

# Eastern Municipal Water District

COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED June 30, 2008



**Synthetic turf, decorative rocks, California Friendly plants, and state-of-the-art irrigation devices are featured in EMWD's water efficient demonstration garden.**

Photo taken by: Donna Jacomet, EMWD Public Affairs Officer



**EASTERN MUNICIPAL WATER DISTRICT**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED**

**JUNE 30, 2008**

**PREPARED BY THE FINANCE DEPARTMENT**

**2270 Trumble Road • Box 8300 • Perris, CA 92572-8300 • [www.emwd.org](http://www.emwd.org)**

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*This photo shows water waste due to runoff. The Water Use Efficiency Ordinance allows EMWD to assess monetary penalties for such practices.*

## Introductory Section

### Water Use Efficiency Ordinance 72.23

EMWD Ordinance 72.23 provides long-term water reliability through water use efficiency measures and stricter standards for landscape water use. To learn more about the ordinance, go to [www.usewaterwisely.org](http://www.usewaterwisely.org)

**Use Water Wisely**



**Stop Runoff!**

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**EASTERN MUNICIPAL WATER DISTRICT**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
For the Fiscal Year Ended June 30, 2008

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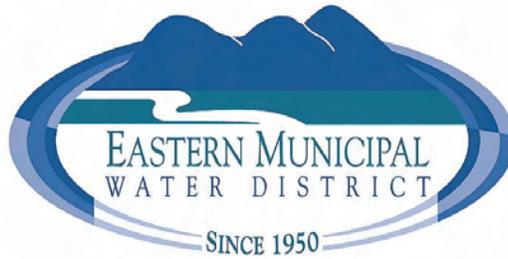
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**Board of Directors**

October 29, 2008

**President**

David J. Slawson

**Vice President**

Ronald W. Sullivan

**Treasurer**

Joseph J. Kuebler, CPA

Randy A. Record

Philip E. Paule

**Board Secretary**

Rosemarie V. Howell

**General Manager**

Anthony J. Pack

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

Randy A. Record

**Legal Counsel**

Redwine & Sherrill

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

We are pleased to present the Eastern Municipal Water District's (District) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2008.

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

The District's financial statements have been audited by Mayer Hoffman McCann P.C., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the District for the fiscal year ended June 30, 2008, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the District's financial statements for the fiscal year ended June 30, 2008, are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

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

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## Reporting & Entity Profile

### District's Service Area

The District's service area lies within the westerly third of Riverside County, encompassing 346,449 acres (541 square miles). The map below indicates the location of the District's service area in Riverside County. When the District was annexed to the Metropolitan Water District of Southern California (MWD) by the District's voters in 1951, its service area consisted of 86 square miles. Growth has resulted from 95 annexations and 8 detachments of service areas ranging in area from 1 to 72,000 acres. The assessed valuation has grown from \$72.0 million when formed to over \$68.1 billion for this past fiscal year.



Riverside County's population increased to a total of approximately 2.09 million as of January 2008. Of this population, the District serves approximately 675,000 (32%).

### District's Authority

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

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

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

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

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

## **Governance**

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

The District's vision is "to provide essential services to our community at a level that exceeds the performance of any other public or private agency". Its mission is "to provide safe and reliable water and wastewater services to our community in an economical, efficient and responsible manner now, and in the future". The Board has adopted strategic goals to support the District's vision and mission.

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

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

## **Water Services**

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

Approximately 18% of the District's water supply comes from local groundwater sources with an additional 3% from desalination. Such sources are heavily dependent upon rainfall and other sources of recharge. The remaining 79% of the District's water supply comes through purchases from MWD, which in turn obtains its water supply from two primary sources: the Colorado River via the Colorado River Aqueduct; and the State Water Project via the Edmund G. Brown California Aqueduct.

## **Sewer Services**

For the purposes of transmission, treatment and disposal of wastewater, the District is currently divided into five sewer service areas: Hemet-San Jacinto, Moreno Valley, Sun City, Temecula Valley, and Perris Valley. The Sun City plant has been deactivated as a cost reduction measure and all flows from this service area are treated at the larger Perris facility. Each service area is served by a single regional water reclamation facility (RWRF), for which costs and methods of treatment vary. The facilities are capable of treating 59 million gallons per day (MGD) of

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wastewater and serve approximately 675,000 people. They are linked to a network of nearly 1,721 miles of pipeline and 47 active lift stations.

### **Recycled Water Supply**

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

The District currently generates approximately 46 MGD of effluent at its four active regional water reclamation facilities. The amount of effluent is expected to grow to 52 MGD by the year 2013. Approximately 60%-70% of the effluent currently generated is the goal to be sold to agricultural and irrigation users. This past year 49% of the total recycled production was sold to customers.

### **Economic Conditions & Outlook**

The Riverside County economy continued to slow from the rapid growth pace seen over the last few years. Due to the current housing slump, the median home price decreased approximately 36% from \$404,000 to \$260,000 over the prior year and unemployment increased 2.2% over the 2007 average. However, the District's population increased by 15,000 and assessed valuations increased by approximately 18% over 2007.

This past year, the District's service area was a major factor in the county and experienced continued growth; however, measured by the number of system hookups, this rate was at the slower pace of 58% of the prior year. System hookups during fiscal year 2008 were 4,850 for sewer and 3,340 for water. These will generate approximately 1.2 MGD of additional wastewater and require nearly 1,670 more AF of water. The current year is experiencing a continued slower pace of growth and there is a reasonable expectation that this pace will continue over the next five years. Due to the increase in available recycled water from this growth and the demand on potable water, the District is moving toward developing its recycled water system into a pressurized system. This improvement will allow municipal customers, who currently receive potable water for landscape, decorative ponds and other irrigation purposes, to substitute recycled water at nearly half the price of potable water. This in turn will make available the potable water for the residential customers.

### **Major Initiatives**

#### **Long Range Financial Plan**

Although the growth rate has leveled, rapid growth over the past five years and the projections for the next five, have placed significant demands on the District's infrastructure, people and financial resources. Capital expenditures over the past five years have been approximately \$68 million, \$139 million, \$158 million, \$162 million and \$204 million respectively.

The District's current comprehensive Capital Improvement Financial Plan covers the period from 2009 – 2013. This plan calls for total expenditures for water, sewer and recycled water facilities of approximately \$851 million. The planned expenditures for 2008 were at \$219 million compared to the actual \$204 million.

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The financing sources for these planned project expenditures will include property taxes, rates and other non-operating funds, connection fees, grants, proceeds from the sale of certificates of participation and state revolving fund loans.

## **Accomplishments**

### **Operations**

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

Water operations improvements included:

- Continuing the expansion of the treatment capacity of the Perris Water Filtration Plant from 10 MGD to 20 MGD and converting the primary disinfection method from chlorine to a “state of the art” method using ultra violet rays. These improvements allowed the District to increase water supply reliability, decrease the regulatory compliance requirements associated with chlorine, enhance water quality, and provide facility expansion room because using ultra violet disinfection requires less space than chlorine disinfection.
- Continuing to provide laptop computers with access to electronic global interface systems maps to field personnel. This improvement should result in increased efficiency and improved customer service by providing quick and accurate information.
- Continuing to implement phases of the Derceto energy optimization program. This program works in concert with the Supervisory Control and Data Acquisition (SCADA) system to provide pump run schemes which result in energy savings by shifting usage from peak demand times to off-peak and mid-peak times without loss of required water output.

Sewer operations improvements included:

- Completion of the tertiary expansion project for the Perris Valley RWRf which increased the tertiary effluent capacity from 8 MGD to 30 MGD. This allowed the District to have redundant systems in place which increase the reliability and quality of recycled water to our customers.
- Completion of projects at the Moreno Valley RWRf to enhance recycled water delivery, including retrofitting storage ponds and internal modifications allowing for tertiary effluent distribution during periods when the facility is experiencing operational issues.
- Completion of major improvements to the Moreno Valley RWRf and Temecula Valley RWRf headworks screening to install new technology that improves removal of incoming inorganic debris to allow more efficient operation of downstream processes.
- Installation of new digester gas waste flares at the San Jacinto RWRf and Moreno Valley RWRf which enable staff to destruct excess gas in the event of issues with normal processes and also allow the District to maintain compliance with air quality requirements.

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## **Bond Credit Rating**

The District was assigned an AA credit rating in June 2004 by Fitch Ratings. Fitch cited “sound formal reserve policies and covenants ensure healthy liquidity levels”, and “the District has demonstrated the ability to manage growth pressures and achieve sound financial margins.” Standard & Poor’s Rating Services upgraded the District from an AA- rating to AA in June 2008, citing the District’s “history of solid finances, conservative financial management, and debt management”. This upgrade was significant because the District had recently issued three refunding certificate of participation series without added bond insurance. Moody’s Investors Service, Inc. has continued to assign an Aa3 rating to the District. All three rating agencies have recently affirmed these ratings with a stable outlook.

## **Technology**

During this fiscal year, the full implementation of a “state of the art” server virtualization software project was completed, along with completion of several data storage consolidation projects. These projects brought many efficiency benefits to the District. The server virtualization project replaced operating systems and the associated data files residing on separate hardware units and turned each hardware server into a single file on the virtual server. Using server virtualization, each system uses 19% less electricity to run and requires 32% less space and therefore extends the timeline for computer-room build-out. In addition, the virtual server files can be backed up and restored within minutes to any other active physical server. The projects to consolidate data storage improved data space utilization by 43% while lowering the long term cost to support, grow and power this storage as needed.

## **Financial Policies**

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

## **Accounting Systems**

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

## **Internal Controls**

The District’s management is responsible for establishing and maintaining a system of internal controls designed to safeguard the District’s assets from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in accordance with generally accepted accounting principles. The internal control structure is designed to provide reasonable assurances that these objectives are met. The most recent

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audits have not uncovered any weaknesses in internal control that would cause concern. However, recommendations for improvement are always welcome and are implemented where feasible.

## **Budgetary Controls**

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

## **Cash Management**

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

## **Awards & 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, 2007. This was the fifth consecutive year that the District has received this prestigious award. In order to be awarded a Certificate of Achievement, the District must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

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

Respectfully submitted,



Anthony J. Pack  
General Manager



Charles E. Rathbone, Jr.  
Chief Financial Officer

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# 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, 2007

