participants	<u>Active</u>	<u>Retired</u>	<u>Total</u>	
	619	360	979	

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 FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 9 Restricted and Unrestricted Net Position**

Restricted Net Position

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

Net Position restricted for construction represent constraints on legally restricted funds received and unspent from developers as required by State law.

Unrestricted Net Position

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

**NOTE 10 Commitments**

Construction Contracts

The District is committed to approximately \$78,716,069 of open construction contracts as of June 30, 2016. The contracts with the largest remaining balances include:

	<b>Contract Amount</b>	<b>Balance To Complete</b>
TVRWRF 23 MGD Expansion	\$ 72,000,943	\$ 68,304,824
North Trumble Recycled Water Ponds	8,163,252	3,188,981
Redlands/Hemlock Booster Sta. & Pipe	4,123,919	2,507,120
Sun City Lift Station Odor CTRL IMPV	2,563,120	2,431,870
Palm Avenue Pipeline Replacement	820,900	790,900
County Water Company Consolidation	1,577,836	454,715
Menifee/Perris I Desalter Noise Abatement	627,000	448,000
Well 38 Drilling	2,629,838	238,144
TVRWRF Solar DB PH2B	2,691,361	164,737
Well 64 Drilling	884,436	108,187
TOTAL	<u>\$ 96,082,605</u>	<u>\$ 78,637,478</u>



**EASTERN MUNICIPAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 10 Commitments (cont'd)**

Claims and Judgments

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

The District maintains excess insurance coverage of \$10,000,000 per occurrence with a \$750,000 self-insured retention per incident for losses sustained because of liability imposed on the District by the Workers' Compensation Act. For general liability, the District maintains excess insurance coverage of \$30,000,000 per occurrence with a \$1,000,000 self-insured retention.

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

	<b>Beginning Balance</b>			<b>Ending Balance</b>		<b>Due Within</b>
	<b>June 30, 2015</b>	<b>Additions</b>	<b>Deletions</b>	<b>June 30, 2016</b>	<b>One Year</b>	
General Liability	\$ 353,367	\$ 140,372	\$ (202,949)	\$ 290,790	\$ 290,790	
Workers Compensation	6,853,926	1,106,514	(1,062,074)	6,898,366	1,000,000	
Equipment Damage	-	68,079	(68,079)	-	-	
Dental	33,789	-	(33,789)	-	-	
	<b>\$ 7,241,082</b>	<b>\$ 1,314,965</b>	<b>\$ (1,366,891)</b>	<b>\$ 7,189,156</b>	<b>\$ 1,290,790</b>	

	<b>2016</b>	<b>2015</b>
Unpaid claims, beginning	\$ 7,241,082	\$ 7,517,020
Incurred claims and changes in estimates	1,314,965	1,931,296
Claim payments	(1,366,891)	(2,207,234)
Unpaid claims, ending	<u>\$ 7,189,156</u>	<u>\$ 7,241,082</u>

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

**EASTERN MUNICIPAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 10 Commitments (cont'd)**

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 settlement water into the area each year 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 groundwater management plan and administer the provisions of the judgment. The Hemet-San Jacinto Watermaster (Watermaster) was established on April 18, 2013 and began operations in June 2013. Prior to formation of the Watermaster, the local agencies established an interim plan for imported water deliveries from MWD for in-lieu and replenishment water. The local agencies have agreed that the District will continue to purchase and deliver in-lieu and replenishment settlement water and bill the agencies directly on behalf of the Watermaster. The District recorded a \$655,394 receivable from the agencies on behalf of the Watermaster for outstanding billings of imported settlement water deliveries as of June 30, 2016.

**EASTERN MUNICIPAL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 10 Commitments (cont'd)**

Soboba Settlement Act (continued)

Due to the extended drought conditions and limited water supply available for recharge, there are outstanding obligations of imported settlement water: for calendar year 2014, the outstanding obligation is 3,746 acre feet; for calendar year 2015, the outstanding obligation is 7,500 acre feet. As of June 30, 2016, there has been 1,809 acre feet of imported settlement water available for recharge towards the calendar year 2016 annual obligation of 7,500 acre feet. As water supply continues to remain available, the outstanding obligations will be subsequently reduced. The District's share of imported settlement water for calendar year 2016 that was recorded in Fiscal Year 2015-16 was 610 acre feet.

In June, 2013, the District established a methodology for valuing its share of the native groundwater in the Hemet-San Jacinto Groundwater Basin, including additions and withdrawals. The District recorded \$2,602,072 and \$2,532,821 in water inventory for the fiscal years ended June 30, 2016 and June 30, 2015, 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 water valued at purchased cost and withdrawals valued at a weighted average cost of all inventory layers. The following table illustrates the changes in water inventory for the fiscal year ended June 30, 2016.

	Beginning Balance June 30, 2015	Additions	Reductions	Ending Balance June 30, 2016
Acre feet	70,873	9,910	(7,384)	73,399
Dollar value	\$ 2,532,821	\$ 333,136	\$ (263,885)	\$ 2,602,072

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, 2016 was \$198,016,223. These are not included in the District's financial statements.

**NOTE 11 Contingencies**

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

**EASTERN MUNICIPAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 12 Santa Ana Watershed Project Authority**

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

According to the latest available audited financial statements, as of June 30, 2015 SAWPA had total assets of \$173,051,031 and total net assets of \$65,034,558. SAWPA Financial Statements can be obtained by contacting SAWPA at 11615 Sterling Avenue, Riverside, CA 92503 or at [www.sawpa.org](http://www.sawpa.org). The District does not have a measurable equity interest in SAWPA.

**NOTE 13 Advances from Developers**

The District receives deposits from developers in advance to cover various costs for both sewer and water related projects. At June 30, 2016, the amount of refundable deposits was \$17,918,955. When a project is closed, the developer is refunded only the amount remaining after offsetting all accumulated construction in progress costs. If costs exceed the deposit amount during the project, the developer is billed for additional deposits.

**NOTE 14 Subsequent Events**

In September 2016, the District issued \$124,925,000 in Refunding Revenue Bonds, Series 2016B. The net proceeds were issued to provide funds to advance refund the District's 2008H COPs. S&P, Moody's, and Fitch Ratings have assigned the 2016B Bonds and the District's subordinate obligations the ratings of AA, Aa3 and AA+, respectively. In September 2016, the District's senior obligations were rated AA+, Aa2, and AAA by S&P, Moody's, and Fitch Ratings, respectively.






# Required Supplementary Information

Required Supplementary Information





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**EASTERN MUNICIPAL WATER DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2016**

**Schedule of Changes in Net Pension Liability and Related  
Ratios During the Measurement Period**  
Last Ten Fiscal Years \*

Measurement Period	2014-2015	2013-2014
Total Pension Liability		
Service Cost	\$ 7,679,279	\$ 7,775,568
Interest	26,241,865	24,817,574
Changes of Benefit Terms	-	-
Difference between Expected and Actual Experience	(117,683)	-
Changes of Assumptions	(6,714,237)	-
Benefit Payments, Including Refunds of Employee Contributions	(13,746,546)	(13,419,729)
Net Change in Total Pension Liability	13,342,678	19,173,413
Total Pension Liability - Beginning	352,896,476	333,723,063
Total Pension Liability - Ending (a)	<u>\$ 366,239,154</u>	<u>\$ 352,896,476</u>
Plan Fiduciary Net Position		
Contributions - Employer	\$ 8,161,529	\$ 7,786,103
Contributions - Employee	4,204,174	4,510,815
Net Investment Income	6,028,932	40,103,890
Benefit Payments, Including Refunds of Employee Contributions	(13,746,546)	(13,419,729)
Other Changes in Net Fiduciary Position	(303,937)	-
Net Change in Fiduciary Net Position	4,344,152	38,981,079
Plan Fiduciary Net Position - Beginning	265,687,336	226,706,257
Plan Fiduciary Net Position - Ending (b)	<u>\$ 270,031,488</u>	<u>\$ 265,687,336</u>
Plan Net Pension Liability - Ending (a) - (b)	<u>\$ 96,207,666</u>	<u>\$ 87,209,140</u>
Pension Liability	73.73%	75.29%
Covered Employee Payroll	\$ 50,202,213	\$ 48,184,720
Plan Net Pension Liability as a Percentage of Covered Employee Payroll	191.64%	180.99%

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

**Notes To Schedule:**

**Benefit Changes:** The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2015. This applies to voluntary benefit changes as well as any offers of Two Years Additional Service Credit.