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



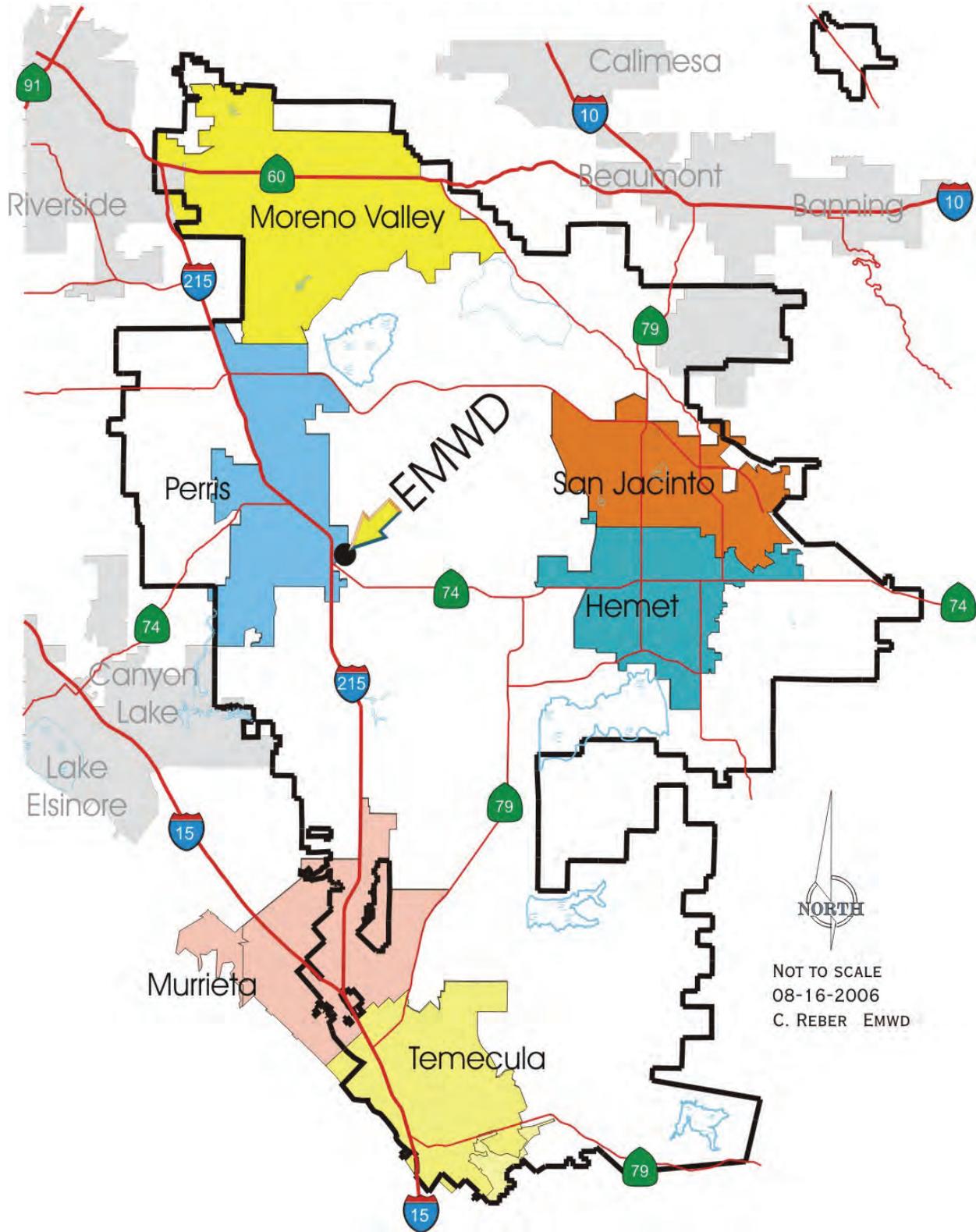
*Charles S. Cox*

President

*Jeffrey R. Emer*

Executive Director

## Service Area Map and Incorporated Cities



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## **District Officials**

June 30, 2008

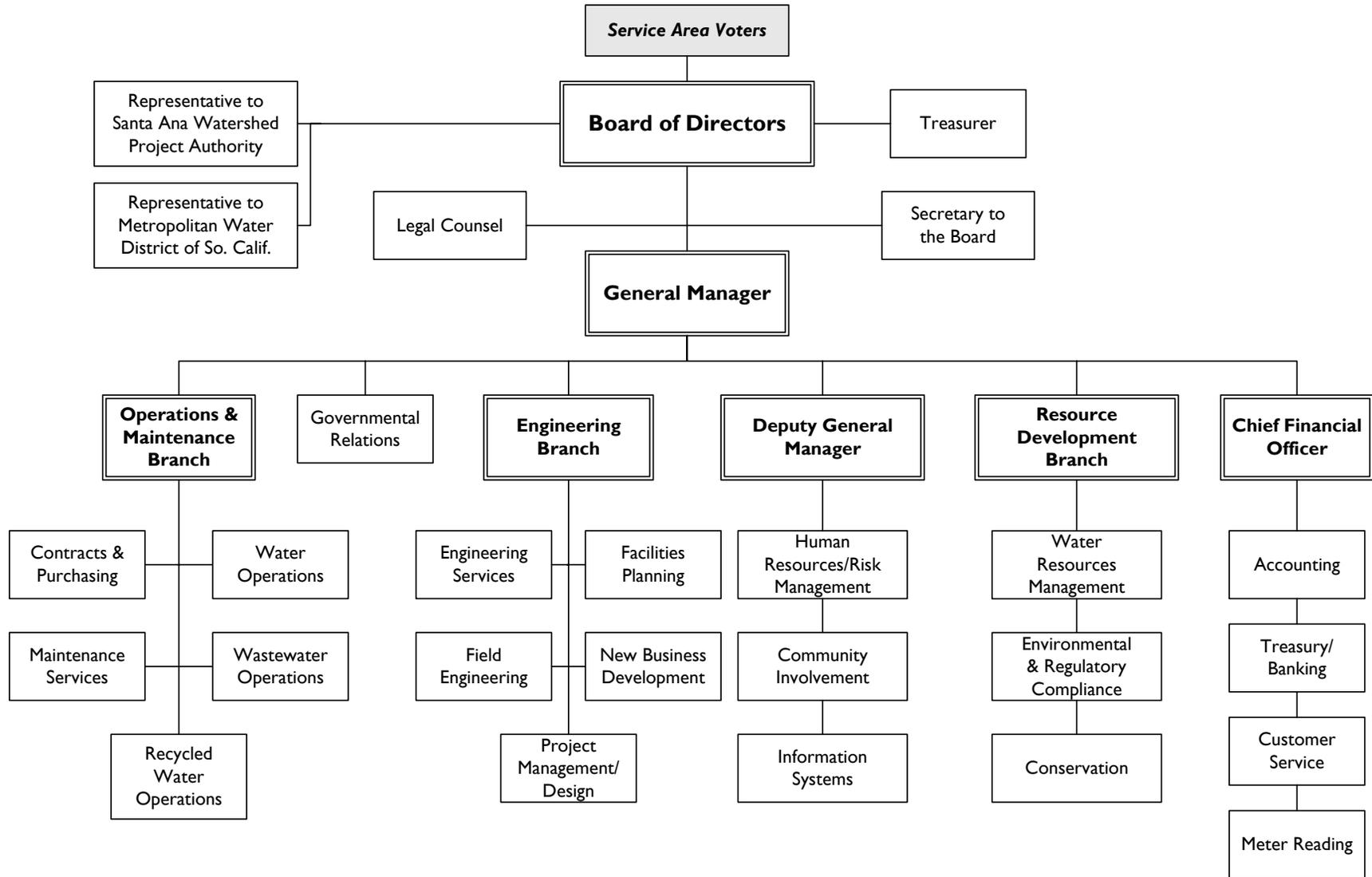
### **Elected Board of Directors**

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

### **District Management**

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

# Organizational Chart





*Synthetic turf, as showcased in EMWD's demonstration garden, closely matches the look of real grass.*

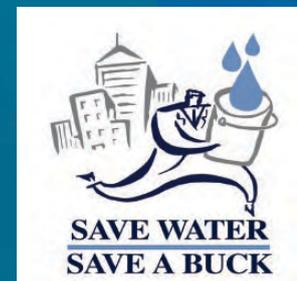


*New technology turns a standard sprinkler head into a precision device that irrigates the landscape using 20 percent less water.*

## Financial Section

### EMWD Rebates

From synthetic turf to water efficient rotating landscape irrigation nozzles, EMWD offers rebates for commercial and residential customers. Go to [www.mwdsaveabuck.com](http://www.mwdsaveabuck.com) for information and a listing of qualifying devices.





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**Mayer Hoffman McCann P.C.**

An Independent CPA Firm

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Board of Directors  
Eastern Municipal Water District  
Perris, California

**INDEPENDENT AUDITORS' REPORT**

We have audited the accompanying statement of net assets of Eastern Municipal Water District ("the District") as of June 30, 2008, and the related statement of revenue, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the financial statements of the District for the year ended June 30, 2007 and, in our report dated October 1, 2007, we expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Eastern Municipal Water District as of June 30, 2008, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described further in note 8 to the basic financial statements, the District changed its method of accounting for postemployment benefits other than pensions for the fiscal year ended June 30, 2008.

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



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Board of Directors  
Eastern Municipal Water District  
Page Two

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2008, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Mayer Hoffman McCann P.C.*

Irvine, California  
October 29, 2008

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

The intent of the management's discussion and analysis is to provide highlights of the Eastern Municipal Water District's financial activities for the fiscal year ended June 30, 2008. Readers are encouraged to read this section in conjunction with the accompanying financial statements.

### **The District's Operations – an Overview**

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

### **Basic Financial Statements**

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

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

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

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

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

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## Financial Highlights

### Statement of Net Assets

June 30, 2008 and 2007

	2007/08	2006/07	Increase/(Decrease)	
			Amount	% Change
<b>Assets</b>				
Current assets	\$ 196,692,538	\$ 162,150,919	\$ 34,541,619	21.3%
Restricted assets	234,962,872	399,232,764	(164,269,892)	-41.1%
Capital assets	1,592,383,058	1,413,718,215	178,664,843	12.6%
Other assets	12,052,951	13,064,655	(1,011,704)	-7.7%
<b>Total assets</b>	<b>2,036,091,419</b>	<b>1,988,166,553</b>	<b>47,924,866</b>	<b>2.4%</b>
<b>Liabilities</b>				
Current liabilities	103,470,974	117,788,778	(14,317,804)	-12.2%
Other liabilities	56,767,007	54,156,637	2,610,370	4.8%
Long-term debt outstanding	486,228,333	494,430,105	(8,201,772)	-1.7%
<b>Total liabilities</b>	<b>646,466,314</b>	<b>666,375,520</b>	<b>(19,909,206)</b>	<b>-3.0%</b>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	1,097,667,937	963,472,752	134,195,185	13.9%
Restricted for debt service/covenants	56,443,385	57,377,104	(933,719)	-1.6%
Restricted for construction	133,617,326	238,268,776	(104,651,450)	-43.9%
Unrestricted	101,896,457	62,672,401	39,224,056	62.6%
<b>Total net assets</b>	<b>\$1,389,625,105</b>	<b>\$1,321,791,033</b>	<b>\$ 67,834,072</b>	<b>5.1%</b>
Liabilities to assets ratio	<b>32%</b>	<b>34%</b>		

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## Changes in Financial Condition of the District

The liabilities to assets ratio, which indicates the degree to which the District's assets are financed through borrowing and other obligations decreased slightly due to scheduled debt payments. Total net assets increased \$67.8 million. Overall, the financial position of the District has improved for the fiscal year ended June 30, 2008 and remains strong.

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

- Current assets increased by \$34.5 million primarily due to an increase in cash of \$31.9 million used to finance District construction projects.
- Restricted assets decreased by \$164.3 million primarily due to a decrease in construction cash of \$164.8 million used to finance District construction projects.
- Capital assets increased by \$178.7 million primarily due to an increase of operating assets being added to the system totaling \$135.0 million; a net increase to construction in progress of \$110.6 million; a net increase in accumulated depreciation totaling \$49.0 million; and sales of assets and transfers to another agency totaling approximately \$17.9 million.
- Other assets decreased by \$1.0 million mainly due to decreases of \$0.5 million each in prepaid PERS liability and unamortized debt issuance costs relating to scheduled amortization.
- Current liabilities decreased by \$14.3 million primarily due to decreases in accounts payable of \$7.6 million; accrued interest payable of \$1.9 million; current portion of certificates of participation payable of \$3.0 million; and other payables of \$2.8 million.
- Other liabilities increased by a net of \$2.6 million primarily due to a \$4.1 million decrease in advances for construction, notes and assessments from scheduled debt payments; an increase of \$0.5 million in compensated absences; and \$6.2 million of net postemployment benefits obligation recorded for the first time this fiscal year.
- Long-term debt outstanding decreased \$8.2 million primarily due to \$3.6 million in COP and GO bond payments that are due in the 2008/2009 year; and an increase of \$4.6 million in unamortized premium/discount and deferred charges relating to refunded certificates of participation. Also see Note 5 to the basic financial statements regarding debt payments and outstanding balances.
- The District's net assets increased \$67.8 million, or 5.1% over the prior year. This can be attributed to a net non-operating income of \$90.9 million offset by a net operating loss of \$61.4 million plus contributed capital from developers totaling \$38.4 million for the year. Further information regarding restrictions and commitments associated with net assets can be identified in Notes 9 and 11 to the basic financial statements.

**Revenues, Expenses and Changes in Net Assets**  
For the Fiscal Years Ended June 30, 2008 and 2007

	<u>2007/08</u>		<u>2006/07</u>		<u>Increase/(Decrease)</u>	
	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% Change</u>
<b>Operating revenues:</b>						
Water sales – domestic	\$ 91,864,344	60.8%	\$ 91,596,156	62.8%	\$ 268,188	0.3%
Water sales – irrigation	2,271,298	1.5%	1,083,633	0.7%	1,187,665	109.6%
Sewer service charges	54,408,172	36.0%	50,318,414	34.6%	4,089,758	8.1%
Recycled water	2,564,656	1.7%	2,748,328	1.9%	(183,672)	-6.7%
<b>Total operating revenues</b>	<b>151,108,470</b>	<b>100.0%</b>	<b>145,746,531</b>	<b>100.0%</b>	<b>5,361,939</b>	<b>3.7%</b>
<b>Non-operating revenues:</b>						
Property taxes – general levy	34,528,767	29.0%	31,293,863	23.1%	3,234,904	10.3%
Property taxes – bond levy	3,119,336	2.6%	3,555,565	2.6%	(436,229)	-12.3%
Standby charges	4,868,154	4.1%	4,667,297	3.4%	200,857	4.3%
Water and sewer connection fees	30,706,687	25.8%	52,894,363	39.0%	(22,187,676)	-41.9%
Interest – operations and restricted funds	18,912,314	15.9%	23,578,130	17.4%	(4,665,816)	-19.8%
Interest – bond funds	450,733	0.4%	388,016	0.3%	62,717	16.2%
Gain on disposal of fixed assets	6,647,392	5.6%	76,072	0.1%	6,571,320	8638.3%
Net increase (decrease) in fair value of investments	1,216,534	1.0%	5,321,392	3.9%	(4,104,858)	-77.1%
Grant revenues	11,261,996	9.5%	4,598,769	3.4%	6,663,227	144.9%
Other revenues	7,220,589	6.1%	9,245,917	6.8%	(2,025,328)	-21.9%
<b>Total non-operating revenues</b>	<b>118,932,502</b>	<b>100.0%</b>	<b>135,619,384</b>	<b>100.0%</b>	<b>(16,686,882)</b>	<b>-12.3%</b>
<b>Total revenues</b>	<b>270,040,972</b>		<b>281,365,915</b>		<b>(11,324,943)</b>	<b>-4.0%</b>
<b>Operating expenses:</b>						
Purchased water	41,653,430	19.6%	43,866,732	23.0%	(2,213,302)	-5.0%
Water operations	38,447,533	18.1%	35,332,561	18.4%	3,114,972	8.8%
Sewer operations	39,976,740	18.8%	37,404,662	19.5%	2,572,078	6.9%
Recycled water operations	5,071,116	2.4%	4,379,135	2.3%	691,981	15.8%
General and administrative	30,138,792	14.2%	25,292,047	13.2%	4,846,745	19.2%
Depreciation & amortization	51,030,538	24.0%	45,255,839	23.6%	5,774,699	12.8%
Net other postemployment benefits	6,218,949	2.9%	-	0.0%	6,218,949	100.0%
<b>Total operating expenses</b>	<b>212,537,098</b>	<b>100.0%</b>	<b>191,530,976</b>	<b>100.0%</b>	<b>21,006,122</b>	<b>11.0%</b>
<b>Non-operating expenses:</b>						
Interest – certificates of participation	21,953,962	78.3%	22,670,400	78.2%	(716,438)	-3.2%
Interest – bond	913,641	3.3%	993,116	3.4%	(79,475)	-8.0%
Interest – other	547,805	2.0%	497,555	1.7%	50,250	10.1%
Bond service fees	97,289	0.3%	97,902	0.3%	(613)	-0.6%
Other expenses	4,507,809	16.1%	4,730,583	16.3%	(222,774)	-4.7%
<b>Total non-operating expenses</b>	<b>28,020,506</b>	<b>100.0%</b>	<b>28,989,556</b>	<b>100.0%</b>	<b>(969,050)</b>	<b>-3.3%</b>
<b>Total expenses</b>	<b>240,557,604</b>		<b>220,520,532</b>		<b>20,037,072</b>	<b>9.1%</b>
Income before contributions	29,483,368		60,845,383		(31,362,015)	-51.5%
Capital contributions	38,350,704		57,756,357		(19,405,653)	-33.6%
Change in net assets	67,834,072		118,601,740		(50,767,668)	-42.8%
Total net assets at beginning of year	1,321,791,033		1,203,189,293		118,601,740	9.9%
Total net assets at end of year	<b>\$1,389,625,105</b>		<b>\$1,321,791,033</b>		<b>\$ 67,834,072</b>	<b>5.1%</b>

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

Revenues – Combined revenues for the fiscal year totaled \$270.0 million compared to a prior year of \$281.4 million. This is a decrease of approximately 4.0%. The table on page 6 presents a comparison of revenues by major source for the two fiscal years 2007/08 and 2006/07.

Expenses – Combined expenses for the fiscal year totaled \$240.6 million compared to a prior year of \$220.5 million. This is an increase of approximately 9.1%. The table on page 6 presents a comparison of expenses by category for the two fiscal years 2007/08 and 2006/07.

Water sales – Total sales increased approximately \$1.5 million (1.6%) over the previous year's total to end at \$92.7 million. This is primarily attributed to an 11.8% average increase in water rates that was implemented on billings beginning February 9, 2008. (See water purchases.)

Sewer service - Wastewater service charges increased by \$4.1 million (8.1%) over the previous year's total to end at \$54.4 million. This is primarily attributed to the 4,850 additional customer hook-ups and a monthly sewer rate increase of approximately 6.0% on average, implemented on billings beginning February 9, 2008.

Property taxes – The District's general property tax revenue increased by \$3.2 million (10.3%) mainly due to an increase in assessed valuations of nearly 17.8% over the prior year.

Connection fees – These revenues decreased over the prior year due to a downturn in the housing development market. Sewer hookups were 4,850 compared to a prior year of 8,475 representing a decrease of 42.8% and water hookups were 3,340 compared to a prior year of 5,757 representing a decrease of 42.0%. This resulted in revenue of \$22.2 million (41.9%) lower than the previous year.

Interest earnings – The current fiscal year's interest earnings was lower by \$4.7 million (19.8%) compared to the prior years, due to improved yields on investments averaging 4.53% for the year compared to 4.13% last fiscal year, but offset by a lower average portfolio balance.

Gain on disposal of fixed assets – The \$6.6 million net gain for the current year mainly related to a gain of \$7.4 million on the sale of 57 acres of land and a gain of \$1.6 million on the sale of capacity rights relating to the brine conveyance pipeline and processing systems; offset by a \$2.4 million write-off of a software replacement project.

Grant revenues – The \$11.3 million of revenues for the current year was primarily related to \$8.5 million from the State of California Department of Water Resources (DWR) for the Perris Water Filtration Plant Expansion project; \$1.7 million from the State of California Water Resources Control Board for the Reach 16 Recycled Water Pipeline project; and \$1.1 million from the Santa Ana Watershed Project Authority for the Perris Desalter project. \$4.0 million of the \$4.6 million received in the prior year were from the DWR for the Temecula Valley Effluent Pipeline project.