**Changes in Assumptions:** The discount rate was changed from 7.5 percent (net of administrative expense) to 7.65 percent.

**EASTERN MUNICIPAL WATER DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2016**

**Schedule of Pension Plan Contributions  
Last Ten Fiscal Years\***

	<b>Fiscal Year</b>	
	<b>2014-2015</b>	<b>2015-2016</b>
Actuarially Determined Contribution	\$ 8,160,464	\$ 8,782,080
Contributions in Relation to the Actuarially Determined Contribution	(8,160,464)	(8,782,080)
Contribution Deficiency (Excess)	\$ -	\$ -
 Covered Employee Payroll	\$ 50,202,213	\$ 51,119,170
 Contributions as a Percentage of Covered Employee Payroll	16.26%	17.18%

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

**Notes to Schedule:**

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2015-16 were from the June 30, 2013 public agency valuations.

Actuarial Cost Method	Entry Age Normal Cost
Amortization Method/Period	Level Percent of Payroll <sup>1</sup>
Asset Valuation Method	Market Value <sup>1</sup>
Inflation	2.75%
Salary Increase	Varies by entry age and service
Payroll Growth	3.00%
Investment Rate of Return	7.50%, net of Pension Plan Investment Expenses
Retirement Age	The probabilities of retirement was developed based on CalPERS' specific data.
Mortality	The mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board, first used in the June 30, 2009 valuation.

<sup>1</sup> For details, see June 30, 2013 Funding Valuation Report

**EASTERN MUNICIPAL WATER DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2016**

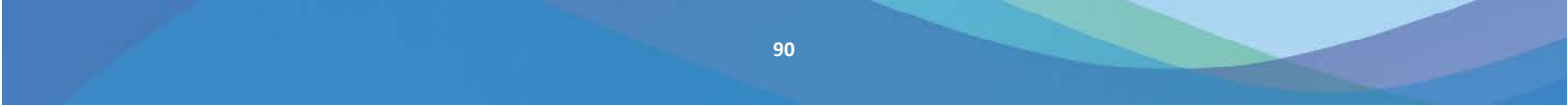
**OPEB Funding Progress**

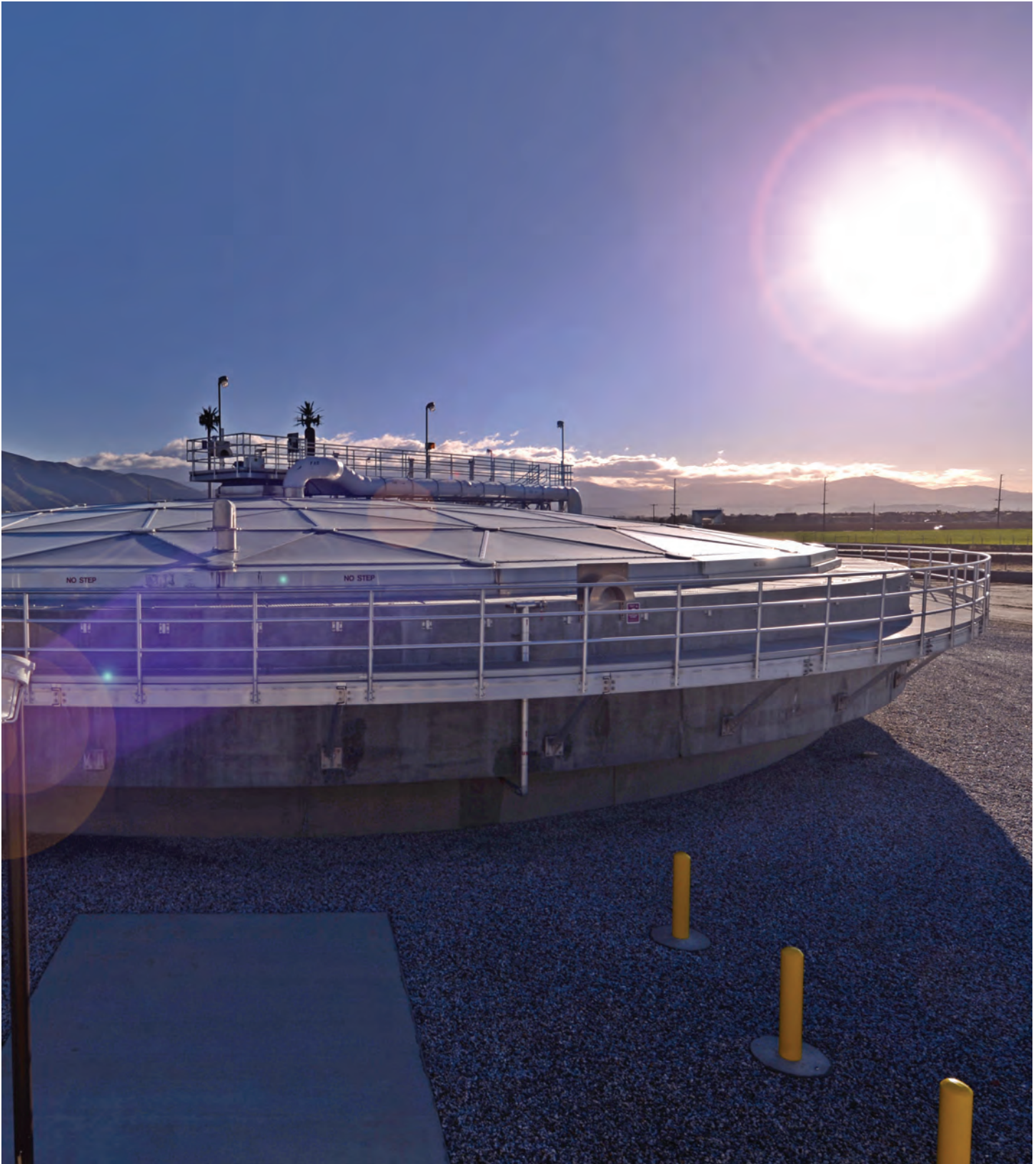
The following table (dollar amounts in millions) shows a three-year history for the funded status of the District's agent multiple-employer defined benefit OPEB plan. The information reflects the most recent valuation and the previous biennial valuation.

Fiscal Year <u>Impacted</u>	Actuarial Valuation <u>Date</u>	Entry Age Actuarial Accrued <u>Liability</u>	Actuarial Value of <u>Assets</u>	Unfunded Accrued <u>Liability</u>	Actuarial Funded <u>Ratio</u>	Covered <u>Payroll</u>	Unfunded AAL as a Percentage <u>of Payroll</u>
06/30/13	06/30/11	\$ 130.1	\$ 2.7	\$ 127.5	2.0%	\$ 49.2	259.1%
06/30/14	06/30/13	94.7	6.9	87.8	7.0%	51.5	170.5%
06/30/15	06/30/15	100.4	14.2	86.1	14.2%	47.8	180.2%



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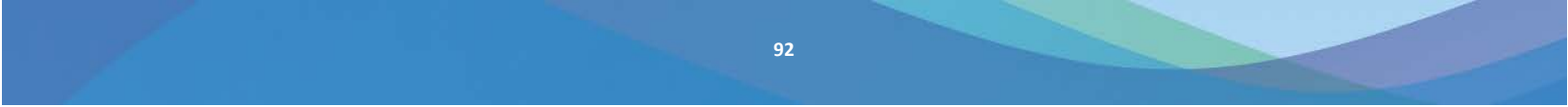




# Statistical Section



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# STATISTICAL SECTION

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

## [Contents](#)

### **Financial Trends**

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

### **Revenue Capacity**

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

### **Debt Capacity**

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

### **Demographic and Economic Information**

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

### **Operating Information**

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

### **Sources**

Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

# STATISTICAL SECTION

Eastern Municipal Water District

Net Position by Component

Last Ten Fiscal Years

	2007	2008	2009	2010	2011	2012	2013	2014	2015 <sup>1</sup>	2016
Net investment in capital assets	\$ 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	\$ 1,370,476,337	\$ 1,403,875,420
Restricted for debt service/covenants	57,377,104	56,443,385	58,248,958	65,090,658	65,433,313	64,333,290	73,268,230	70,625,613	74,689,785	80,348,698
Restricted for construction	238,268,776	133,617,326	169,061,541	150,977,362	127,083,266	99,513,601	56,375,249	45,199,054	40,347,436	38,265,888
Unrestricted	62,672,401	101,896,457	120,482,286	129,229,640	136,478,455	126,867,540	148,512,588	134,353,793	(7,842,690)	(1,974,861)
<b>Total net position</b>	<b>\$ 1,321,791,033</b>	<b>\$ 1,389,625,105</b>	<b>\$ 1,432,540,442</b>	<b>\$ 1,498,452,846</b>	<b>\$ 1,511,865,865</b>	<b>\$ 1,521,989,940</b>	<b>\$ 1,517,909,197</b>	<b>\$ 1,550,571,926</b>	<b>\$ 1,477,670,868</b>	<b>\$ 1,520,515,145</b>
% Increase	9.9%	5.1%	3.1%	4.6%	0.9%	0.7%	-0.3%	2.2%	-4.7%	2.9%

Note:

<sup>1</sup> The District implemented GASB Statement Nos. 68 and 71 for the fiscal year ended June 30, 2015. As a result of this GASB implementation, change from prior year includes a net prior period adjustment of \$(103,256,883). Refer to Note 15 to the financial statement for more information on the GASB 68 adjustment.

# STATISTICAL SECTION

## Eastern Municipal Water District Changes in Net Position Last Ten Fiscal Years

Fiscal Year	Operating Revenues		Operating Expenses <sup>3</sup>		Operating Loss	Nonoperating Revenues/ (Expenses) <sup>4</sup>	Income Before Capital Contributions	Capital Contributions <sup>5</sup>	Change in Net Position
	Water <sup>1</sup>	Wastewater <sup>2</sup>	Water	Wastewater					
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
2015	117,295,152	83,513,268	162,871,146	116,781,896	(78,844,622)	49,992,435	(28,852,187)	59,211,012	30,358,825
2016	112,457,426	93,833,665	154,989,658	121,778,812	(70,477,379)	75,675,617	5,198,238	37,646,039	42,844,277

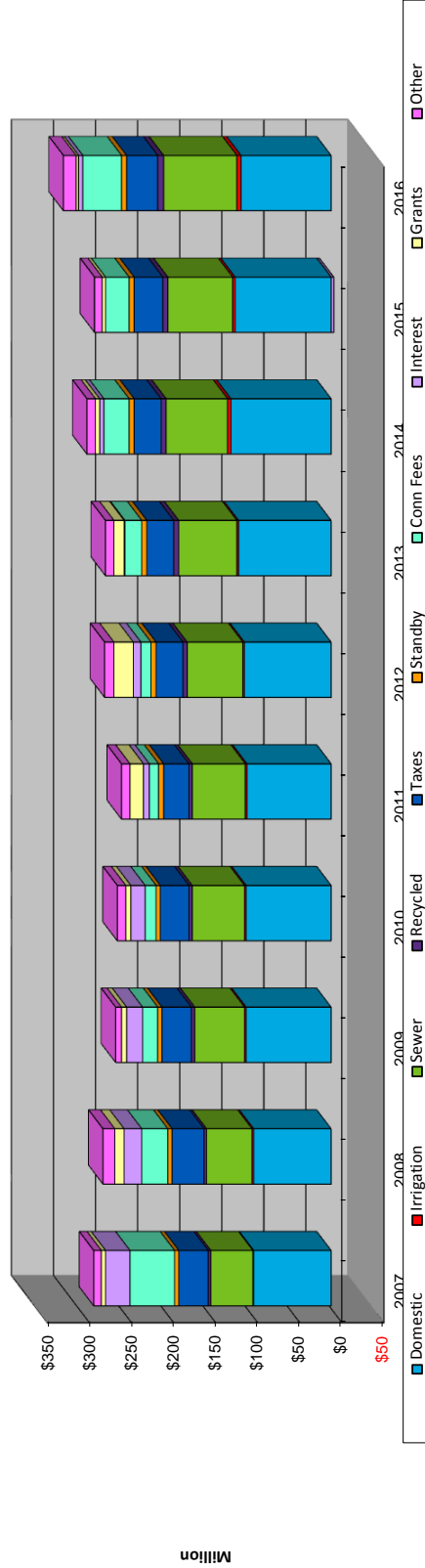
### Notes:

- Beginning in April 2009, the District implemented a budget-based tiered water rate structure for single and multifamily residential and landscape customers. This structure was designed to be revenue neutral, however, significant billings were in the higher-use wasteful tiers. Beginning in 2010, billings in these tiers decreased due to conservation efforts.
- In February 2013, a new block rate sewer methodology was implemented based on the number of household occupants. This structure is designed to compliment the domestic retail water rate structure.
- GASB Statement No. 45 was implemented in 2008, net other post-employment benefits expense of \$6.2, \$8.9, \$11.1, \$11.5, \$15.3, \$11.9, \$8.4, \$8.6 and \$9.5 million for fiscal years 2008 to 2016 are included in operating expenses.
- Total operating and capital grant revenues are included in non-operating revenues and expenses prior to 2010. Capital grants totalling \$5.7, \$15.6, \$22.6, \$10.5, \$4.2, \$2.1 and \$2.8 million are included in capital contributions for 2010 to 2016 (see revenue by source statistical report on the following page).
- Higher construction activity relating to growth and market conditions account for the increases in contributed infrastructure from 2004 to 2007. This amount decreased in 2008, 2009 and 2011 due to lower construction activity and increased in 2010 and 2015 due to District wide efforts to close out projects.

# STATISTICAL SECTION

Eastern Municipal Water District  
Revenues by Source  
Last Ten Fiscal Years

Fiscal Year	Domestic Water Sales		Ag & Irrig Water Sales		Sewer Service Charges		Recycled Water Sales		Taxes & Assmnts <sup>1</sup>		Standby Assmnts		Connect Fees <sup>2</sup>		Interest Income <sup>3</sup>		Grants <sup>4</sup>		Other		Total Revenues	
	% of Total	Total Sales	% of Total	Total Sales	% of Total	Total Charges	% of Total	Total Sales	% of Total	Total Assmnts <sup>1</sup>	% of Total	Total Assmnts	% of Total	Total Fees <sup>2</sup>	% of Total	Total Income <sup>3</sup>	% of Total	Total Grants <sup>4</sup>	% of Total	Total Other	% of Total	Total Revenues
2007	32.5%	91,596,156	0.4%	1,083,633	17.9%	50,318,414	1.0%	2,748,328	12.4%	34,849,428	1.7%	4,667,297	18.8%	52,894,363	10.4%	29,287,538	10.4%	4,598,769	1.6%	9,321,989	3.3%	281,365,915
2008	34.0%	91,864,344	0.8%	2,271,298	20.1%	54,408,172	0.9%	2,564,656	13.9%	37,648,103	1.8%	4,868,154	11.4%	30,706,687	7.7%	20,579,581	7.7%	11,261,996	4.2%	13,867,981	5.2%	270,040,972
2009	38.9%	100,967,796	0.8%	2,045,633	22.7%	58,889,788	1.4%	3,722,130	13.5%	35,102,975	1.9%	5,015,076	6.9%	17,789,045	7.4%	19,093,011	7.4%	6,466,818	2.5%	10,224,676	4.0%	259,316,948
2010	39.8%	100,699,778	0.8%	2,047,253	24.5%	61,885,298	1.6%	4,052,665	13.3%	33,559,211	2.1%	5,246,008	5.1%	13,010,929	6.3%	16,028,408	6.3%	6,063,577	2.4%	10,510,099	4.2%	253,103,226
2011	40.1%	100,198,290	0.7%	1,811,255	25.1%	62,609,731	1.8%	4,504,923	12.2%	30,354,685	2.2%	5,569,818	4.3%	10,815,294	3.0%	7,553,352	3.0%	16,137,906	6.5%	10,117,631	4.1%	249,672,885
2012	38.4%	103,226,203	0.6%	1,515,039	24.5%	65,983,462	1.9%	5,135,186	11.8%	31,730,750	2.1%	5,600,661	4.5%	12,150,826	3.4%	9,208,523	3.4%	22,926,555	8.5%	11,533,511	4.3%	269,010,716
2013	41.1%	110,468,194	0.7%	1,988,610	25.7%	68,957,128	2.1%	5,676,043	12.1%	32,555,228	2.1%	5,635,153	7.6%	20,364,185	0.3%	831,935	0.3%	12,503,511	4.7%	9,579,321	3.6%	268,559,308
2014	40.9%	118,695,153	1.4%	4,029,022	25.2%	73,100,086	2.1%	6,125,420	11.2%	32,578,837	2.0%	5,700,591	10.4%	30,149,861	1.7%	4,923,583	1.7%	5,214,780	1.8%	9,622,670	3.3%	290,140,003
2015	40.8%	113,859,511	1.2%	3,435,641	27.7%	77,120,505	2.3%	6,392,763	12.2%	34,100,580	2.1%	5,735,466	10.1%	28,307,625	-0.9%	(2,593,627)	-0.9%	3,830,382	1.4%	8,722,157	3.1%	278,911,003
2016	33.7%	107,319,708	1.6%	5,137,718	27.4%	87,184,856	2.1%	6,648,809	11.6%	36,876,790	1.8%	5,784,242	14.4%	45,715,784	1.6%	5,056,957	1.6%	2,823,624	0.9%	15,490,110	4.9%	318,038,598