Water purchases – Water sales volume decreased by 4,068 acre feet (AF) of water, and purchased water from our wholesale provider, the Metropolitan Water District (MWD), decreased by 4,947 AF. This decrease of water purchased plus an increase in the cost of water of \$30/AF for Tier 1 and \$32/AF for Tier 2 were the primary factors for the net decrease of \$2.2 million.

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Water operations – The increase in expenses of \$3.1 million is mainly a result of added treatment costs of \$1.4 million and an increase in labor and support costs of \$1.5 million.

Sewer operations – The increase in flows requiring treatment due to growth increased from nearly 46.0 million gallons per day (MGD) in 2006/07 to nearly 46.2 MGD in 2007/08. This increase coupled with higher wages, benefits, materials, and services resulted in the \$2.6 million increase.

General and administrative – The \$4.8 million increase is mainly due to the benefit costs associated with the authorization of an additional 33 employees to staff added facilities and maintain a high level of customer service. In addition, the District had increased expenses for legal fees relating to an ongoing lawsuit.

Depreciation expense – The District capitalized \$135.0 million in depreciable assets over the course of the year which resulted in the \$5.8 million of additional depreciation expense.

Net other postemployment benefits – The District implemented GASB Statement No. 45 in the current year and recorded the actuarially determined annual required contribution. See Note 8 to the basic financial statements for further information regarding postemployment benefits other than pension.

Capital contributions - Facilities built by developers and turned over to the District to operate and maintain decreased to \$38.4 million compared to \$57.8 million in the previous year, a decrease of \$19.4 million.

Net assets - The financial condition of the District has improved from the previous year. The District's net assets increased by \$67.8 million to \$1,389.6 million. This is a 5.1% increase over the prior year and is illustrated on the table on page 4 that compares the various categories of assets, liabilities and net assets for the two fiscal years 2007/08 and 2006/07.

## Capital Assets

Net of accumulated depreciation, the District reported capital assets of \$1,592.4 million in fiscal year 2007/08 compared to \$1,413.8 million in fiscal year 2006/07. A comparison of this change is provided on the following page by major category. Also, see Note 3 to the basic financial statements for further information regarding capital assets.

### Capital Assets For the Fiscal Years Ended June 30, 2008 and 2007

	2007/08	2006/07	Increase/Decrease	
			Amount	% Change
Land	\$ 32,994,855	\$ 34,444,198	\$ (1,449,343)	-4.2%
Water plant, lines and equip.	657,125,595	621,685,653	35,439,942	5.7%
Water capacity rights	23,832,124	30,547,960	(6,715,836)	-22.0%
Sewer plant, lines and equip.	965,535,652	881,113,676	84,421,976	9.6%
Equipment and general facilities	93,189,002	87,838,581	5,350,421	6.1%
Construction in progress	344,400,618	233,810,010	110,590,608	47.3%
Total capital assets	2,117,077,846	1,889,440,078	227,637,768	12.0%
Less accumulated depreciation	524,694,788	475,721,863	48,972,925	10.3%
Net capital assets	\$ 1,592,383,058	\$ 1,413,718,215	\$ 178,664,843	12.6%

Significant additions to capital assets include \$38.4 million in contributed capital from developers in the area. Most of the contributed assets were water and sewer lines that were required to keep up with the increased development in the area. Other additions resulted from the completion and capitalization of \$93.3 million construction in progress.

The three largest District projects that were capitalized during the fiscal year ended June 30, 2008 include the French Valley Sewer Improvements (\$12.8 Million); the North San Jacinto Sewer, Phase II (\$10.5 Million); and the Reach 16 Phase II Recycled Water Pipeline (\$7.7 Million).

The French Valley Sewer Improvements project included the design and construction of approximately 12,900 linear feet of 15 inch, 24 inch and 36 inch diameter sewer pipeline and all necessary appurtenances starting at the intersection of Leon Road and Benton Road, proceeding west and south along: Temecu Street, Magdas Coloradas Street, Briggs Road, Auld Road, Sky Canyon Drive, Airport Road, Winchester Road, and Hunter Road; and ending at the intersection of Shady Maples Road and Hunter Road. This project was substantially complete at June 30, 2008, with final work to be completed in October 2008.

The North San Jacinto Sewer, Phase II project included the design and construction of approximately 8,200 linear feet of 27 inch, 24 inch, 16 inch, 12 inch and 8 inch diameter gravity sewer along Potter Road, Ramona Expressway and State Street. In addition, it included construction of approximately 1,700 linear feet of 8 inch force main and the abandonment of the College Lift Station. This project was substantially complete at June 30, 2008, with final work to be completed in December 2008.

The Reach 16 Phase II Recycled Water Pipeline project included the design and construction of approximately 28,000 linear feet of 24 inch diameter recycled water pipeline and associated

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appurtenances to serve the western San Jacinto Valley. This project was substantially complete at June 30, 2008, with final work to be completed in September 2008.

The District had \$121,982,970 in construction contract commitments as of June 30, 2008. See Note 11 to the basic financial statements for further information regarding these commitments.

### **Capital Expenditures**

During the year, additions to construction in progress totaled approximately \$203.9 million. Some of the major projects currently underway and where expenditures in fiscal year 2007/08 exceeded \$3.0 million include the:

- Perris Valley Regional Water Reclamation Facility (RWRF) Plant No. 3 Expansion (\$55.4 million)
- San Jacinto Valley Interceptor Sewer (\$12.6 million)
- Cactus Avenue Feeder Pipeline (\$11.0 million)
- Perris Valley Water RWRF Tertiary Expansion to 22 MGD (\$8.8 million)
- Cactus Avenue Pump Station (\$7.9 million)
- 36" Potable Waterline in Linderberger Road (\$5.0 million)
- Moreno Valley RWRF Expansion to 21 MGD (\$4.9 million)
- Sunnymead Blvd. 6" & 8" Pipeline Replacement (\$3.9 million)
- Moreno Valley RWRF Fuel Cell Cogeneration System (\$3.2 million)
- Seventeen water and sewer projects between \$1,000,000 - \$3,000,000 (\$30.7 million)
- Nineteen water and sewer projects between \$500,000 - \$1,000,000 (\$13.5 million)
- Sixty-six water and sewer projects between \$100,000 - \$500,000 (\$16.2 million).

The remaining \$30.8 million was for various water and sewer projects with expenditures less than \$100,000 in the current fiscal year.

### **Long-Term Liabilities**

At June 30, 2008, the District had a net \$553.9 million in long-term liabilities outstanding, a net decrease of \$14.0 million or 2.5 percent from the prior year. Long-term liabilities consist of debt, including advances for construction, notes and assessments, certificates of participation (COPs), and general obligation (GO) bonds; unamortized deferred amounts for premiums/discounts and refundings relating to COP and GO debt issuances; reimbursable agreements; and compensated absences. Detailed information relating to the net other postemployment benefits obligation of \$6.2 million is presented in Note 8 to the basic financial statements. The amount of debt due within one year totaled \$11.8 million, net of deferred amounts, and the amount of compensated absences due within one year totaled \$5.3 million. Long-term debt decreased \$9.8 million due to scheduled debt payments offset by an increase of \$5.0 million relating to the refundings of the series 2001B, 2006B and 1993B COPs. The District had an obligation for compensated absences of \$10.4 million at fiscal year end; an increase of \$0.7 million from the prior year. Deferred amounts were (\$12.8) million at fiscal year end; an increase of \$4.9 million from the prior year with an amortized amount of (\$1.1) million due within one year. This increase relates to the COP refundings previously mentioned. The District has been assigned an AA, AA and Aa3 rating from Fitch Ratings, Standard & Poor's Rating Services and Moody's Investor Service, Inc., respectively. More detailed information about the District's long-term debt and other liabilities is presented in Note 5 to the basic financial statements.

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

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

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## Eastern Municipal Water District

### Statement of Net Assets

June 30, 2008

(with prior year data for comparison purposes only)

	June 30	
	2008	2007
<b>Assets</b>		
<b>Current assets:</b>		
Cash and investments (Note 2)	\$ 155,337,619	\$ 123,447,402
Utility accounts receivable, net of allowances	20,378,154	19,590,351
Property taxes receivable	10,136,467	7,815,903
Accrued interest receivable	3,996,620	5,397,389
Other receivables	2,047,776	1,022,344
Prepaid expenses	2,285,846	2,168,228
Materials and supplies inventory	2,466,730	2,698,820
Deposits	43,326	10,482
Total current assets	196,692,538	162,150,919
<b>Noncurrent assets:</b>		
Restricted assets:		
Debt service/covenants cash and investments (Note 2)	99,693,435	100,004,585
Property taxes receivable	1,652,111	1,416,914
Construction cash and investments (Note 2)	131,984,992	296,778,818
Notes receivable	1,632,334	1,032,447
Total restricted assets	234,962,872	399,232,764
Capital assets: (Note 3)		
Land	32,994,855	34,444,198
Structures, improvements and water rights	1,646,493,371	1,533,347,289
Equipment and general facilities	93,189,002	87,838,581
Construction in progress	344,400,618	233,810,010
Total capital assets	2,117,077,846	1,889,440,078
Less accumulated depreciation	(524,694,788)	(475,721,863)
Net capital assets	1,592,383,058	1,413,718,215
Other assets:		
Prepaid PERS contribution (Note 4)	6,683,917	7,214,866
Unamortized debt issuance costs	3,618,134	4,098,889
Tunnel water seepage agreement (Note 10)	1,750,900	1,750,900
Total other assets	12,052,951	13,064,655
Total noncurrent assets	1,839,398,881	1,826,015,634
<b>Total assets</b>	<b>\$ 2,036,091,419</b>	<b>\$ 1,988,166,553</b>

	June 30	
	2008	2007
<b>Liabilities:</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 32,217,650	\$ 39,798,446
Accrued salaries and benefits	1,860,610	1,499,617
Other accrued expenses	1,220,240	1,267,006
Customer deposits	5,343,831	4,795,663
Current portion of compensated absences (Note 5)	5,302,688	5,147,202
Accrued interest payable	6,715,294	8,641,702
Other payables	2,523,659	5,358,718
Advances from developers (Note 14)	36,481,691	37,159,800
Current portion of advances for construction, notes and assessments (Note 5)	4,223,298	3,348,613
Current portion of certificates of participation (Note 5)	6,755,000	9,720,000
Current portion of GO bonds (Note 5)	1,880,000	1,805,000
Less unamortized premium/discount and deferred charges (Note 5)	(1,052,987)	(752,989)
Total current liabilities	<u>103,470,974</u>	<u>117,788,778</u>
<b>Noncurrent liabilities:</b>		
Advances for construction, notes and assessments (Note 5)	45,407,198	49,526,103
Certificates of participation (Note 5)	481,705,000	483,470,000
General obligation (GO) bonds (Note 5)	16,260,000	18,140,000
Reimbursable agreements (Note 5)	51,976	61,111
Compensated absences (Note 5)	5,088,884	4,569,423
Less unamortized premium/discount and deferred charges (Note 5)	(11,736,667)	(7,179,895)
Net other postemployment benefits obligation (Note 8)	6,218,949	-
Total noncurrent liabilities	<u>542,995,340</u>	<u>548,586,742</u>
<b>Total liabilities</b>	<b>\$ 646,466,314</b>	<b>\$ 666,375,520</b>
<b>Net assets:</b>		
Invested in capital assets, net of related debt	\$ 1,097,667,937	\$ 963,472,752
Restricted for debt service/covenants	56,443,385	57,377,104
Restricted for construction	133,617,326	238,268,776
Unrestricted	101,896,457	62,672,401
<b>Total net assets</b>	<b>\$ 1,389,625,105</b>	<b>\$ 1,321,791,033</b>

See accompanying notes to the basic financial statements.

## Eastern Municipal Water District

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

For the Fiscal Year Ended June 30, 2008  
(with prior year data for comparison purposes only)

	Fiscal Year Ended June 30	
	2008	2007
<b>Operating revenues:</b>		
Water sales – domestic	\$ 91,864,344	\$ 91,596,156
Water sales – irrigation	2,271,298	1,083,633
Sewer service charges	54,408,172	50,318,414
Recycled water	2,564,656	2,748,328
Total operating revenues	151,108,470	145,746,531
<b>Operating expenses:</b>		
Purchased water	41,653,430	43,866,732
Water operations	38,447,533	35,332,561
Sewer operations	39,976,740	37,404,662
Recycled water operations	5,071,116	4,379,135
General and administrative	30,138,792	25,292,047
Depreciation and amortization	51,030,538	45,255,839
Net other postemployment benefits	6,218,949	-
Total operating expenses	212,537,098	191,530,976
Loss from operations	(61,428,628)	(45,784,445)
<b>Non-operating revenues (expenses):</b>		
Property taxes – general levy	34,528,767	31,293,863
Property taxes – bond levy	3,119,336	3,555,565
Standby charges	4,868,154	4,667,297
Water and sewer connection fees	30,706,687	52,894,363
Interest – operations and restricted funds	18,912,314	23,578,130
Interest – bond funds	450,733	388,016
Grant revenues	11,261,996	4,598,769
Other revenues	7,220,589	9,245,917
Net increase in fair value of investments	1,216,534	5,321,392
Interest – certificates of participation	(21,953,962)	(22,670,400)
Interest – bond	(913,641)	(993,116)
Interest – other	(547,805)	(497,555)
Bond service fees	(97,289)	(97,902)
Gain on disposal of capital assets	6,647,392	76,072
Other expenses	(4,507,809)	(4,730,583)
Total non-operating revenues	90,911,996	106,629,828
<b>Income before contributions</b>	<b>29,483,368</b>	<b>60,845,383</b>
Capital contributions	38,350,704	57,756,357
Change in net assets	67,834,072	118,601,740
<b>Total net assets at beginning of year</b>	<b>1,321,791,033</b>	<b>1,203,189,293</b>
<b>Total net assets at end of year</b>	<b>\$ 1,389,625,105</b>	<b>\$ 1,321,791,033</b>

See accompanying notes to the basic financial statements.