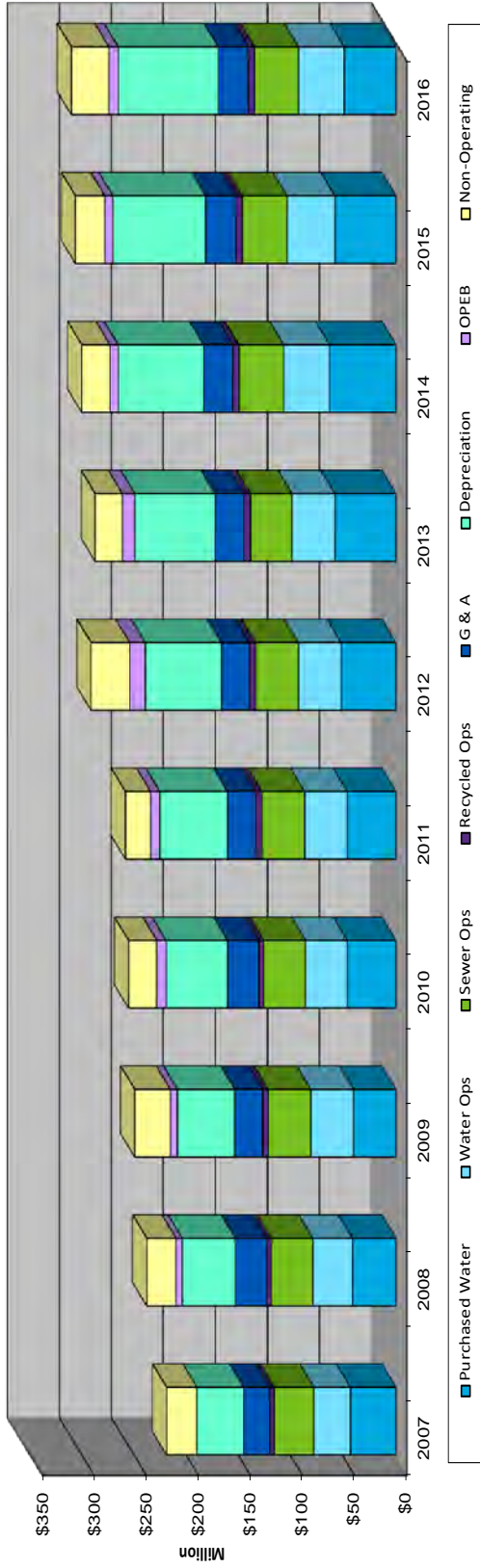


- Notes:
- In 2007, the District received its full share of property taxes, which were lower for the prior two years due to the state mandated property tax shift from local governments. The increase is also due to a 20% increase in assessed valuations and growth in customer base.
  - The decrease in connection fees is due to lower construction activity in 2007-2012 relating to the nationwide financial recession. The increased amount in 2013 relates to added connections and a rate increase in January 2013.
  - 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.
  - 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.

# STATISTICAL SECTION

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 <sup>1</sup>	% of Total	Depr. & Amort	% of Total	Net OPEB <sup>2</sup>	% of Total	Total Non-Operating Expenses <sup>3</sup>	% of Total	Total Expenses
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
2015	59,040,009	19.2%	45,691,510	14.8%	42,743,947	13.9%	6,101,759	2.0%	28,677,026	9.3%	88,830,791	28.9%	8,568,000	2.8%	28,110,148	9.1%	307,763,190
2016	50,334,462	16.1%	43,582,087	13.9%	42,095,206	13.5%	6,287,916	2.0%	29,687,364	9.5%	95,302,858	30.5%	9,478,577	3.0%	36,071,890	11.5%	312,840,360



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.

# STATISTICAL SECTION

## Eastern Municipal Water District

### Water Produced and Consumed and Wastewater Treated

Last Ten Fiscal Years

Fiscal Year	Gallons Produced <sup>1</sup>			Water		Gallons Consumed		Unbilled		Gallons of Wastewater Treated	Total Direct Rate		
	Purchased	Wells	Desalters	Total	Domestic	Ag & Irrig	Total	Total	Avg %		Base Rate <sup>2,5</sup>	Usage Rate <sup>3,5</sup>	Sewer <sup>4</sup>
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
2015	22,246	3,789	2,427	28,462	26,040	1,449	27,489	971	3.4%	16,334	11.16	53.76	27.01
2016	19,016	4,820	2,285	26,121	21,608	2,086	23,695	2,426	9.3%	15,483	11.59	57.56	30.12

**Notes:**

The information reported above does not include recycled water.

1. Gallons are presented in millions.

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

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.



## STATISTICAL SECTION

### Eastern Municipal Water District Water and Sewer Rates Last Ten Fiscal Years

Fiscal Year	2007	2008	2009 <sup>3</sup>	2010	2011	2012	2013	2014	2015	2016
<b>Water Rates</b>										
<b>Monthly base rate (meter size)</b>										
<=1"	\$ 8.43	\$ 10.04	\$ 10.52	\$ 10.52	\$ 10.52	\$ 10.55	\$ 10.52	\$ 10.77	\$ 11.16	\$ 11.62
1 1/2"	12.65	15.06	27.68	27.68	27.68	27.76	27.68	28.29	29.50	30.50
2"	16.85	20.08	51.40	51.40	51.40	51.55	51.40	52.62	54.45	56.73
3"	33.70	40.15	171.25	171.25	171.25	171.72	171.25	175.20	181.59	189.10
4"	42.16	50.19	270.40	270.40	270.40	271.15	270.40	276.49	286.83	298.60
6"	59.01	70.26	505.53	505.53	505.53	506.91	505.53	517.08	536.25	558.15
8"	67.40	80.30	633.28	633.28	633.28	635.01	633.28	647.88	671.60	699.06
<b>Usage rate (per billing unit)<sup>1</sup></b>	\$ 34.40	\$ 36.38	\$ 41.52	\$ 46.32	\$ 48.26	\$ 47.50	\$ 49.92	\$ 52.50	\$ 53.76	\$ 57.56
<b>Sewer Rates (avg per month)<sup>2</sup></b>	\$ 19.64	\$ 20.58	\$ 21.88	\$ 22.73	\$ 22.90	\$ 23.96	\$ 24.72	\$ 25.90	\$ 27.01	\$ 30.12

**Notes:**

The information reported above does not include recycled water.