## Eastern Municipal Water District

### Statement of Cash Flows

For the Fiscal Year Ended June 30, 2008  
(with prior year data for comparison purposes only)

	<b>Fiscal Year Ended June 30</b>	
	<b>2008</b>	<b>2007</b>
<b>Cash flows from operating activities</b>		
Cash received from customers	\$ 150,975,863	\$ 148,604,450
Cash payments for water	(41,653,430)	(43,866,732)
Cash payments to employees for services	(57,123,926)	(49,471,530)
Cash payments to suppliers for goods and services	(50,613,750)	(39,089,216)
Cash payments for energy and utilities	(16,288,224)	(15,698,344)
Proceeds from standby charges and other revenues	11,862,347	13,765,290
Other operating revenues	2,680,330	10,376,742
Net cash provided by (used for) operating activities	(160,790)	24,620,660
<b>Cash flows from noncapital financing activities</b>		
Proceeds from property taxes, general levy	32,434,599	29,379,550
Proceeds from grants	11,261,996	4,598,769
Net cash provided by noncapital financing activities	43,696,595	33,978,319
<b>Cash flows from capital and related financing activities</b>		
Acquisitions and construction of capital assets	(207,383,867)	(173,928,619)
Repayment of bonds and certificates of participation	(172,365,000)	(32,700,000)
Interest paid	(25,341,816)	(22,302,815)
Proceeds from water and sewer connection fees	30,706,687	52,894,363
Proceeds from long-term debt issuance	161,356,696	28,697,409
Proceeds from notes payable and reimbursements	104,393	307,773
Repayments of notes payable and reimbursements	(3,348,613)	(3,393,140)
Proceeds from sale of capital assets	6,994,578	1,291,207
Proceeds from property taxes, bond levy	2,884,139	3,398,048
Receipts (payments) of developer advances	(3,513,170)	11,495,917
Net cash (used for) capital and related financing activities	(209,905,973)	(134,239,857)
<b>Cash flows from investing activities</b>		
Purchases of investment securities	(479,484,629)	(225,820,741)
Proceeds from sales and maturities of investment securities	589,237,637	290,948,361
Proceeds from earnings on investments	20,763,816	22,746,904
Net cash provided by investing activities	130,516,824	87,874,524
Total (decrease) increase in cash and cash equivalents	(35,853,343)	12,233,646
Cash and cash equivalents at beginning of year	73,365,476	61,131,830
Cash and cash equivalents at end of year (Note 2)	\$ 37,512,133	\$ 73,365,476

*(Continued on next page)*

## Eastern Municipal Water District

### Statement of Cash Flows

For the Fiscal Year Ended June 30, 2008  
(with prior year data for comparison purposes only)  
(continued)

	<b>Fiscal Year Ended June 30</b>	
	<b>2008</b>	<b>2007</b>
<b>Reconciliation of loss from operations to net cash provided by operating activities:</b>		
Loss from operations	<b>\$ (61,428,628)</b>	\$ (45,784,445)
Adjustments to reconcile loss from operations to net cash provided by (used for) operating activities:		
Operating activities:		
Depreciation and amortization	<b>51,030,538</b>	45,255,839
Standby charges and other revenues	<b>11,862,347</b>	13,765,290
Changes in assets and liabilities:		
Decrease (increase) in utility accounts receivable	<b>(787,803)</b>	(2,296,973)
Decrease (increase) in other receivables	<b>(1,025,432)</b>	1,718,012
Decrease (increase) in prepaid expenses	<b>(117,618)</b>	(989,625)
Decrease (increase) in materials and supplies inventory	<b>232,090</b>	(379,667)
Decrease (increase) in deposits	<b>(32,844)</b>	34,550
Decrease (increase) in notes receivable	<b>(599,887)</b>	626,939
Decrease (increase) in other assets	<b>530,949</b>	530,949
Increase (decrease) in accounts payable	<b>(7,580,793)</b>	10,351,911
Increase (decrease) in accrued expenses	<b>314,227</b>	393,570
Increase (decrease) in customer deposits	<b>548,168</b>	186,659
Increase (decrease) in compensated absences	<b>674,947</b>	1,207,651
Increase (decrease) in net other postemployment benefits obligation	<b>6,218,949</b>	-
Net cash provided by (used for) operating activities	<b>\$ (160,790)</b>	\$ 24,620,660
<b>Reconciliation of cash and cash equivalents to statement of net assets:</b>		
Current cash and investments	<b>\$155,337,619</b>	\$ 123,447,402
Restricted cash and investments:		
Debt service/covenants	<b>99,693,435</b>	100,004,585
Construction	<b>131,984,992</b>	296,778,818
Total cash and investments	<b>387,016,046</b>	520,230,805
Less investments	<b>349,503,913</b>	446,865,329
Cash and cash equivalents (Note 2)	<b>\$ 37,512,133</b>	\$ 73,365,476
<b>Noncash capital, financing, and investing activities</b>		
Contributions of capital assets from developers and others	<b>\$ 38,350,704</b>	\$ 57,756,357
Increase in fair value of investments	<b>\$ 1,216,534</b>	\$ 5,321,392

See accompanying notes to the basic financial statements.

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# **Eastern Municipal Water District**

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

For the Fiscal Year Ended June 30, 2008

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

#### **Reporting Entity**

The Eastern Municipal Water District (District) was formed in October 1950, under the California Water Code for the primary purpose of importing Colorado River Water to augment local water supplies. The District serves an area of approximately 346,449 acres (541 square miles), encompassing the westerly third of Riverside County. The District is operated under the direction of a five-member Board of Directors (Board) elected for four-year terms. The District presently imports 79% of its water supply from the Metropolitan Water District of Southern California (MWD) and derives the remaining 21% of its water supply from local groundwater sources. The District is a member agency of MWD and is currently entitled to have one District representative sit on the Board of MWD.

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

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

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

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# **Eastern Municipal Water District**

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

(continued)

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

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

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

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

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

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

#### **Cash and Investments**

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

#### **Cash Equivalents**

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

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

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

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

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

(continued)

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

**Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. water and sewer pipelines) are defined by the District as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of two years. Assets are recorded at cost. Contributed capital assets are recorded at fair market value at the time they are received. The contributed assets consist primarily of distribution lines and connections constructed and donated by developers.

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

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

**Allowance for Doubtful Accounts**

An allowance for doubtful accounts has been established for utility accounts receivables that are 60+ days delinquent at year-end. This allowance amounts to \$690,461 and \$368,961 at June 30, 2008 and 2007, respectively.

**Inventories**

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

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# Eastern Municipal Water District

## Notes to the Basic Financial Statements

(continued)

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

#### Restricted Assets

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

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

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

#### Revenue Recognition

Revenues are recognized when earned. Metered water accounts are read and billed daily on 30-day cycles. Wastewater customers are also billed and included with the water billing. In certain areas of the District, the wastewater billing is handled by another water utility agency, but is accrued as revenues by the District each month. Collections are forwarded monthly, based on actual receipts. Unbilled water and wastewater charges are accrued for the period from the last meter reading through year-end and are included in accounts receivable. Unbilled accounts receivable amounted to \$6,181,347 and \$5,347,937 at June 30, 2008 and 2007, respectively.

#### Property Taxes

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

The property tax calendar is as follows:

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

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# Eastern Municipal Water District

## Notes to the Basic Financial Statements

(continued)

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

#### Debt Issuance Costs

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

#### Compensated Absences

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

#### Use of Estimates

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

#### Prior Year Data

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

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

(continued)

**2. Cash and Investments**

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

	<b>2008</b>	<b>2007</b>
Current assets	<b>\$ 155,337,619</b>	\$ 123,447,402
Restricted assets:		
Debt service/covenants	<b>99,693,435</b>	100,004,585
Construction	<b>131,984,992</b>	296,778,818
Totals	<b>\$ 387,016,046</b>	\$ 520,230,805

Cash and investments at June 30 consisted of the following:

	<b>2008</b>	<b>2007</b>
Cash on hand	<b>\$ 3,600</b>	\$ 3,600
Deposits with financial institutions	<b>(4,025,954)</b>	(3,195,724)
Investments	<b>391,038,400</b>	523,422,929
Total cash and investments	<b>\$ 387,016,046</b>	\$ 520,230,805

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

	<b>2008</b>	<b>2007</b>
Demand accounts and on hand	<b>\$ (4,022,354)</b>	\$ (3,192,124)
Money market mutual funds	<b>25,475,127</b>	19,096,382
Sweep account (repurchase agreement)	<b>4,481,344</b>	6,411,206
Local Agency Investment Fund (LAIF)	<b>10,006,129</b>	22,989,536
Investment Trust of California (CalTRUST)	<b>1,571,887</b>	28,060,476
Total cash and cash equivalents	<b>\$ 37,512,133</b>	\$ 73,365,476

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

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

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

(continued)

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

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

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

**Investments Authorized by Debt Agreements**

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

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

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

(continued)

### 2. Cash and Investments (continued)

#### Disclosures relating to Interest Rate Risk

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

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

Investment Type	Total Amount	12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
U.S. agency securities:					
Federal Farm Credit Bank (FFCB)	\$ 26,533,200	\$ -	\$ -	\$ 26,533,200	\$ -
Federal Home Loan Bank (FHLB)	73,561,952	-	5,003,125	68,558,827	-
Federal Home Loan Mortgage Corp. (FHLMC)	122,292,724	10,003,700	5,115,250	107,173,774	-
Federal National Mortgage Assn. (FNMA)	94,491,342	5,009,375	5,010,938	84,471,029	-
LAIF	10,006,129	10,006,129	-	-	-
Investment Trust of California (CalTRUST)	1,571,887	1,571,887	-	-	-
Repurchase agreement (sweep account)	4,481,344	4,481,344	-	-	-
Held by bond trustee:					
Guaranteed investment contracts (GICs)	24,223,402	-	-	-	24,223,402
California municipal bonds	8,401,293	-	-	-	8,401,293
Money market mutual funds	25,475,127	25,475,127	-	-	-
<b>Total Investments</b>	<b>\$ 391,038,400</b>	<b>\$ 56,547,562</b>	<b>\$ 15,129,313</b>	<b>\$ 286,736,830</b>	<b>\$ 32,624,695</b>

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

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

#### Disclosures Relating to Credit Risk

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

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

(continued)

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

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

Investment Type	Total Amount	Min. Legal Rating	AAA	Rating at End of Year		
				AA	A+	Unrated
U.S. agency securities:						
FFCB	\$ 26,533,200	N/A	\$ 26,533,200	\$ -	\$ -	-
FHLB	73,561,952	N/A	73,561,952			-
FHLMC	122,292,724	N/A	122,292,724			-
FNMA	94,491,342	N/A	94,491,342			-
LAIF	10,006,129	N/A	-			10,006,129
CalTRUST	1,571,887	N/A	-			1,571,887
Repurchase agreement (sweep account)	4,481,344	N/A	-			4,481,344
Held by bond Trustee:						
Guaranteed investment contracts	24,223,402	N/A	-			24,223,402
California municipal bonds	8,401,293	N/A	1,234,064	5,207,089	1,960,140	-
Money market mutual funds	25,475,127	A	25,475,127			-
<b>Total Investments</b>	<b>\$391,038,400</b>		<b>\$343,588,409</b>	<b>\$5,207,089</b>	<b>\$1,960,140</b>	<b>\$40,282,762</b>

**Concentration of Credit Risk**

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

Issuer	Investment Type	Reported Amount
FHLMC	U.S. Agency Securities	\$ 122,292,724
FNMA	U.S. Agency Securities	94,491,342
FHLB	U.S. Agency Securities	73,561,952
FFCB	U.S. Agency Securities	26,533,200

**Custodial Credit Risk**

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

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

(continued)

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

**Investment in State Investment Pool**

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

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

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

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

(continued)

**3. Capital Assets**

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

	<b>Beginning Balance June 30, 2007</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance June 30, 2008</b>
Capital assets, not being depreciated:				
Land	\$ 34,444,198	\$ 138,876	\$ (1,588,219)	\$ 32,994,855
Construction in progress	233,810,010	203,854,678	(93,264,070)	344,400,618
Total capital assets, not being depreciated	268,254,208	203,993,554	(94,852,289)	377,395,473
Capital assets, being depreciated:				
Water plant, lines and equipment	621,685,653	35,439,942	-	657,125,595
Water capacity rights	30,547,960	3,546,855	(10,262,691)	23,832,124
Sewer plant, lines and equipment	881,113,676	88,956,578	(4,534,602)	965,535,652
Equipment and general facilities	87,838,581	7,061,712	(1,711,291)	93,189,002
Total capital assets, being depreciated	1,621,185,870	135,005,087	(16,508,584)	1,739,682,373
Less accumulated depreciation for:				
Water plant, lines and equipment	177,135,667	18,296,897	-	195,432,564
Water capacity rights	2,943,343	816,772	(346,330)	3,413,785
Sewer plant, lines and equipment	246,213,201	26,209,011	(1,075,480)	271,346,730
Equipment and general facilities	49,429,652	5,707,858	(635,801)	54,501,709
Total accumulated depreciation	475,721,863	51,030,538	(2,057,611)	524,694,788
Total capital assets, being depreciated, net	1,145,464,007	83,974,550	(14,450,972)	1,214,987,585
Capital assets, net	<u>\$ 1,413,718,215</u>	<u>\$ 287,968,104</u>	<u>\$ (109,303,261)</u>	<u>\$ 1,592,383,058</u>

Depreciation breakdown at June 30, 2008:

Water	\$ 18,604,828
Sewer	22,906,975
Recycled	3,717,254
Admin/Other	5,801,481
Total	<u>\$ 51,030,538</u>

**4. PERS Prepaid Unfunded Liability**

The District amended its California Public Employees Retirement System (PERS) contract on January 4, 1998 to implement a 2% at 55 retirement program. The actuarial division of PERS determined that the present value impact on the District was an unfunded liability of \$4,939,895. This would result in an employer rate increase of 1.495% of eligible payroll over the next 20 years. However, the District opted to pay this liability in advance and is amortizing this prepaid amount over the next 20 years. The current portion is \$246,995, and future deferred expense is \$2,140,669 at June 30, 2008.

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

(continued)

**4. PERS Prepaid Unfunded Liability (continued)**

The District amended its PERS contract on August 5, 2005 to implement a 2-1/2% at 55 retirement program. The actuarial division of PERS determined that the present value impact on the District was an unfunded liability of \$5,679,062. This would result in an employer rate increase of 2.145% of eligible payroll over the next 20 years. However, the District opted to pay this liability in advance and is amortizing this prepaid amount over the next 20 years. The current portion is \$283,953 and future deferred expense is \$4,543,248 at June 30, 2008.

**5. Long-Term Liabilities**

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

	Beginning Balance June 30, 2007	Additions	Reductions	Ending Balance June 30, 2008	Due Within One Year
Advances for construction, notes and assessments	\$ 52,874,716	\$ 104,393	\$ (3,348,613)	<b>\$ 49,630,496</b>	\$ 4,223,298
Certificates of participation	493,190,000	165,830,000	(170,560,000)	<b>488,460,000</b>	6,755,000
General obligation bonds	19,945,000	-	(1,805,000)	<b>18,140,000</b>	1,880,000
Sub-total	566,009,716	165,934,393	(175,713,613)	<b>556,230,496</b>	12,858,298
Reimbursable agreements	61,111	141,304	(150,439)	<b>51,976</b>	-
Compensated absences	9,716,625	7,309,940	(6,634,993)	<b>10,391,572</b>	5,302,688
Sub-total	9,777,736	7,451,244	(6,785,432)	<b>10,443,548</b>	5,302,688
Less: Unamortized premium/ discount and deferred refunding charges	(7,932,884)	(9,211,435)	4,354,665	<b>(12,789,654)</b>	(1,052,987)
<b>Total Long-Term Liabilities</b>	<b>\$567,854,568</b>	<b>\$164,174,202</b>	<b>\$(178,144,380)</b>	<b>\$553,884,390</b>	<b>\$17,107,999</b>

The future maturities of long-term debt excluding reimbursable agreements and compensated absences as of June 30, 2008 are as follows:

Year ending June 30:	Principal	Interest	Total
2009	\$ 12,858,298	\$ 19,214,083	\$ 32,072,381
2010	16,517,969	22,260,033	38,778,002
2011	16,471,146	21,577,829	38,048,975
2012	15,607,221	20,854,268	36,461,489
2013	19,485,357	19,999,689	39,485,046
2014-18	101,791,810	86,965,920	188,757,730
2019-23	142,008,596	60,195,560	202,204,156
2024-28	108,854,464	32,613,651	141,468,115
2029-33	86,780,635	14,963,430	101,744,065
2034-36	35,855,000	2,118,743	37,973,743
Sub-total	556,230,496	300,763,206	856,993,702
Less: Unamortized premium/discount and deferred refunding charges	(12,789,654)	-	(12,789,654)
Total	<b>\$ 543,440,842</b>	<b>\$ 300,763,206</b>	<b>\$ 844,204,048</b>

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

(continued)

**5. Long-Term Liabilities (continued)**

**Advances for Construction, Notes and Assessments**

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

	2008	2007
State of California Department of Water Resources- Safe, Clean, Reliable Water Supply Act (Proposition 204)	<b>\$ 33,678,670</b>	\$ 33,574,277
State of California Department of Water Resources- Safe, Clean, Reliable Water Supply Act (Proposition 204)	<b>1,594,561</b>	1,678,955
State of California Department of Water Resources- Water Conservation Bond Law of 1988 (Proposition 82)	<b>2,516,419</b>	2,649,603
Elsinore Valley Municipal Water District	<b>73,920</b>	97,502
Santa Anna Watershed Project Authority	<b>1,264,764</b>	1,537,513
1992 State of California Agricultural Drainage Water Management Loan	<b>4,593,414</b>	5,468,918
1991 Federal Reclamation Facilities Project Loan	<b>5,908,748</b>	7,867,948
Total	<b>49,630,496</b>	52,874,716
Less current portion	<b>4,223,298</b>	3,348,613
Total long-term advances for construction, notes and assessments	<b>\$ 45,407,198</b>	\$ 49,526,103

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

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

(continued)

**5. Long-Term Liabilities (continued)**

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

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

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

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

<u>Year ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 669,755	\$ 382,705	\$ 1,052,460
2010	1,362,427	742,492	2,104,919
2011	1,393,567	711,352	2,104,919
2012	1,425,419	679,501	2,104,920
2013	1,457,998	646,921	2,104,919
2014-18	7,805,347	2,719,251	10,524,598
2019-23	8,739,058	1,785,539	10,524,597
2024-28	9,784,464	740,132	10,524,596
2029	1,040,635	11,825	1,052,460
Total	<u>\$ 33,678,670</u>	<u>\$ 8,419,718</u>	<u>\$ 42,098,388</u>

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

<u>Year ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 86,959	\$ 43,955	\$ 130,914
2010	89,319	41,595	130,914
2011	91,838	39,076	130,914
2012	94,354	36,560	130,914
2013	97,158	33,755	130,913
2014-18	528,082	126,488	654,570
2019-23	606,851	47,718	654,569
Total	<u>\$ 1,594,561</u>	<u>\$ 369,147</u>	<u>\$ 1,963,708</u>

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

(continued)

**5. Long-Term Liabilities (continued)**

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

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

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

<b>Year ending June 30:</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2009	\$ 137,233	\$ 69,366	\$ 206,599
2010	140,956	65,643	206,599
2011	144,932	61,667	206,599
2012	148,902	57,697	206,599
2013	153,328	53,270	206,598
2014-18	833,381	199,612	1,032,993
2019-23	957,687	75,307	1,032,994
Total	<b>\$ 2,516,419</b>	<b>\$ 582,562</b>	<b>\$ 3,098,981</b>

**Elsinore Valley Municipal Water District**

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

<b>Year ending June 30:</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2009	\$ 23,582	\$ 2,627	\$ 26,209
2010	24,489	1,860	26,349
2011	25,849	1,034	26,883
Total	<b>\$ 73,920</b>	<b>\$ 5,521</b>	<b>\$ 79,441</b>

**Santa Ana Watershed Project Authority**

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

<b>Year ending June 30:</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2009	\$ 289,114	\$ 75,886	\$ 365,000
2010	306,461	58,539	365,000
2011	324,849	40,151	365,000
2012	344,340	20,660	365,000
Total	<b>\$ 1,264,764</b>	<b>\$ 195,236</b>	<b>\$ 1,460,000</b>

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

(continued)

**5. Long-Term Liabilities (continued)**

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

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

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

<u>Year ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 902,255	\$ 142,786	\$ 1,045,041
2010	930,617	114,424	1,045,041
2011	959,463	85,578	1,045,041
2012	989,206	55,835	1,045,041
2013	811,873	20,066	831,939
Total	\$ 4,593,414	\$ 418,689	\$ 5,012,103

**1991 Federal Reclamation Facilities Project Loan**

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

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

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

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

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

(continued)

**5. Long-Term Liabilities (continued)**

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

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

Repayment of the loan began on May 1, 1999, with net loan proceeds repayable in 15 annual installments varying from \$552,900 to \$2,650,300 plus interest at rates varying from 0% to 9% on the fish and wildlife component and a portion of the water supply component. On October 6, 2003, the District elected to pay off the Fish and Wildlife component of the loan, with a payment of \$4,180,139. The interest rate applied to the outstanding balance of the Water Supply component (the interest on investment, or IOI) was 7.875% for the fiscal year ended June 30, 2008. However, only the portion of the calculated interest on investment amount and the annual reimbursable interest during construction (RIDC) amount allocated to the delivery of water to excess lands and to the furnishing of M&I water (water delivery ratio) is repayable. For 2008, the water delivery ratio was 12.54%, resulting in an actual interest rate of 0.81% for the period and the actual IOI and RIDC amounts paid were \$77,698 and \$85,814, respectively.

As of June 30, 2008, the District had received \$31,095,440 on this contract, of which the grant portion amounted to \$6,624,268 and the loan portion amounted to \$24,471,172. Since the total repayment obligation is less than the maximum loan proceeds of \$24,366,700, the above repayment schedule will still apply until the obligation is paid in full, in effect reducing the length of the repayment period.

<b>Year ending June 30:</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2009	\$ 2,114,400	\$ 364,228	\$ 2,478,628
2010	2,273,700	167,485	2,441,185
2011	1,520,648	-	1,520,648
Total	<u>\$ 5,908,748</u>	<u>\$ 531,713</u>	<u>\$ 6,440,461</u>

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

(continued)

**5. Long-Term Liabilities (continued)**

**Certificates of Participation**

Certificates of participation consist of the following at June 30:

	<b>2008</b>	<b>2007</b>
1991 certificates of participation	\$ 6,695,000	\$ 16,695,000
1993 B refunding certificates of participation	-	59,055,000
1997 A refunding certificates of participation	-	75,000
1998 A refunding certificates of participation	27,345,000	27,420,000
2001 A refunding certificates of participation	53,085,000	55,950,000
2001 B certificates of participation	-	51,370,000
2001 C refunding certificates of participation	9,645,000	11,040,000
2003 A refunding certificates of participation	24,390,000	24,515,000
2003 B certificates of participation	64,440,000	66,015,000
2006 A certificates of participation	106,320,000	106,320,000
2006 B certificates of participation	-	54,025,000
2007 A refunding certificates of participation	20,710,000	20,710,000
2008 A refunding certificates of participation	56,855,000	-
2008 B refunding certificates of participation	54,575,000	-
2008 C refunding certificates of participation	54,400,000	-
Total	<b>488,460,000</b>	493,190,000
Less current portion	<b>6,755,000</b>	9,720,000
Total long-term certificates of participation	<b>\$ 481,705,000</b>	\$ 483,470,000

**2008C Refunding Certificates of Participation**

In June 2008, the Facilities Corporation issued \$54,400,000 in Water and Sewer Revenue Refunding Certificates of Participation, Series 2008C. The net proceeds of \$57,189,288 were used to advance refund the District's outstanding 1993B Certificates in the amount of \$55,445,000 maturing July 1, in the years 2008 through 2020, to fund a debt service reserve fund for the 2008C Certificates; and to pay the costs of executing and delivering the 2008C Certificates. The proceeds of the 2008C Certificates were deposited in an irrevocable trust with an escrow agent for the payment of the 1993B Certificates and subsequently, all 1993B Certificates were redeemed on July 18, 2008. As a result, these 1993B series certificates are considered to be defeased and the liability for those bonds has been removed from the statement of net assets.

The advance refunding resulted in a difference between the reacquisition price (amount placed in the escrow account) and the net carrying amount of the old debt of \$3,541,491. This difference, reported in the accompanying financial statements as a deferred refunding charge, is being charged to operations through the year 2020 using the straight line method. The certificates of participation payable are reported net of these deferred charges. The District completed the advance refunding to remove all covenants relating to the 1993B Certificates. These certificates were insured by the Financial Guaranty Insurance Company (FGIC). The advance refunding was a refunding of variable rate debt. Therefore, an economic gain did not result from the refunding and there was no difference in cash flows.

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

(continued)

**5. Long-Term Liabilities (continued)**

**Certificates of Participation (continued)**

**2008C Refunding Certificates of Participation (continued)**

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

In connection with the issuance of the 1993B Certificates, the District entered into an Interest Rate Swap Agreement with AIG-FP dated May 1, 1993. AIG-FP is a recipient of a 24 month loan (maximum value \$85 billion) from the federal government that was needed in order for AIG-FP to have sufficient liquidity to continue operations. In connection with the issuance of the 2008C Refunding Certificates, this swap agreement was amended and restated in its entirety as the 2008C Swap Agreement. This agreement provides for the District to make payments to AIG-FP at a fixed rate of 5.135% on a notional amount that does not correspond to the outstanding principal amount of the 2008C Certificates and for AIG-FP to make reciprocal payments equal to the amount of interest payable with respect to the 2008C Certificates at the Weekly Interest Rate. The notional amount corresponds to original outstanding amount of the 1993B Certificates and the termination date of the agreement is July 1, 2020. The fair value of this amended and restated swap agreement was not calculated as of June 30, 2008 due to the short time period that it was in existence.

	<b>Beginning Balance June 30, 2007</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance June 30, 2008</b>	<b>Due Within One Year</b>
Certificates of participation	\$ -	\$ 54,400,000	\$ -	\$ 54,400,000	\$ -
Deferred refunding charges	-	(3,541,791)	-	(3,541,791)	(272,445)
COP discount	-	(137,642)	-	(137,642)	(10,588)
<b>Total</b>	<b>\$ -</b>	<b>\$ 50,720,567</b>	<b>\$ -</b>	<b>\$ 50,720,567</b>	<b>\$ (283,033)</b>

<b>Year ending June 30:</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2009	\$ -	\$ -	\$ -
2010	-	2,661,376	2,661,376
2011	330,000	2,777,900	3,107,900
2012	345,000	2,760,250	3,105,250
2013	370,000	2,741,590	3,111,590
2014-18	23,985,000	10,755,439	34,740,439
2019-22	29,370,000	2,491,326	31,861,326
<b>Total</b>	<b>\$ 54,400,000</b>	<b>\$ 24,187,881</b>	<b>\$ 78,587,881</b>

# Eastern Municipal Water District

## Notes to the Basic Financial Statements

(continued)

### 5. Long-Term Liabilities (continued)

#### Certificates of Participation (continued)

##### 2008B Refunding Certificates of Participation

In March 2008, the Facilities Corporation issued \$54,575,000 in Water and Sewer Revenue Refunding Certificates of Participation, Series 2008B. The net proceeds of \$54,575,000 were used to advance refund the District's outstanding 2006B Certificates in the amount of \$54,025,000 maturing July 1, in the years 2024 through 2035, and to pay the costs of executing and delivering the 2008B Certificates. The proceeds of the 2008B Certificates were deposited in an irrevocable trust with an escrow agent and the 2006B Certificates were subsequently prepaid on March 27, 2008. As a result, these 2006B series certificates are considered to be defeased and the liability for those bonds has been removed from the statement of net assets. As of June 30, 2008, no certificates remain outstanding

The advance refunding resulted in a difference between the reacquisition price (amount placed in the escrow account) and the net carrying amount of the old debt of \$719,951. Due to its immateriality, this difference was expensed. The District completed the current refunding to remove all onerous covenants relating to the 2006B Certificates. Interest for these certificates was paid weekly at the applicable Auction Rate for its respective Auction Period. There was unrest in the financial market and as investors lost confidence in these financial instruments, the Auction Rates suddenly began to significantly increase, resulting in interest expense much higher than anticipated. The advance refunding was a refunding of variable rate debt. Therefore, an economic gain did not result from the refunding and there was no difference in cash flows.

The 2008B Certificates include serial certificates due in varying amounts from \$3,805,000 to \$5,370,000 annually on July 1, in the years 2024 to 2035; with interest payable monthly at a variable rate for a weekly period. The District may prepay all or part of the certificates at any time at par while the certificates remain as variable interest rate securities. However, if the District elects to convert the certificates to a fixed interest rate, depending on the years remaining to maturity as of the fixed interest rate conversion date, the certificates have a no-call period ranging from 0 to 10 years and are subject to prepayment at par plus a premium ranging from 0% to 1% (declining by .5% every year).

	Beginning Balance			Ending Balance		Due Within One Year
	June 30, 2007	Additions	Reductions	June 30, 2008		
Certificates of participation	\$ -	\$ 54,575,000	\$ -	\$ 54,575,000	\$ -	
COP discount	-	(133,430)	1,627	(131,803)	(4,882)	
<b>Total</b>	<b>\$ -</b>	<b>\$ 54,441,570</b>	<b>\$ 1,627</b>	<b>\$ 54,443,197</b>	<b>\$ (4,882)</b>	

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

(continued)

**5. Long-Term Liabilities (continued)**

**Certificates of Participation (continued)**

**2008B Refunding Certificates of Participation (continued)**

<u>Year ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ -	\$ 1,430,835	\$ 1,430,835
2010	-	1,921,456	1,921,456
2011	-	1,923,208	1,923,208
2012	-	1,903,991	1,903,991
2013	-	1,902,239	1,902,239
2014-18	-	9,554,135	9,554,135
2019-23	-	9,555,887	9,555,887
2024-28	15,965,000	8,459,405	24,424,405
2029-33	22,970,000	4,797,657	27,767,657
2034-36	15,640,000	832,145	16,472,145
Total	<u>\$ 54,575,000</u>	<u>\$ 42,280,958</u>	<u>\$ 96,855,958</u>

**2008A Refunding Certificates of Participation**

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

The advance refunding resulted in a difference between the reacquisition price (amount placed in the escrow account) and the net carrying amount of the old debt of \$5,194,443. This difference, reported in the accompanying financial statements as a deferred refunding charge, is being charged to operations through the year 2030 using the straight line method. The certificates of participation payable are reported net of these deferred charges. The District completed the advance refunding to reduce the cash flows associated with its debt service payments over the next 23 years by \$10,205,515 and to obtain a net economic gain (difference between the present values of the debt service payments on the old debt and the new debt) of \$6,920,985.

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

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

(continued)

**5. Long-Term Liabilities (continued)**

**Certificates of Participation (continued)**

**2008A Refunding Certificates of Participation (continued)**

The District may prepay all or part of the certificates at any time at par while the certificates remain as variable interest rate securities. However, if the District elects to convert the certificates to a fixed interest rate, depending on the years remaining to maturity as of the fixed interest rate conversion date, the certificates have a no-call period ranging from 0 to 10 years and are subject to prepayment at par plus a premium ranging from 0% to 1% (declining by .5% every year).

In connection with the issuance of the 2008A Certificates, the District entered into a Swap Agreement with UBS AG for the purpose of hedging against interest rate fluctuations arising from the issuance of the 2008A Certificates as variable rate obligations. The Swap Agreement provides for UBS AG to make payments to the District of 66% of 1-mo LIBOR on a notional amount corresponding to the outstanding principal amount and for the District to make reciprocal payments computed at a fixed rate of 3.100% on the same notional amount. This agreement has a termination date of July 1, 2030. The fair value of swap agreements as of a given date reflects the pricing that the District would receive to transfer its interest in the agreement to a third party at that date. This value is a function of the interest rates demanded by the market as of the date of the valuation. This value fluctuates as market interest rates increase or decrease over the term of the agreement. As of June 30, 2008, market interest rates were higher than the fixed interest rate associated with the payments by the District under the terms of this agreement. As a result, the net fair value of the agreement as of this date is a positive \$322,258, including accrued interest (i.e., a receipt would be received by the District to substitute the District's interest in the agreement to a third party). This calculation was based on certain interest rate curves reported by Bloomberg Professional Services as of June 30, 2008 and was prepared by the District's financial advisors, Fieldman, Rolapp and Associates.