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

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

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

# STATISTICAL SECTION

Eastern Municipal Water District  
Customers by Water Service Type  
Last Ten Fiscal Years

← Treated and Untreated Water →

Fiscal Year	Treated and Untreated Water					Treated and Untreated Water					Total
	Residential	Commercial	Industrial	Public Agency	Construction & Temporary	Irrigation	Agricultural	Total	Recycled	Total	
2007	125,433	2,827	134	607	849	1,972	574	132,396	204	132,600	
2008	128,184	3,103	135	614	737	2,146	603	135,522	230	135,752	
2009	129,242	3,282	137	608	557	2,236	627	136,689	260	136,949	
2010	133,320	3,276	140	597	373	2,260	649	140,615	266	140,881	
2011 <sup>1</sup>	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	
2015	136,425	3,410	138	665	412	2,446	759	144,255	356	144,611	
2016	138,247	3,472	137	663	432	2,484	790	146,225	379	146,604	

## Treated and Untreated Water Service Type by Customer Category Fiscal Year 2016

	Treated and Untreated Water Service Type by Customer Category					Treated and Untreated Water Service Type by Customer Category				
	Residential	Commercial	Industrial	Public Agency	Construction & Temporary	Irrigation	Agricultural	Total	Recycled	Total
Domestic	138,247	3,470	137	632	432	2,481	672	146,071		
Agricultural	-	2	-	4	-	3	118	127		
Wholesale	-	-	-	27	-	-	-	27		
<b>Total</b>	<b>138,247</b>	<b>3,472</b>	<b>137</b>	<b>663</b>	<b>432</b>	<b>2,484</b>	<b>790</b>	<b>146,225</b>		

Note:

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

## STATISTICAL SECTION

### Eastern Municipal Water District Largest Domestic Water Customers As of June 30, 2016

	Customer Name	Annual Water		Annual Revenues	Percentage
		Sales in	Acre Feet		
1	City of Perris <sup>1</sup>	1,569		\$ 1,911,984	20.3%
2	Moreno Valley School District	847		1,100,593	11.7%
3	Western Municipal Water District <sup>1,2</sup>	979		1,067,481	11.3%
4	Valley-Wide Recreation Park	672		1,049,422	11.1%
5	City of Moreno Valley	633		1,001,263	10.6%
6	Val Verde Unified School District	524		762,546	8.1%
7	Riverside County EDA	534		735,423	7.8%
8	Stonegate at Towngate	520		765,172	8.1%
9	City of Murrieta	414		589,967	6.3%
10	Country Meadows II Assoc.	370		443,162	4.7%
	<b>Total</b>	<b>7,062</b>		<b>\$ 9,427,014</b>	
	Total domestic water sales	66,314		\$ 107,319,708	
	Percentage of total	10.6%		8.8%	

**Notes:**

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

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

# STATISTICAL SECTION

## Eastern Municipal Water District Largest Agricultural & Irrigation Water Customers As of June 30, 2016

	Customer Name	Annual Water Sales in Acre Feet	Annual Revenues	Percentage
1	Kevin and Pauline Doan	151	\$ 187,368	24.1%
2	C & R Farms	324	\$ 179,268	23.0%
3	Moreno Valley Ranch	56	\$ 68,744	8.8%
4	HP Mobile Estates	49	\$ 60,755	7.8%
5	Hein Hettinga Dairy	88	\$ 58,996	7.6%
6	Brothers Nursery	43	\$ 48,241	6.2%
7	New Lakeview Farms	37	\$ 46,168	5.9%
8	Valley Health System	39	\$ 43,454	5.6%
9	Demler Egg Ranch	67	\$ 42,832	5.5%
10	Ramona Egg Ranch	34	\$ 41,997	5.4%
	<b>Total</b>	<b>889</b>	<b>\$ 777,823</b>	
	Total ag. & irrigation water sales	6,403	\$ 5,137,718	
	Percentage of total	13.9%	15.1%	

**Notes:**

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

## STATISTICAL SECTION

### Eastern Municipal Water District Largest Recycled Water Customers As of June 30, 2016

	Customer Name	Annual Water Sales in Acre Feet	Annual Revenues	Percentage
1	Inland Empire Energy Center LLC	1,036	\$ 385,203	17.6%
2	Rancho Casa Loma	4,245	284,830	13.0%
3	Valley Wide Recreation	618	242,190	11.1%
4	Agri Empire	2,465	215,332	9.8%
5	America Greenworld Inc	627	196,460	9.0%
6	Iris Landing HOA	1,956	194,765	8.9%
7	Marvo Holsteins	2,251	180,942	8.3%
8	The Golf Club at Rancho California	457	178,514	8.2%
9	Hemet Golf Club Landmark	332	161,826	7.4%
10	Don Bean Farms	1,565	147,571	6.7%
	<b>Total</b>	<b>15,553</b>	<b>\$ 2,187,634</b>	
	Total recycled water sales	32,037	\$ 6,648,809	
	Percentage of total	48.5%		32.9%

**Notes:**

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

## STATISTICAL SECTION

### Eastern Municipal Water District Largest Sewer Customers As of June 30, 2016

	<b>Customer Name</b>	<b>Annual Revenues</b>	<b>Percentage</b>
1	Pechanga Resort and Casino	\$ 689,337	27.6%
2	Stonegate at Towngate	494,129	19.8%
3	Murrieta Valley Unified School District	244,057	9.8%
4	Val Verde School District	195,970	7.9%
5	Hemet Unified School District	157,920	6.3%
6	Rancho Bella Vista HOA	153,022	6.1%
7	Waterstone at Murrieta Apartments	150,156	6.0%
8	Palm Court Apartments	146,996	5.9%
9	Westwind Enterprises	146,801	5.9%
10	Western States Mobile Home Park	116,056	4.7%
	<b>Total</b>	<b>\$ 2,494,443</b>	
	Total sewer revenue	\$ 87,184,856	
	Percentage of total revenue		2.9%



# STATISTICAL SECTION

## 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 <sup>1</sup>		Long Term Seasonal Storage	
	Treated	Untreated	Treated	Untreated	Treated	Untreated
<b>2007</b>						
Tier 1	478	331	364	241	360	238
Tier 2	574	427	n/a	n/a	n/a	n/a
<b>2008</b>						
Tier 1	508	351	394	261	390	258
Tier 2	606	449	n/a	n/a	n/a	n/a
<b>2009</b>						
Tier 1	579	412	465	322	436	294
Tier 2	695	528	n/a	n/a	n/a	n/a
<b>2010</b>						
Tier 1	701	484	615	416	558	366
Tier 2	811	594	n/a	n/a	n/a	n/a
<b>2011</b>						
Tier 1	744	527	687	482	601	409
Tier 2	869	652	n/a	n/a	n/a	n/a
<b>2012</b>						
Tier 1	794	560	765	537	651	442
Tier 2	920	686	n/a	n/a	n/a	n/a
<b>2013</b>						
Tier 1	847	593	n/a	n/a	n/a	n/a
Tier 2	997	743	n/a	n/a	n/a	n/a
<b>2014</b>						
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
<b>2015</b>						
Tier 1	923	582	n/a	n/a	n/a	n/a
Tier 2	1,055	714	n/a	n/a	n/a	n/a
<b>2016</b>						
Tier 1	942	594	n/a	n/a	n/a	n/a
Tier 2	1,076	728	n/a	n/a	n/a	n/a

Notes:

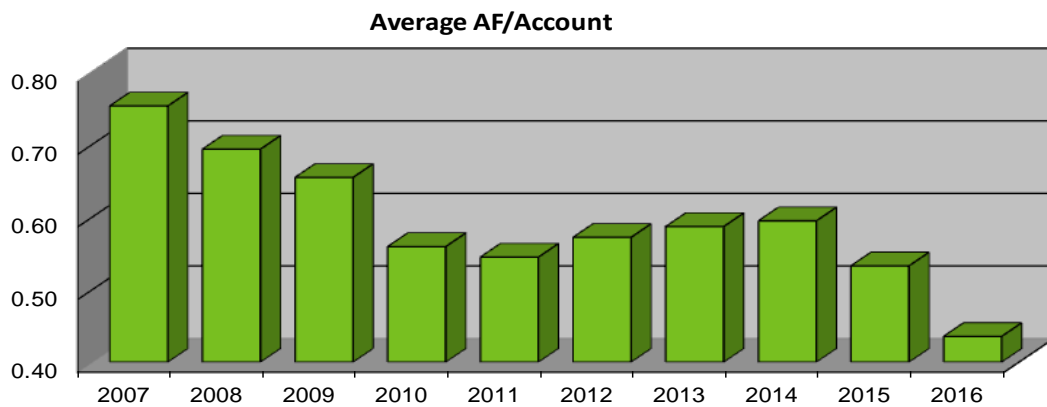
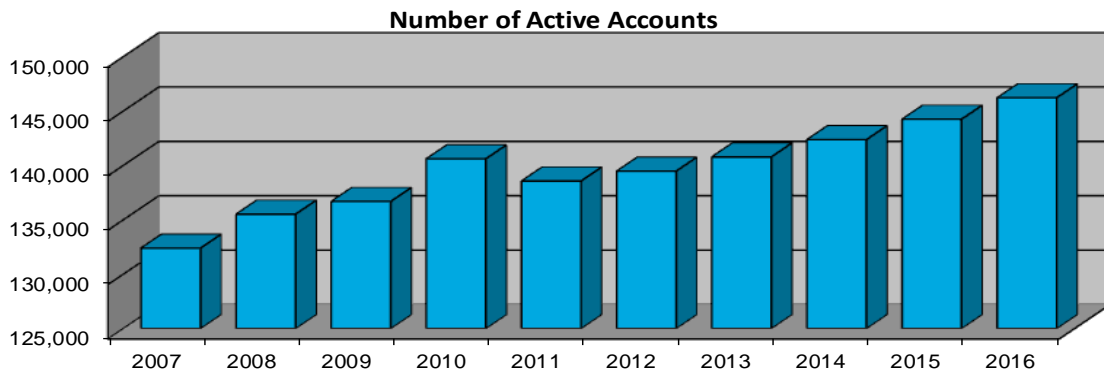
1. The Interim Agricultural Water program was discontinued after 2012.  
\* MWD is continuing discussions with member agencies on the replenishment program.