	<b>Beginning Balance June 30, 2007</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance June 30, 2008</b>	<b>Due Within One Year</b>
Certificates of participation	\$ -	\$ 56,855,000	\$ -	<b>\$ 56,855,000</b>	\$ 445,000
Deferred refunding charges	-	(5,194,443)	115,432	<b>(5,079,011)</b>	(230,864)
COP discount	-	(204,130)	4,536	<b>(199,594)</b>	(9,073)
<b>Total</b>	<b>\$ -</b>	<b>\$ 51,456,427</b>	<b>\$ 119,968</b>	<b>\$ 51,576,395</b>	<b>\$ (205,063)</b>

<b>Year ending June 30:</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2009	\$ 445,000	\$ 1,471,243	\$ 1,916,243
2010	255,000	1,743,766	1,998,766
2011	260,000	1,737,405	1,997,405
2012	270,000	1,730,788	2,000,788
2013	275,000	1,720,791	1,995,791
2014-18	1,530,000	8,465,754	9,995,754
2019-23	1,785,000	8,211,662	9,996,662
2024-28	28,510,000	6,378,868	34,888,868
2029-31	23,525,000	1,155,909	24,680,909
<b>Total</b>	<b>\$ 56,855,000</b>	<b>\$ 32,616,186</b>	<b>\$ 89,471,186</b>

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

(continued)

**5. Long-Term Liabilities (continued)**

**Certificates of Participation (continued)**

**2007A Refunding Certificates of Participation**

In May 2007, the Facilities Corporation issued \$20,710,000 in Water and Sewer Revenue Refunding Certificates of Participation, Series 2007A. The net proceeds of \$22,274,458 were used to currently refund the District's 1997A certificates for \$21,175,000, and to pay the municipal bond insurance policy premium and issuance costs. Following the prepayment, only the certificates maturing July 1, 2007 remained outstanding. The 1997A certificates subject to prepayment were deposited in an irrevocable trust with an escrow agent. As a result, these 1997A series certificates are considered to be defeased and the liability for those bonds has been removed from the statement of net assets.

The advance refunding resulted in a difference between the reacquisition price (amount placed in the escrow account) and the net carrying amount of the old debt of \$2,003,864. This difference, reported in the accompanying financial statements as a deferred refunding charge, is being charged to operations through the year 2023 using the straight line method. The certificates of participation payable are reported net of these deferred charges.

The certificates of participation included serial certificates due in varying amounts from \$75,000 to \$6,860,000 annually from July 1, 2009 to July 1, 2023; with interest payable semiannually at rates ranging from 4.00% to 5.00%.

	<b>Beginning Balance June 30, 2007</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance June 30, 2008</b>	<b>Due Within One Year</b>
Certificates of participation	\$ 20,710,000	\$ -	\$ -	<b>\$ 20,710,000</b>	\$ -
Deferred refunding charges	(1,983,206)	-	123,950	<b>(1,859,256)</b>	(123,950)
COP premium	1,329,293	-	(83,081)	<b>1,246,212</b>	83,081
<b>Total</b>	<b>\$ 20,056,087</b>	<b>\$ -</b>	<b>\$ 40,869</b>	<b>\$ 20,096,956</b>	<b>\$ (40,869)</b>

<b>Year ending June 30:</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2009	\$ -	\$ 1,024,500	\$ 1,024,500
2010	75,000	1,023,000	1,098,000
2011	75,000	1,020,000	1,095,000
2012	80,000	1,016,900	1,096,900
2013	80,000	1,013,700	1,093,700
2014-18	465,000	5,015,600	5,480,600
2019-23	13,075,000	4,292,650	17,367,650
2024	6,860,000	171,500	7,031,500
<b>Total</b>	<b>\$ 20,710,000</b>	<b>\$ 14,577,850</b>	<b>\$ 35,287,850</b>

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

(continued)

**5. Long-Term Liabilities (continued)**

**Certificates of Participation (continued)**

**2006A Certificates of Participation**

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

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

	<b>Beginning Balance June 30, 2007</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance June 30, 2008</b>	<b>Due Within One Year</b>
Certificates of participation	\$ 106,320,000	\$ -	\$ -	<b>\$ 106,320,000</b>	\$ -
COP premium	3,607,771	-	(125,852)	<b>3,481,919</b>	125,852
<b>Total</b>	<b>\$ 109,927,771</b>	<b>\$ -</b>	<b>\$ (125,852)</b>	<b>\$ 109,801,919</b>	<b>\$ 125,852</b>

<b>Year ending June 30:</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2009	\$ -	\$ 5,119,444	\$ 5,119,444
2010	-	5,119,444	5,119,444
2011	-	5,119,444	5,119,444
2012	-	5,119,444	5,119,444
2013	3,725,000	5,030,850	8,755,850
2014-18	21,795,000	22,116,555	43,911,555
2019-23	27,610,000	16,319,240	43,929,240
2024-28	19,055,000	10,247,350	29,302,350
2029-33	19,810,000	5,797,625	25,607,625
2034-36	14,325,000	986,065	15,311,065
<b>Total</b>	<b>\$ 106,320,000</b>	<b>\$ 80,975,461</b>	<b>\$ 187,295,461</b>

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

(continued)

**5. Long-Term Liabilities (continued)**

**Certificates of Participation (continued)**

**2006B Certificates of Participation**

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

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

In March 2008, all outstanding 2006B Certificates were refunded by the 2008B Certificates. The certificates are considered defeased and were removed from the District's books.

	<b>Beginning Balance June 30, 2007</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance June 30, 2008</b>	<b>Due Within One Year</b>
Certificates of participation	\$ 54,025,000	\$ -	\$ (54,025,000)	\$ -	\$ -
COP discount	(329,572)	-	329,572	-	-
<b>Total</b>	<b>\$ 53,695,428</b>	<b>\$ -</b>	<b>\$ (53,695,428)</b>	<b>\$ -</b>	<b>\$ -</b>

**2003A Refunding Certificates of Participation**

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

	<b>Beginning Balance June 30, 2007</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance June 30, 2008</b>	<b>Due Within One Year</b>
Certificates of participation	\$ 24,515,000	\$ -	\$ (125,000)	<b>\$ 24,390,000</b>	\$ 130,000
Deferred refunding charges	(1,294,529)	-	84,631	<b>(1,209,898)</b>	(84,631)
COP discount	(87,855)	-	5,491	<b>(82,364)</b>	(5,491)
<b>Total</b>	<b>\$ 23,132,616</b>	<b>\$ -</b>	<b>\$ (34,878)</b>	<b>\$ 23,097,738</b>	<b>\$ 34,878</b>

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

(continued)

**5. Long-Term Liabilities (continued)**

**Certificates of Participation (continued)**

**2003A Refunding Certificates of Participation (continued)**

<u>Year ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 130,000	\$ 783,452	\$ 913,452
2010	135,000	776,439	911,439
2011	140,000	773,550	913,550
2012	145,000	769,076	914,076
2013	145,000	765,829	910,829
2014-18	8,695,000	3,397,686	12,092,686
2019-23	12,300,000	1,670,528	13,970,528
2024	2,700,000	93,174	2,793,174
Total	<u>\$ 24,390,000</u>	<u>\$ 9,029,734</u>	<u>\$ 33,419,734</u>

**2003B Certificates of Participation**

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

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

	<b>Beginning Balance June 30, 2007</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance June 30, 2008</b>	<b>Due Within One Year</b>
Certificates of participation	\$ 66,015,000	\$ -	\$ (1,575,000)	<b>\$ 64,440,000</b>	\$ 1,625,000
COP discount	(252,183)	-	9,699	<b>(242,484)</b>	(9,699)
Total	<u>\$ 65,762,817</u>	<u>\$ -</u>	<u>\$ (1,565,301)</u>	<u><b>\$ 64,197,516</b></u>	<u>\$ 1,615,301</u>

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

(continued)

**5. Long-Term Liabilities (continued)**

**Certificates of Participation (continued)**

**2003B Refunding Certificates of Participation (continued)**

<u>Year ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 1,625,000	\$ 2,073,074	\$ 3,698,074
2010	1,680,000	2,013,659	3,693,659
2011	1,735,000	1,963,642	3,698,642
2012	1,790,000	1,908,171	3,698,171
2013	1,840,000	1,854,298	3,694,298
2014-18	10,150,000	8,328,664	18,478,664
2019-23	11,875,000	6,602,455	18,477,455
2024-28	13,905,000	4,578,697	18,483,697
2029-33	16,265,000	2,210,164	18,475,164
2034	3,575,000	123,158	3,698,158
<b>Total</b>	<b>\$ 64,440,000</b>	<b>\$ 31,655,982</b>	<b>\$ 96,095,982</b>

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

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

**2001A Refunding Certificates of Participation**

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

**2001C Refunding Certificates of Participation**

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

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

(continued)

**5. Long-Term Liabilities (continued)**

**Certificates of Participation (continued)**

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

**2001A Refunding Certificates of Participation**

	<b>Beginning Balance June 30, 2007</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance June 30, 2008</b>	<b>Due Within One Year</b>
Certificates of participation	\$ 55,950,000	\$ -	\$ (2,865,000)	<b>\$ 53,085,000</b>	\$ 3,020,000
Deferred refunding charges	(4,671,399)	-	364,005	<b>(4,307,394)</b>	(364,005)
COP premium	1,581,752	-	(123,253)	<b>1,458,499</b>	123,253
<b>Total</b>	<b>\$ 52,860,353</b>	<b>\$ -</b>	<b>\$ (2,624,248)</b>	<b>\$ 50,236,105</b>	<b>\$ 2,779,248</b>

<b>Year ending June 30:</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2009	\$ 3,020,000	\$ 2,593,588	\$ 5,613,588
2010	3,165,000	2,454,788	5,619,788
2011	3,290,000	2,322,563	5,612,563
2012	3,435,000	2,163,465	5,598,465
2013	3,610,000	1,978,538	5,588,538
2014-18	21,085,000	6,778,714	27,863,714
2019-21	15,480,000	1,186,250	16,666,250
<b>Total</b>	<b>\$ 53,085,000</b>	<b>\$ 19,477,906</b>	<b>\$ 72,562,906</b>

**2001C Refunding Certificates of Participation**

	<b>Beginning Balance June 30, 2007</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance June 30, 2008</b>	<b>Due Within One Year</b>
Certificates of participation	\$ 11,040,000	\$ -	\$ (1,395,000)	<b>\$ 9,645,000</b>	\$ 1,455,000
Deferred refunding charges	(638,630)	-	109,480	<b>(529,150)</b>	(109,479)
COP discount	(7,698)	-	1,320	<b>(6,378)</b>	(1,320)
<b>Total</b>	<b>\$ 10,393,672</b>	<b>\$ -</b>	<b>\$ (1,284,200)</b>	<b>\$ 9,109,472</b>	<b>\$ 1,344,201</b>

<b>Year ending June 30:</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2009	\$ 1,455,000	\$ 365,375	\$ 1,820,375
2010	1,515,000	305,975	1,820,975
2011	1,570,000	244,275	1,814,275
2012	1,635,000	180,175	1,815,175
2013	1,700,000	111,350	1,811,350
2014	1,770,000	37,613	1,807,613
<b>Total</b>	<b>\$ 9,645,000</b>	<b>\$ 1,244,763</b>	<b>\$ 10,889,763</b>

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

(continued)

**5. Long-Term Liabilities (continued)**

**Certificates of Participation (continued)**

**2001B Certificates of Participation**

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

The certificates of participation include \$51,370,000 of term certificates due in varying amounts annually from July 1, 2024 to July 1, 2030 with interest payable semiannually at rates per annum of 5.0%.

In January 2008, all outstanding 2001B Certificates outstanding were refunded by the 2008A Certificates. The certificates are considered defeased and were removed from the District's books.

	<b>Beginning Balance June 30, 2007</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance June 30, 2008</b>	<b>Due Within One Year</b>
Certificates of participation	\$ 51,370,000	\$ -	\$ 51,370,000	\$ -	\$ -
COP discount	(749,984)	-	(749,984)	-	-
<b>Total</b>	<b>\$ 50,620,016</b>	<b>\$ -</b>	<b>\$ 50,620,016</b>	<b>\$ -</b>	<b>\$ -</b>

**1998A Refunding Certificates of Participation**

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

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

(continued)

**5. Long-Term Liabilities (continued)**

**Certificates of Participation (continued)**

**1998A Refunding Certificates of Participation (continued)**

	<b>Beginning Balance June 30, 2007</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance June 30, 2008</b>	<b>Due Within One Year</b>
Certificates of participation	\$ 27,420,000	\$ -	\$ (75,000)	<b>\$ 27,345,000</b>	\$ 80,000
Deferred refunding charges	(1,436,017)	-	86,161	<b>(1,349,856)</b>	(86,161)
COP discount	(537,330)	-	32,240	<b>(505,090)</b>	(32,240)
<b>Total</b>	<b>\$ 25,446,653</b>	<b>\$ -</b>	<b>\$ 43,401</b>	<b>\$ 25,490,054</b>	<b>\$ (38,401)</b>

<b>Year ending June 30:</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2009	\$ 80,000	\$ 1,317,661	\$ 1,397,661
2010	80,000	1,314,241	1,394,241
2011	85,000	1,310,651	1,395,651
2012	90,000	1,306,756	1,396,756
2013	95,000	1,302,534	1,397,534
2014-18	525,000	6,441,209	6,966,209
2019-23	17,310,000	5,482,942	22,792,942
2024	9,080,000	215,650	9,295,650
<b>Total</b>	<b>\$ 27,345,000</b>	<b>\$ 18,691,644</b>	<b>\$ 46,036,644</b>

**1997A Refunding Certificates of Participation**

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

In May 2007, the 1997A refunding certificates maturing on July 1 in the years 2008 through 2023 totaling \$21,175,000 were refunded. These 1997A certificates were considered defeased and were removed from the District's books.

	<b>Beginning Balance June 30, 2007</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance June 30, 2008</b>	<b>Due Within One Year</b>
Certificates of participation	\$ 75,000	\$ -	\$ (75,000)	\$ -	\$ -
<b>Total</b>	<b>\$ 75,000</b>	<b>\$ -</b>	<b>\$ (75,000)</b>	<b>\$ -</b>	<b>\$ -</b>

# Eastern Municipal Water District

## Notes to the Basic Financial Statements

(continued)

### 5. Long-Term Liabilities (continued)

#### Certificates of Participation (continued)

##### 1993B Refunding Certificates of Participation

In May 1993, the Facilities Corporation issued \$65,795,000 in Refunding Certificates of Participation Series 1993B. Proceeds of the sale of certificates were used to provide monies for the partial defeasance of \$59,350,000 Series 1991 certificates of participation, to pay the municipal bond insurance policy premium for the certificates and to pay the costs of issuance. The certificates of participation are subject to mandatory repayment in varying amounts from \$165,000 to \$7,570,000 annually from July 1, 1993 to July 1, 2020, with interest payable semiannually at the weekly interest rate (as determined by the Remarketing Agent) unless converted to a fixed interest rate at the District's option.

The District may prepay all or part of the certificates at any time at par while the certificates remain as variable interest rate securities. If, however, the District elects to convert the certificates to a fixed interest rate, the certificates are subject to prepayment at par plus a premium ranging from 0% to 2% (declining by .5% every two years) depending on the years remaining to maturity as of the fixed interest rate conversion date.

The District entered into a Swap Agreement with AIG Financial Products Corporation (AIG-FP) for the purpose of hedging against interest rate fluctuations arising from the issuance of the 1993B Certificates as variable rate obligations. The Swap Agreement provided for the District to make payments to AIG-FP on a fixed-rate basis on notional amounts totaling \$64,070,000 and for AIG-FP to make reciprocal payments based on a variable-rate basis which results in a fixed annual rate of interest to the District of 5.135% on the certificates.

In June 2008, all outstanding 1993B Certificates were refunded by the 2008C Certificates. The certificates are considered defeased and were removed from the District's books. The associated Swap Agreement with AIG-FP was amended and restated in its entirety with the issuance of the 2008C Certificates.

	<b>Beginning Balance</b>			<b>Ending Balance</b>	<b>Due Within</b>
	<b>June 30, 2007</b>	<b>Additions</b>	<b>Reductions</b>	<b>June 30, 2008</b>	<b>One Year</b>
Certificates of participation	\$ 59,055,000	\$ -	\$ (59,055,000)	\$ -	\$ -
COP discount	(2,608,893)	-	2,608,893	-	-
<b>Total</b>	<b>\$ 56,446,107</b>	<b>\$ -</b>	<b>\$ (56,446,107)</b>	<b>\$ -</b>	<b>\$ -</b>

##### 1991 Certificates of Participation

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

The certificates of participation include \$26,815,000 of serial certificates maturing in varying amounts from \$1,440,000 to \$2,910,000 annually from July 1, 1993 to July 1, 2005, with interest payable semiannually at rates ranging from 5.1% to 7.5%. Also, in this issue are \$101,875,000 of term certificates due in varying amounts on July 1, 2008, 2012, 2020 and 2023, with interest

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

(continued)

**5. Long-Term Liabilities (continued)**

**Certificates of Participation (continued)**

**1991 Certificates of Participation (continued)**

payable semiannually at rates ranging from 6% to 6.75%. Certificates maturing prior to July 1, 2002 and on July 1, 2012 are not subject to prior redemption; Certificates maturing July 1, 2002 and after (except those maturing on July 1, 2012), may be called prior to maturity at par plus a premium of 2% in 2002, 1% in 2003, and 0% thereafter. The term certificates are subject to mandatory sinking fund requirements beginning July 1, 2006, in amounts varying from \$3,105,000 in 2006 to \$9,115,000 in 2023.

	<b>Beginning Balance June 30, 2007</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance June 30, 2008</b>	<b>Due Within One Year</b>
Certificates of participation	\$ 16,695,000	\$ -	\$ -	<b>\$ 16,695,000</b>	\$ -
Total	<b>\$ 16,695,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 16,695,000</b>	<b>\$ -</b>

<b>Year ending June 30:</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2009	\$ -	\$ 1,126,913	\$ 1,126,913
2010	3,775,000	999,506	4,774,506
2011	4,030,000	736,088	4,766,088
2012	4,300,000	454,950	4,754,950
2013	4,590,000	154,912	4,744,912
Total	<b>\$ 16,695,000</b>	<b>\$ 3,472,369</b>	<b>\$ 20,167,369</b>

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

(continued)

**5. Long-Term Liabilities (continued)**

**General Obligation Bonds**

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

General obligation bonds consist of the following at June 30:

	<b>2008</b>	<b>2007</b>
1995 General obligation refunding bonds: Interest rates of the various bond issues outstanding range from 3.9% to 5.5%. Bonds mature annually in varying amounts through 2009.	<b>\$ 1,200,000</b>	\$ 2,340,000
2005 General obligation bonds: Interest rates of the various bond issues outstanding range from 3.0% to 5.0%. Bonds mature annually in varying amounts through 2035.	<b>16,940,000</b>	17,605,000
Total	<b>18,140,000</b>	19,945,000
Less current portion	<b>1,880,000</b>	1,805,000
Total long-term general obligation bonds	<b>\$ 16,260,000</b>	\$ 18,140,000

At June 30, 2008, general obligation bonds authorized but not issued total \$579,275,000.

	<b>Beginning Balance June 30, 2007</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance June 30, 2008</b>	<b>Due Within One Year</b>
General obligation bonds	\$ 19,945,000	\$ -	\$ (1,805,000)	<b>\$ 18,140,000</b>	\$ 1,880,000
Deferred refunding charges	(51,905)	-	29,660	<b>(22,245)</b>	(22,245)
Net bond premium/discount	197,502	-	30,170	<b>227,672</b>	(18,100)
Total	<b>\$ 20,090,597</b>	<b>\$ -</b>	<b>\$ (1,745,170)</b>	<b>\$ 18,345,427</b>	<b>\$ 1,839,655</b>

<b>Year ending June 30:</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2009	\$ 1,880,000	\$ 826,445	\$ 2,706,445
2010	710,000	734,345	1,444,345
2011	495,000	710,245	1,205,245
2012	515,000	690,045	1,205,045
2013	535,000	669,045	1,204,045
2014-18	2,625,000	3,029,200	5,654,200
2019-23	2,900,000	2,474,058	5,374,058
2024-28	2,995,000	1,728,875	4,723,875
2029-33	3,170,000	990,250	4,160,250
2034-36	2,315,000	177,375	2,492,375
Total	<b>\$ 18,140,000</b>	<b>\$ 12,029,883</b>	<b>\$ 30,169,883</b>

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

(continued)

**5. Long-Term Liabilities (continued)**

**Reimbursable Agreements**

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

**Debt Service Reserve Funds**

The District is required to maintain a Debt Service Reserve Fund to be used for the payment of principals and interest of its Certificates of Participation Bonds in the event that the District has not provided the Trustee with sufficient funds by the Installment Payment date to make the required Installment Sale Payments. The current required reserve amount as determined by the bond documents and the reserve balance at June 30, 2008 for each outstanding bond issue is:

<u>Description</u>	<u>Required</u>	<u>Actual</u>	<u>Excess/(Deficiency)</u>
1991/1998A COP	\$ 5,267,746	\$ 5,500,000	\$ 232,254
2001A/2007A COP	7,203,000	7,203,000	-
1993A/2001C/2003A COP	3,403,500	3,403,500	-
1993B/2008C COP	5,440,000	5,440,058	58
2001B/2008A COP	5,387,810	5,387,810	-
2003B COP	4,357,470	4,356,207	(1,263)*
2006A COP	8,361,404	8,587,503	226,099
2006B/2008B COP	4,253,624	4,256,378	2,754

\* The 2003B COP reserve amount was invested in a State of California municipal bond at June 30, 2008. The shortage is due to market fluctuation; however this bond was sold on July 1, 2008. Also, the 2003B COP was refunded on July 30, 2008 by the 2008E COP and a new reserve amount was established.

**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, 2008, the District's debt coverage ratio was 3.3 times.

2) Operating Reserve Fund

The District has covenanted that it will maintain a minimum of ¼ of its annual maintenance and operating costs as set forth in its operating budget in a separate reserve fund. This reserve was \$30,329,815 at June 30, 2008 and \$29,126,581 at June 30, 2007.

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# **Eastern Municipal Water District**

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

(continued)

### **5. Long-Term Liabilities (continued)**

#### **Defeasance of Debt**

The District defeased the 1989 General Obligation Bonds and the 1993B Certificates of Participation by placing the proceeds of the new debt in irrevocable trusts to provide for all future debt service payments on the defeased debt. Accordingly, the trust's assets and the liability for the defeased debt issue are not included on the District's statement of net assets. The outstanding balance of the 1989 GO bonds was \$1,375,000 and \$2,650,000 at June 30, 2008 and 2007, respectively. The 1993B COP was defeased in June 2008 and the outstanding balance of the debt on June 30 was \$11,529,000. This balance was fully prepaid on July 18, 2008.

### **6. Defined Benefit Pension Plan**

#### **Plan Description**

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

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

#### **Funding Policy**

District employees are required to contribute 8% of their annual salary to PERS. Of this 8%, the District funds 7% as agreed to in negotiations with its union. The District is required to contribute the remaining amount necessary to fund the benefits of its members, using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the Board of Administration. For the year ended June 30, 2008, the amount contributed by the District on behalf of the employees is \$3,079,987. The required employer contribution rate for fiscal year ended June 30, 2008 is 9.448% as determined by the annual PERS valuation. However, the District's effective employer contribution rate is 0% due to prepayment of the annual contribution amount in July 2007.

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

(continued)

### 6. Defined Benefit Pension Plan (continued)

#### Annual Pension Cost

Under GASB 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period July 1, 2007 to June 30, 2008 has been determined by an actuarial valuation of the plan as of June 30, 2005. The contribution rate for the indicated period is 9.737% of payroll for the Retirement Program. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2008, the contribution rate, as modified by any amendments for the year, is multiplied by the payroll of covered employees that were paid during the period from July 1, 2007 to June 30, 2008.

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

Valuation date	June 30, 2005
Actuarial cost method	Entry age actuarial cost method
Amortization method	Level percent of payroll
Average remaining period	24 Years as of the valuation date
Asset valuation method	15 Year smoothed market
Actuarial assumptions:	
Investment rate of return	7.75% (net of administrative expenses)
Projected salary increases	3.25% to 14.45% depending on age, service, and type of employment
Inflation	3.00%
Payroll growth	3.25%
Individual salary growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%

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

The total contribution paid to the PERS for 2008 and 2007 was \$3,519,985 and \$3,129,669, respectively. In 2008, the District paid \$3,079,987 and the employees paid \$439,998. In 2007, the District paid \$2,738,460 and the employees paid \$391,209. The contributions were made in accordance with actuarially determined requirements computed through an actuarial valuation performed prior to the beginning of each fiscal year by the PERS Actuarial Division. The combined employer and employee contribution consisted of 8.0% of current covered payroll.

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

(continued)

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

**Trend Information**

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

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

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06/30/06	\$ 2.89	100%	\$ -
06/30/07	3.21	100%	-
06/30/08	3.52	100%	-

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

Actuarial Valuation Date	(A) Entry Age Actuarial Accrued Liability (AAL)	(B) Actuarial Value of Assets	(C) Unfunded AAL (UAAL) (A)-(B)	Funded Ratio (B)/A)	(D) Covered Payroll	UAAL as a Percentage of Covered Payroll (C)/(D)
06/30/05	\$ 149.00	\$ 137.93	\$ 11.07	92.6%	\$ 34.17	32.4%
06/30/06	170.08	153.22	16.86	90.1%	37.67	44.8%
06/30/07	194.72	168.00	26.72	86.3%	42.44	63.0%
06/30/08	(1)	(1)	(1)	(1)	44.00(2)	(1)

(1) Information not available.

(2) Actual PERS wages per District payroll records.

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

**7. Defined Contribution Plan**

The District has a 401(a) money purchase defined contribution plan (Plan) covering all employees of the District who have completed one year of service. The Plan was adopted in January 1978 and may be amended by the District provided the trustee joins in such amendment. The District is required to contribute 7.15% of each eligible employee's compensation up to a maximum annual compensation of \$16,500. The District's contributions to the Plan were \$765,130 and \$790,714 in 2008 and 2007, respectively.

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

(continued)

**8. Postemployment Benefits Other Than Pensions**

During the year ended June 30, 2008, the District implemented GASB Statement No. 45 which changed the accounting and financial reporting used by local government employers for postemployment benefits. Previously, the costs of such benefits were generally recognized as expenditures/expenses of local government employers on a pay-as-you-go basis. The new reporting requirements for these benefit programs as they pertain to the District are as set forth in the following.

**Plan Description**

**Health Care Benefits**

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

**Life Insurance Benefits**

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

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

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

(continued)

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

**Funding Policy and Annual OPEB Cost**

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

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		\$ 8,021,000
Contributions made		<u>(1,802,051)</u>
Increase in net OPEB obligation		6,218,949
Net OPEB obligation – beginning of year		-
Net OPEB obligation – end of year		<u>\$ 6,218,949</u>

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

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

Plan	Year Ended	Annual OPEB Cost	Actual Contributions	Percentage of OPEB Cost Contributed	Net OPEB Obligation
Retired Employees/Elected Officials Healthcare and Life Insurance Plans	06/30/08	\$ 8,021,000	\$ 1,802,051	22.5%	\$ 6,218,949

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

(continued)

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

**Funded Status and Funding Progress**

The funded status of the plans as of June 30, 2006, the plan's most recent actuarial valuation date, is shown in the following table. Actuarially determined amounts were not calculated separately for each plan.

Actuarial accrued liability (a)	\$ 83,666,000
Actuarial value of plan assets (b)	-
Unfunded actuarial accrued liability (funding excess) (a) – (b)	\$ 83,666,000
Funded ratio (b)/(a)	N/A
Covered Payroll – active plan members (c)	\$ 36,369,000
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll $([(a)-(b)]/(c))$	230.00%

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

**Actuarial Methods and Assumptions**

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

Valuation date	June 30, 2006		
Actuarial cost method	Entry age normal		
Amortization method	Level percent of payroll		
Remaining amortization period	30 years as of the valuation date		
Asset valuation method	N/A – no assets		
Actuarial assumptions:			
Investment rate of return	4.50%		
General inflation rate	3.00%		
Payroll growth	3.25%		
Healthcare trend rate (based on 2007 actual premiums)	<u>Year</u>	<u>HMO</u>	<u>PPO</u>
	2007	11.00%	12.00%
	2008 – 2016	10.25%	11.15%
	2017+	4.50%	4.50%

The Schedule of Funding Progress on the following page shows the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded actuarial accrued liability to payroll for June 30, 2006. The District implemented GASB Statement No. 45 this fiscal year. The District's only actuarial valuation performed to date was dated June 30, 2006.

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

(continued)

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

**Actuarial Methods and Assumptions (continued)**

Actuarial Valuation Date	(A) Entry Age Actuarial Accrued Liability (AAL)	(B) Actuarial Value of Assets	(C) Unfunded AAL (UAAL) (A)- (B)	Funded Ratio (B)/A)	(D) Covered Payroll	UAAL as a Percentage of Covered Payroll (C)/(D)
06/30/06	\$83,666,000	\$ -	\$83,666,000	N/A	\$36,369,000	230.00%

**9. Restricted and Unrestricted Net Assets**

**Restricted Net Assets**

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

**Unrestricted Net Assets**

As required by GASB Statement No. 34, net assets have been classified according to guidelines established for restricted assets. However, the unrestricted assets, although not legally restricted, have been established pursuant to Board Resolution No. 3359 and are primarily composed of reserves for various purposes. The unrestricted net assets at June 30, 2008 consist of:

Replacement and system betterment reserve	\$ 88,504,565
Operational debt service reserve	7,794,076
General liability and workers comp. reserve	1,178,378
Other reserves	4,419,438
Total unrestricted net assets	\$ 101,896,457

**10. Tunnel Water Seepage Agreement**

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

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

(continued)

**11. Commitments**

**Construction Contracts**

The District is committed to approximately \$121,982,970 million of open construction contracts as of June 30, 2008. The ten largest contracts outstanding include:

	<b>Contract Amount</b>	<b>Balance To Complete</b>
Perris Valley RWRP Plant No. 3 Expansion	\$ 150,044,159	\$ 96,972,388
Moreno Valley RWRP Fuel Cell Cogeneration System	7,557,306	4,333,867
Cactus Avenue Pump Station	9,663,318	3,353,027
San Jacinto Valley Interceptor Sewer	14,718,806	2,944,576
Sunnymead Blvd. 6" & 8" Pipeline Replacement	5,705,753	2,772,581
Hemet/San Jacinto Valley IRRP Well Pumping Facilities	4,572,356	2,479,978
Cactus Avenue Feeder Pipeline	5,265,920	1,837,227
Sun City, Norma, Pebble Beach Pipeline Replacement	1,887,280	1,787,280
Tally Rd Tank, Pipeline & Site Improvements	3,356,760	1,213,976
Scott Road Booster Pump Station	1,252,777	1,051,277
Total	<u>\$ 204,024,435</u>	<u>\$ 118,746,177</u>

**Claims and Judgments**

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

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

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

	<b>2008</b>	<b>2007</b>
Unpaid claims, beginning	<u>\$ 1,210,785</u>	\$ 983,004
Incurred claims and changes in estimates	<u>1,138,901</u>	1,419,198
Claim payments	<u>(1,151,461)</u>	(1,191,417)
Unpaid claims, ending	<u>\$ 1,198,225</u>	<u>\$ 1,210,785</u>

There was no significant reduction in insurance coverage by major categories of risk from fiscal year 2006/07 to fiscal year 2007/08. Furthermore, there has been no settlement which exceeded insurance coverage for the past three fiscal years.