Source: Metropolitan Water District of Southern California (MWD)

# STATISTICAL SECTION

## Eastern Municipal Water District Annual Domestic Consumption (AF) Last Ten Fiscal Years

Fiscal Year	Usage (AF)	Active Accounts <sup>1</sup>	Average AF per Account
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
2015	76,832	144,255	0.53
2016	63,673	146,225	0.44



**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.

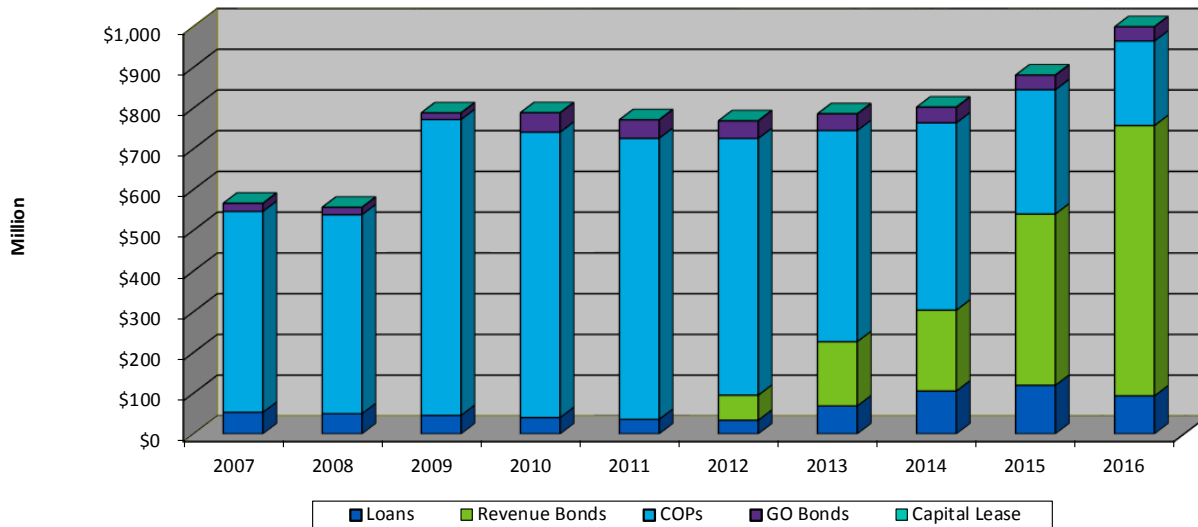
1. Amounts for all years have been updated due to availability of more precise data.

# STATISTICAL SECTION

## Eastern Municipal Water District Ratio of Outstanding Debt by Type Last Ten Fiscal Years

\* See Debt Footnotes for dollar amounts

Fiscal Year	Loans <sup>1</sup>	Revenue Bonds <sup>2</sup>	Certificates of Participation <sup>3,4</sup>	General Obligation Bonds <sup>4,5</sup>	Capital Lease <sup>6</sup>	Total	Percentage of Personal Income <sup>7</sup>	Debt per Capita <sup>8</sup>
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	55,072	801,932,757	1.11%	1,022
2015	119,352,359	420,407,712	305,016,307	35,896,296	41,574	880,714,248	1.15%	1,108
2016	93,372,651	663,582,542	207,389,271	34,920,903	23,752	999,289,119	1.28%	1,243



### 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.

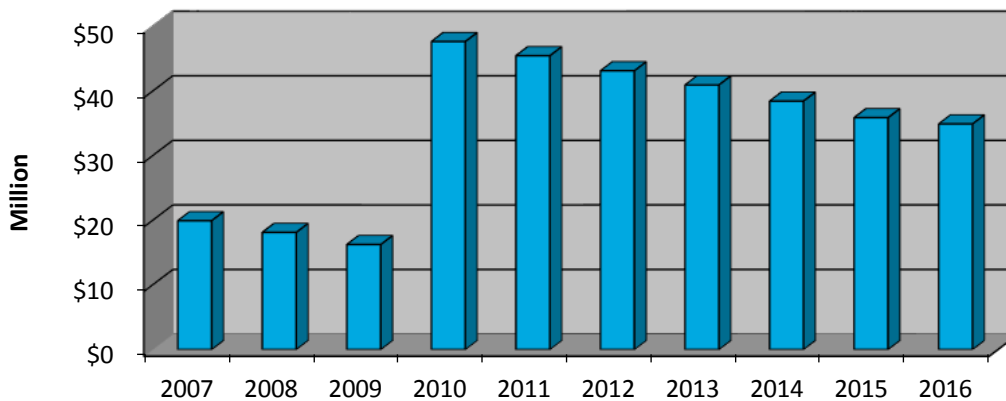
- The \$38 million construction advance for the SCATT project converted to a loan in 2013. In 2014, the \$44 million construction advance for the APAD project converted to a loan.
- The District issued \$56 million of Refunding Revenue Bonds in 2012. With the added premium and reserve funds, the issuance 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.
- The District issued over \$160 million of new COPs in 2006 and another \$240 million in 2010.
- 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.
- The District issued \$32 million of new GO Bonds in 2009.
- In January 2014, the District leased certain vehicles under leases classified as capital leases in the amount of \$75,975.
- 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.
- Based upon approximate population of District service area. See the Demographic and Economic Statistics schedule for amounts.

# STATISTICAL SECTION

## Eastern Municipal Water District Ratio of General Bonded Debt Outstanding Last Ten Fiscal Years

Fiscal Year	General Obligation Bonds <sup>1,2</sup>	Assessed Value <sup>3</sup>	Percentage of Assessed Value	Debt per Capita <sup>4</sup>
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
2015	35,896,296	61,313,471,497	0.06%	45
2016	34,920,903	69,058,798,052	0.05%	43

**Total Bonds Outstanding**



**Notes:**

Details regarding the District's outstanding debt can be found in Note 4 to the basic financial statements.

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

1. 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.

# STATISTICAL SECTION

## EASTERN MUNICIPAL WATER DISTRICT PARITY DEBT SERVICE COVERAGE FISCAL YEARS 2007 - 2016

	2007	2008	2009 <sup>1</sup>	2010	2011	2012	2013	2014	2015	2016
<b>OPERATING REVENUES:</b>										
Water sales	\$ 92,679,789	\$ 94,135,642	\$ 103,013,429	\$ 102,747,031	\$ 102,479,984	\$ 104,741,242	\$ 110,468,195	\$ 122,724,175	\$ 117,295,152	\$ 112,457,426
Sewer service sales	50,318,414	54,408,172	58,889,788	61,885,298	62,840,013	65,983,462	70,945,738	73,100,086	77,120,505	87,184,856
Recycled water	2,748,328	2,564,656	3,722,130	4,052,665	4,504,923	5,135,186	5,676,043	6,125,420	6,392,763	6,648,809
Total operating revenues	145,746,531	151,108,470	165,625,347	168,684,994	169,824,920	175,859,890	187,089,976	201,949,681	200,808,420	206,291,091
<b>OPERATING EXPENSES:</b>										
Water purchases	43,866,732	41,653,430	41,318,803	46,936,179	46,489,850	52,697,993	58,445,847	63,850,688	59,040,009	50,334,462
Water operations	35,332,561	38,447,533	40,834,689	39,967,447	41,364,910	40,789,231	40,994,915	44,193,507	45,691,510	43,582,087
Sewer operations	41,783,797	45,047,856	45,909,954	45,123,786	47,351,385	47,057,011	46,271,994	48,703,113	48,845,706	48,383,122
Other Post Employment Benefits (OPEB) Contribution <sup>2</sup>						2,620,589	5,740,000	6,123,000	8,568,000	9,478,577
General & administrative	25,292,047	30,138,792	27,471,196	30,256,670	26,707,578	27,112,598	28,392,519	28,352,049	28,677,026	29,687,364
Total operating expenses	146,275,137	155,287,611	155,534,642	162,284,082	161,913,723	170,277,422	179,845,275	191,222,357	190,822,251	181,465,612
OPERATING INCOME (LOSS)	(528,606)	(4,179,141)	10,090,705	6,400,912	7,911,197	5,582,468	7,244,701	10,727,324	9,986,169	24,825,479
<b>NON-OPERATING REVENUES:</b>										
Property taxes - general purpose	31,293,863	34,528,767	33,149,232	29,474,227	25,884,964	26,574,300	27,243,491	28,061,489	30,843,713	32,271,305
Standby charges	4,667,297	4,868,154	5,015,076	5,246,008	5,569,818	5,600,661	5,635,153	5,700,591	5,735,466	5,784,242
Water and sewer connection fees	52,894,363	30,706,687	17,789,045	13,010,929	10,815,294	12,150,826	20,364,185	30,149,861	28,307,625	45,715,784
Interest income <sup>3</sup>	28,899,522	20,128,848	18,706,820	16,681,744	7,664,191	7,431,966	4,485,217	3,133,313	3,092,643	3,405,039
Grant revenues		11,261,996	6,466,818	6,063,577	16,137,906	22,926,555	12,503,511	5,214,780	3,830,382	2,823,624
Other income/(expense)	4,093,851	8,812,367	1,767,759	487,672	1,727,067	(4,563,952)	2,967,319	947,126	829,006	2,859,968
Total non-operating revenues	121,848,896	110,306,819	82,894,750	70,964,157	67,799,240	70,120,356	73,198,876	73,207,160	72,638,836	92,859,962
Net Water and Sewer Revenues for Debt Coverage	121,320,290	106,127,678	92,985,455	77,365,069	75,710,437	75,702,824	80,443,577	83,934,484	82,625,004	117,685,441
<b>PARITY OBLIGATION DEBT SERVICE:</b>										
Parity Obligation Payments (COP/Bonds)	32,005,400	28,708,962	34,779,234	32,958,765	32,731,966	37,044,680	35,061,971	35,521,108	26,604,369	22,545,830
State Loan Payments			5,074,279	5,800,750	5,703,603	4,115,116	4,322,228	4,013,353	5,877,892	
Total Parity Obligation Debt Service	32,005,400	28,708,962	39,853,513	38,759,515	38,435,569	41,159,796	39,384,199	39,534,461	32,482,262	22,545,830
<b>PARITY OBLIGATION DEBT SERVICE COVERAGE</b>	<b>3.8</b>	<b>3.7</b>	<b>2.3</b>	<b>2.0</b>	<b>2.0</b>	<b>1.8</b>	<b>2.0</b>	<b>2.1</b>	<b>2.5</b>	<b>5.2</b>
<b>REVENUES AVAILABLE FOR SUBORDINATE OBLIGATIONS</b>	89,314,890	77,418,716	53,131,942	38,605,554	37,274,868	34,543,028	41,059,379	44,400,023	50,142,743	95,139,611
<b>SUBORDINATE OBLIGATION DEBT SERVICE</b>									2,917,542	20,192,253
<b>SUBORDINATE OBLIGATION DEBT SERVICE COVERAGE</b>	NA	NA	NA	NA	NA	NA	NA	NA	17.2	4.7
<b>REMAINING REVENUES</b>	89,314,890	77,418,716	53,131,942	38,605,554	37,274,868	34,543,028	41,059,379	44,400,023	47,225,200	74,947,358
<b>TOTAL DEBT SERVICE</b>	32,005,400	28,708,962	39,853,513	38,759,515	38,435,569	41,159,796	39,384,199	39,534,461	35,399,804	42,738,083
<b>ALL-IN DEBT SERVICE COVERAGE</b>	<b>3.8</b>	<b>3.7</b>	<b>2.3</b>	<b>2.0</b>	<b>2.0</b>	<b>1.8</b>	<b>2.0</b>	<b>2.1</b>	<b>2.3</b>	<b>2.8</b>

Notes:

- 2009 amounts were restated for net internal service funds included in other non-operating income rather than general and administrative expense.
- Beginning FY 2012, OPEB contribution expense is separated from Water and Sewer operating expense. Total Annual OPEB Cost was \$11,505,000 in FY 2012 and FY 2013 respectively. See Note 9.
- Beginning FY 2012, excludes change in fair market value of investments (unrealized gain/loss) as these are non-cash items.
- 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.

# STATISTICAL SECTION

## Eastern Municipal Water District Demographic and Economic Statistics Last Ten Calendar Years

Calendar Year	Population <sup>1</sup>	Personal		Per Capita		Unemployment Rate <sup>2</sup>
		Income <sup>2</sup> (thousands of \$)	Income <sup>2</sup>	Personal Income <sup>2</sup>	Personal	
2006	695,209	\$ 55,892,377	\$	28,933		5.0%
2007	715,664	61,110,773		30,368		6.0%
2008	725,610	65,545,866		31,586		8.5%
2009	737,868	66,450,042		31,497		13.4%
2010	760,128	64,119,679		29,869		14.7%
2011	768,264	65,532,154		29,753		13.6%
2012	776,986	69,531,143		31,073		12.2%
2013	784,834	72,303,147		31,879		10.3%
2014	794,790	74,657,667		32,503		8.2%
2015	803,973	78,239,388		33,590		7.1%

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

# STATISTICAL SECTION

## Eastern Municipal Water District Principal Employers Fiscal Year Ended June 30, 2016

Employer	No. of Employees	Percentage of Total Employment
County of Riverside	21,984	2.4%
March Air Reserve Base	8,500	0.9%
University of California, Riverside	8,306	0.9%
Amazon	7,500	0.8%
Stater Brothers Markets	6,900	0.7%
Kaiser Permanente Riverside Medical Ctr	5,300	0.6%
Corona-Norco Unified School District	5,098	0.5%
Desert Sands Unified School District	4,202	0.5%
Riverside Unified School District	3,973	0.4%
Pechanga Resort & Casino	3,931	0.4%
<b>Total</b>	<b>75,694</b>	<b>7.6%</b>
<b>Total Employment</b>	<b>974,600</b>	

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

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



# STATISTICAL SECTION

## Eastern Municipal Water District Employees by Function Last Ten Fiscal Years

	2007	2008	2009	2010	2011	2012	2013 <sup>5</sup>	2014	2015 <sup>6</sup>	2016
<b>Operations and Maintenance Division</b>										
Water Operations and Distribution	57	66	63	63	64	64	65	66	61	65
Water Reclamation	76	82	82	87	90	90	86	87	88	87
Assets & Facility Management (formerly Maintenance Services)	20	20	22	17	17	17	15	15	22	19
Auto Shop and Fabrication Shop (reassigned)	14	14	13	14	16	15	16	15	-	-
Wastewater Collection	15	15	14	15	15	13	14	14	15	14
Mechanical Services (includes Fab Shop)	27	27	27	30	30	30	28	29	31	31
Electrical and Controls	20	21	22	21	22	23	24	24	23	24
Pipeline Maintenance (formerly included Building & Grounds)	37	37	37	35	37	34	34	34	22	22
<b>Total Operations &amp; Maintenance Division</b>	<b>266</b>	<b>282</b>	<b>280</b>	<b>282</b>	<b>291</b>	<b>286</b>	<b>282</b>	<b>284</b>	<b>262</b>	<b>262</b>
<b>Engineering Division</b>										
General Engineering <sup>1,7</sup>	52	56	57	55	53	52	43	44	46	42
Construction Management and Inspections	44	39	40	38	39	39	35	33	29	32
New Business Development <sup>1</sup>	34	28	25	25	26	20	17	18	19	21
<b>Total Engineering Division</b>	<b>130</b>	<b>123</b>	<b>122</b>	<b>118</b>	<b>118</b>	<b>111</b>	<b>95</b>	<b>95</b>	<b>94</b>	<b>95</b>
<b>Planning and Resources Division</b>										
Planning and Resources <sup>2,3</sup>	13	17	19	19	19	20	20	19	20	24
Environmental and Regulatory Compliance	9	7	8	8	9	9	9	10	11	12
Water Quality and Laboratory	18	15	15	14	15	15	14	14	12	12
Source Control	10	10	10	8	9	9	9	10	10	10
<b>Total Planning and Resources Division</b>	<b>50</b>	<b>49</b>	<b>52</b>	<b>49</b>	<b>52</b>	<b>53</b>	<b>52</b>	<b>53</b>	<b>53</b>	<b>58</b>
<b>Executive and Administration</b>										
Executive and Administration <sup>7</sup>	8	10	10	10	10	11	12	12	13	15
Public and Governmental Affairs <sup>4</sup>	3	3	2	3	3	11	11	11	12	12
Human Resources (formerly included Risk Management)	12	13	13	13	13	13	11	12	8	6
Safety/Risk and Emergency Management	-	-	-	-	-	-	-	-	4	5
Billing/Customer Service	47	49	49	60	62	58	55	53	56	56
Meter Reading	25	25	25	24	24	24	21	19	16	14
Finance and Accounting	18	20	21	21	22	26	22	22	22	22
Information Systems	35	33	33	34	33	34	33	31	30	27
Purchasing, Warehouse and Records Management	28	28	29	26	27	30	28	27	28	28
Fleet Services (formerly Auto Shop)	-	-	-	-	-	-	-	-	11	11
Community Involvement <sup>2,4</sup>	13	9	9	9	8	-	-	-	-	-
<b>Total Executive and Administration</b>	<b>189</b>	<b>190</b>	<b>191</b>	<b>200</b>	<b>202</b>	<b>207</b>	<b>193</b>	<b>187</b>	<b>200</b>	<b>196</b>
<b>Total Filled Positions End of Year</b>	<b>635</b>	<b>644</b>	<b>645</b>	<b>649</b>	<b>663</b>	<b>657</b>	<b>622</b>	<b>619</b>	<b>609</b>	<b>611</b>
Not Available										
<b>Total Authorized Positions Start of Year</b>	<b>670</b>	<b>667</b>	<b>676</b>	<b>690</b>	<b>667</b>	<b>636</b>	<b>633</b>	<b>629</b>	<b>631</b>	<b>631</b>
Change in Authorized Positions from Prior Year	Available	Available	(3)	9	14	(23)	(31)	(3)	(4)	2
Number of Vacant Positions as of June 30	Available	26	22	27	27	10	13	10	20	20
Vacancy Rate as of June 30		3.9%	3.3%	4.0%	3.9%	1.5%	2.0%	1.6%	3.2%	3.2%

### Notes:

Certain data is not readily available for fiscal years prior to 2008.

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 workgroup was reorganized in 2012 (formerly Water Resources Development and Management) and again in early 2016.

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.

6. Organizational changes in March 2015 affected all divisions and eliminated 3 vacant positions.

7. Organizational changes in December 2015 resulted in the movement of staff from General Engineering to Executive and Administration.

# STATISTICAL SECTION

## OPERATING AND CAPITAL INDICATORS LAST TEN FISCAL YEARS

	<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>2015</u>	<u>2016</u>
<b><u>POTABLE WATER SYSTEM</u></b>										
Miles of pipeline:										
transmission and distribution: <sup>1</sup>	2,442	2,437	2,444	2,421	2,428	2,430	2,443	2,448	2,463	2,465
as-built	1,944	2,038	2,157	2,260	2,280	2,296	2,366	2,376	2,391	2,399
construction in progress	498	399	287	161	148	134	77	72	72	66
Number of storage tanks <sup>2</sup>	79	78	77	77	77	77	77	77	77	78
Maximum storage capacity (million gallons)	193	193	193	193	191	191	191	191	191	199
Number of active pumping plants	83	81	84	84	83	83	83	83	83	83
Number of active wells:										
domestic	18	18	18	18	21	21	18	18	18	16
desalter <sup>6</sup>	7	5	5	7	7	8	7	11	11	12
Domestic well production capacity:										
gallons per minute	22,076	21,597	21,806	20,361	22,326	22,285	23,292	23,382	19,299	19,604
million gallons per day	31.8	31.1	31.4	29.3	32.1	32.1	33.5	33.7	27.8	28.2
acre feet per year	35,609	34,836	35,173	32,843	36,013	35,945	37,570	37,715	31,129	31,622
Number of water treatment plants:										
desalter	2	2	2	2	2	2	2	2	2	2
filtration	2	2	2	2	2	2	2	2	2	2
Treatment plant capacity: (million gallons per day)										
desalter plants	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
filtration plants	21.4	32.0	32.0	32.0	32.0	32.0	36.0	36.0	36.0	36.0
Number of service connections: <sup>7</sup>										
active domestic accounts	128,506	129,344	131,392	133,810	135,233	136,478	140,653	142,244	144,123	146,098
active agriculture accounts	129	140	143	146	124	122	131	133	132	127
<b><u>SEWER SYSTEM</u></b>										
Miles of sewer lines: <sup>1,3</sup>										
as-built	1,857	1,721	1,729	1,727	1,736	1,756	1,780	1,799	1,813	1,816
construction in progress	522	314	190	120	110	117	55	64	64	44
Number of treatment plants	5	5	5	5	5	5	5	5	5	5
Treatment plant average design capacity (MGD) <sup>4</sup>	56	56	60	60	60	60	68	68	70	70
Average million gallons per day treated	46.0	46.2	45.2	45.0	46.0	45.0	44.8	44.9	44.8	42.4
Percentage of capacity utilized	82%	82%	75%	75%	77%	75%	66%	66%	64%	61%
Number of active lift stations	46	46	46	46	46	47	48	48	47	46
<b><u>RECYCLED WATER SYSTEM</u></b>										
Miles of pipeline:										
transmission and distribution: <sup>1</sup>	192	201	202	199	202	206	213	215	217	217
as-built	156	165	172	178	179	186	196	198	200	208
construction in progress	36	36	30	21	23	20	17	17	17	9
Number of active pumping facilities <sup>8</sup>	17	17	19	20	20	20	21	24	24	24
Maximum storage capacity (acre feet) <sup>5</sup>	6,694	6,764	5,776	5,714	5,714	5,721	5,736	6,184	6,448	6,448
<b><u>GENERAL INFORMATION</u></b>										
Service area (annexed property):										
acres	346,425	346,449	346,691	346,732	346,732	346,732	346,745	346,745	346,745	346,808
square miles	541.3	541.3	541.7	541.8	541.8	541.8	541.8	541.8	541.8	541.9
Gross service area (square miles)	555	555	555	555	555	555	555	555	555	555
Average years of service of employees	9.98	10.05	10.20	10.47	10.84	11.39	11.31	12.11	12.50	12.25

### 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. The count of recycled pipeline miles for 2015 was corrected in 2016.
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 25 MGD was completed in 2014.
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.
8. The counts of recycled pumping facilities for 2014 and 2015 were corrected in 2016.

## STATISTICAL SECTION

### 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
<b>2007</b>	121,769,923	724,045	0.6%
<b>2008</b>	126,144,814	1,155,769	0.9%
<b>2009</b>	139,863,262	1,386,075	1.0%
<b>2010</b>	142,354,003	1,035,076	0.7%
<b>2011</b>	143,427,078	734,381	0.5%
<b>2012</b>	149,580,286	703,666	0.5%
<b>2013</b>	159,559,632	717,146	0.4%
<b>2014</b>	170,496,733	851,419	0.5%
<b>2015</b>	169,744,235	823,650	0.5%
<b>2016</b>	171,146,902	714,213	0.4%
Total	<u>\$ 1,494,086,868</u>	<u>\$ 8,845,440</u>	<u>0.6%</u>

Note: Excludes sales collected by other agencies.

### Bad Debt Reserves as a Percentage of Accounts Receivable Last Ten Fiscal Years

Fiscal Year	Year End A/R Balance	Reserves	% of A/R
<b>2007</b>	9,278,477	368,961	4.0%
<b>2008</b>	9,375,405	690,461	7.4%
<b>2009</b>	10,377,183	838,543	8.1%
<b>2010</b>	9,603,615	678,848	7.1%
<b>2011</b>	11,170,339	610,537	5.5%
<b>2012</b>	13,072,905	676,182	5.2%
<b>2013</b>	14,195,028	842,850	5.9%
<b>2014</b>	13,805,842	850,608	6.2%
<b>2015</b>	9,916,469	609,075	6.1%
<b>2016</b>	10,127,047	324,530	3.2%

Note: Reserves equal accounts over 60 days.

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