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# **Eastern Municipal Water District**

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

(continued)

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

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

These bonds are not direct liabilities of the District, and their payment is secured by valid liens on certain lands. Reserves have been established from the bond proceeds to meet delinquencies should they occur. Neither the faith and credit nor the taxing power of the District is pledged to the payment of the bonds. If delinquencies occur beyond the amounts held in those reserves, the District has no duty to pay those delinquencies out of any other available funds. The District acts solely as an agent for those paying assessments or special taxes and the bond holders. The Special Funding District Bonds outstanding at June 30, 2008 and 2007, were \$222,135,527 and \$203,561,272 respectively, and are not included in the District's financial statements.

### **12. Contingencies**

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

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

The Santa Ana Watershed Project Authority was formed in 1975, pursuant to the provisions of Article 1, Chapter 5, Division 7, Title 1 of the Government Code of the State of California relating to the joint exercise powers common to public agencies, for the purpose of undertaking projects for water quality control and protection and pollution abatement in the Santa Ana Watershed. The authority is governed by a 5-member Board of Commissioners, consisting of one member from each of the five-member agencies. An alternate from each member agency is also designated. Eastern Municipal Water District became a member in September 1984. An independent audit report is prepared annually and is available for public inspection at the offices of the Authority.

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

The District receives deposits from developers in advance to cover various costs for both sewer and water related projects. At June 30, 2008 and 2007, the amount of refundable deposits was \$36,481,691 and \$37,159,800, respectively. However, when a project is closed, the developer is refunded only the amount remaining after offsetting all accumulated work in process costs. If costs exceed the deposit amount during the project, the developer is billed for additional deposits.

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

(continued)

**15. Subsequent Events**

A. Subsequent to June 30, 2008, the District issued several certificates of participation. The following table below shows details of these issuances.

<b>Debt Issuance</b>	<b>Amount Issued</b>	<b>Amount Refunded</b>	<b>Final Maturity</b>	<b>Range of Interest Rates</b>
2008D refunding COP	\$ 54,760,000	\$ 51,525,000	July 1, 2023	Variable
2008E refunding COP	64,110,000	62,815,000	July 1, 2033	Variable
2008F COP	50,000,000	-	July 1, 2038	Variable
2008G COP	50,000,000	-	July 1, 2038	Variable
2008H COP	140,035,000	-	July 1, 2035	Fixed 5.00 – 5.13%

B. Soboba Settlement Act – This Act was signed into Law by the President of the United States of America on July 31, 2008. This Act approved the Settlement Agreement between the Soboba Band of Luiseno Indians; the United States of America (as trustee for the Soboba Tribe); the Lake Hemet Municipal Water District (LHMWD); MWD and the District. The Soboba Tribe negotiated a water rights claim with these local water districts for the Tribe’s lost water resources from springs and creeks on its Reservation caused by construction of the San Jacinto Tunnel by MWD, and by construction of the Lake Hemet by LHMWD.

The Settlement Agreement provides that:

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

The local agencies will pay \$7,000,000 to access the Tribe’s unused water. The federal government will pay \$10,000,000 toward the cost of constructing facilities. The District’s share for the construction of the facilities and use of Tribe’s water is estimated to be \$5,200,000. Formalization of the settlement may take 2 to 3 years. The District has not begun actions to open escrow on the land or to deposit designated funds.



*EMWD uses mulch in its demonstration garden to reduce evaporation and save thousands of gallons of water each year.*



*Using a broom instead of a hose to clean driveways or sidewalks will save 80 gallons of water every time.*

## Supplementary Information Section

### Water-Use It Wisely

EMWD will soon launch its long-term water-use efficiency campaign, "Water-Use It Wisely." This campaign promotes awareness and education of simple ways to use water wisely, such as use a layer of mulch around plants to reduce evaporation, and use a broom instead of a hose to clean driveways and sidewalks.

*There are a number of ways to save water...  
...and they all start with you*



## Eastern Municipal Water District

### Schedule of Revenues, Expenses and Changes in Net Assets –

#### Actual and Budget

For the Year Ended June 30, 2008

The table below compares revenues and expenses of the District compared to budgeted and/or projected figures used by the District to monitor performance during the year. The overall change in net assets was budgeted at a positive \$95.9 million vs. an actual of \$67.8 million. The unfavorable variance of \$28.1 million is attributed to a negative variance in income before capital contributions of \$26.4 million and in capital contributions of \$1.7 million. Explanations for major variances are included on the following pages.

	2007/08 Actual	2007/08 Budget	Variance with Budget- Positive (Negative)	% Change
<b>Revenues</b>				
Water sales	\$ 94,135,642	\$ 97,950,981	\$ (3,815,339)	-4.1%
Sewer service charges	54,408,172	53,180,944	1,227,228	2.3%
Recycled water sales	2,564,656	2,750,000	(185,344)	-7.2%
Connection fees	30,706,687	66,684,496	(35,977,809)	-117.2%
Interest	20,579,581	23,420,000	(2,840,419)	-13.8%
Property taxes – general levy	34,528,767	32,858,904	1,669,863	4.8%
Property taxes – bond levy	3,119,336	2,259,408	859,928	27.6%
Standby charges	4,868,154	4,698,500	169,654	3.5%
Grant revenues	11,261,996	-	11,261,996	100.0%
Gain/(Loss) on disposal of fixed assets	6,647,392	(1,500,000)	8,147,392	122.6%
Other non-operating revenues	7,220,589	7,356,800	(136,211)	-1.9%
<b>Total Revenues</b>	<b>270,040,972</b>	<b>289,660,033</b>	<b>(19,619,061)</b>	<b>-7.3%</b>
<b>Expenses</b>				
Purchased water	41,653,430	44,003,673	2,350,243	5.6%
Water operations	38,447,533	39,947,831	1,500,298	3.9%
Sewer operations	39,976,740	40,804,373	827,633	2.1%
Recycled water operations	5,071,116	5,329,032	257,916	5.1%
General and administrative	30,138,792	26,929,502	(3,209,290)	-10.6%
Depreciation and amortization	51,030,538	50,000,000	(1,030,538)	-2.0%
Net other postemployment benefits	6,218,949	-	(6,218,949)	-100.0%
Interest – certificates of participation	21,953,962	22,600,201	646,239	2.9%
Interest – bond and other	1,461,446	1,532,022	70,576	4.8%
Other expenses	4,605,098	2,600,000	(2,005,098)	-43.5%
<b>Total expenses</b>	<b>240,557,604</b>	<b>233,746,634</b>	<b>(6,810,970)</b>	<b>-2.8%</b>
Income before contributions	29,483,368	55,913,399	26,430,031	89.6%
Capital contributions	38,350,704	40,000,000	(1,649,296)	-4.3%
<b>Changes in net assets</b>	<b>\$ 67,834,072</b>	<b>\$ 95,913,399</b>	<b>\$ (28,079,327)</b>	<b>-41.4%</b>

**Eastern Municipal Water District**  
**Notes to Supplementary Schedule**  
Major Budget Variances

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

- Budgeted water sales revenue exceeded the actual amount primarily due to the budgeted water sales exceeding actual by 4,133 acre feet (AF) or 4.0%. This variance relates to a slower than estimated growth level due to economic conditions and the conservation efforts of District customers.
- Sewer service charges were primarily higher due to an average rate 3.7% greater than budget.
- Connection fees were budgeted at 8,438 water hook ups and 9,315 sewer hook ups. Actual connections were 3,340 and 4,850, or 48% and 60% less than expected, respectively, due to a slower than estimated growth level in development.
- Interest income was lower than budget due to a higher than anticipated average yield on investments, but a lower investments portfolio balance because the anticipated “new money” COPs were not sold until after June 30, 2008.
- The increase in property taxes was primarily due to an actual assessed valuation increase of 18%, while the budgeted increase was 10%.
- General obligation bond revenues increased due to a higher assessed valuation tax base than what was assumed for the budget.
- Grant revenues were previously shown on the financial statements as capital contributions, therefore no separate budget amount was determined.
- Gain/loss on disposal of fixed assets was higher primarily due a \$7.4 million gain on the sale of 57 acres of land and a gain of \$1.6 million on the sale of capacity rights relating to the brine conveyance pipeline and processing systems, offset by a \$2.4 million write-off of a software replacement project. The gains were not anticipated in the budgeted amount.
- Purchased water costs were lower due to decreased water purchases relating to lower than expected water sales.
- Water operating costs were lower mainly due to energy costs for pumping plants that were less than anticipated and implementation of the Derceto energy optimization program which provides pump run schemes to shift usage from peak demand times to off-peak.
- Sewer operating costs were lower mainly due to energy costs for treatment facilities that were less than anticipated.
- General and administrative expenses were higher mainly due to unexpected legal costs relating to a lawsuit the District is involved in.

**Eastern Municipal Water District**  
**Notes to Supplementary Schedule**  
Major Budget Variances (continued)

- Depreciation expenses were higher due to increased depreciable assets from closing out and capitalizing more construction in progress than what was budgeted.
- Net other postemployment benefits expense was not budgeted for this fiscal year. This is the initial year of implementation for GASB Statement No. 45 which required this annual expense to be included in the financial statements.
- Other expenses were greater this year by \$2.0 million primarily due to higher than expected costs relating to environmental reports and studies.
- Capital contributions were lower this year by \$1.6 million due to a decline in development, which was greater than anticipated.

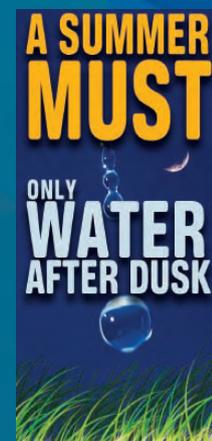


*There are many beautiful alternatives to water thirsty lawns. Hardscape, for example, adds texture, beauty, and functionality.*

## Statistical Section

### Water Shortage Contingency Plan (WSCP)

EMWD is responsible for conserving the available water supply and implementing a contingency plan in times of drought, supply reductions, failure of water distribution systems, or emergencies. Stage I of EMWD's four stage WSCP calls for voluntary water use practices such as irrigating outdoors between 9:00 pm and 6:00 am only; Stage IV includes mandatory water use restrictions, such as banning all new turf installations.



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# Eastern Municipal Water District

## Statistical Section

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

### **Contents**

#### **Financial Trends**

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

#### **Revenue Capacity**

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

#### **Debt Capacity**

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

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

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

#### **Operating Information**

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

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

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

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

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

Source: Eastern Municipal Water District

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

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

Notes:

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

1. Increased construction activity relating to growth and market conditions accounts for the increases in contributed infrastructure from 2004 - 2007. This amount decreased for 2008 due to lower construction activity.

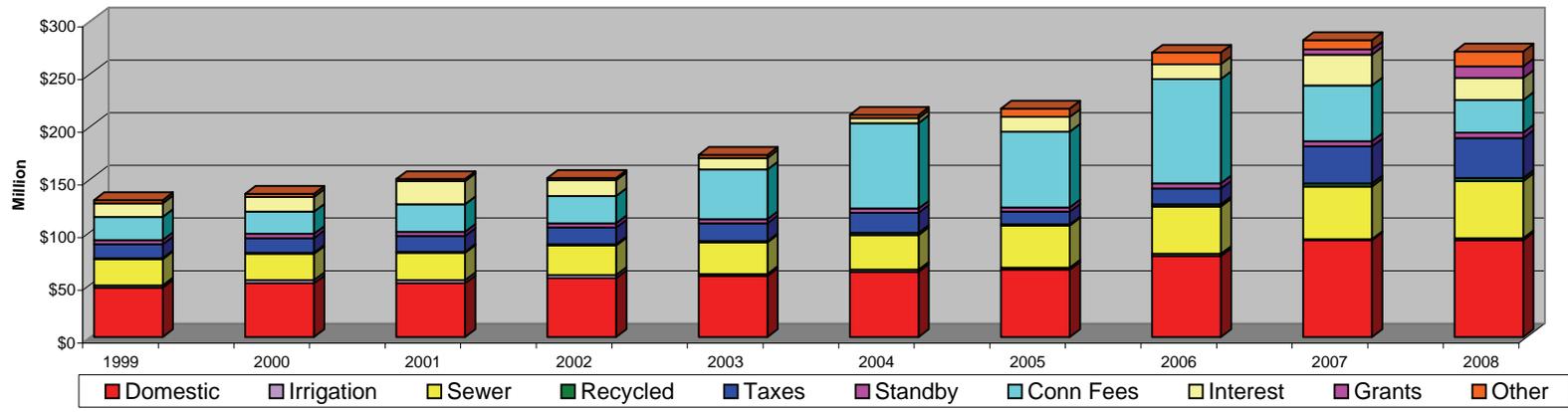
2. The District implemented GASB Statement No. 45 for 2008; net other postemployment benefit expense of \$6.2 million is included.

Source: Eastern Municipal Water District

## REVENUES BY SOURCE LAST TEN FISCAL YEARS

Fiscal Year	Domestic Water Sales	% of Total	Ag & Irrig Water Sales	% of Total	Sewer Service Charges	% of Total	Recycled Water	% of Total	Taxes & Assmnts <sup>1</sup>	% of Total	Standby Charges	% of Total	Connect. Fees <sup>2</sup>	% of Total	Interest Income <sup>3</sup>	% of Total	Grants <sup>4</sup>	% of Total	Other <sup>5</sup>	% of Total	Total Revenues
1999	\$46,822,291	36.6%	\$1,767,339	1.4%	\$25,020,585	19.5%	\$1,078,322	0.9%	\$12,827,333	10.0%	\$3,771,928	2.9%	\$21,572,990	16.9%	\$12,575,306	9.8%	\$ -	0.0%	\$2,592,730	2.0%	\$128,028,824
2000	51,382,241	37.8%	2,636,349	2.0%	25,361,569	18.7%	1,102,441	0.8%	13,882,413	10.2%	3,816,486	2.8%	20,767,021	15.3%	14,289,528	10.5%	-	0.0%	2,560,252	1.9%	135,798,300
2001	51,360,308	34.1%	2,859,387	1.9%	26,123,677	17.3%	1,364,456	0.9%	15,164,499	10.0%	3,858,132	2.6%	25,949,508	17.2%	22,194,517	14.7%	-	0.0%	1,901,955	1.3%	150,776,439
2002	55,736,727	37.1%	2,618,619	1.7%	27,825,278	18.5%	1,182,868	0.8%	15,744,074	10.5%	3,929,860	2.6%	25,740,750	17.1%	15,407,309	10.2%	-	0.0%	2,283,437	1.5%	150,468,922
2003	58,351,059	33.6%	2,214,760	1.3%	29,973,084	17.2%	1,409,824	0.8%	16,914,346	9.7%	4,006,786	2.3%	46,960,911	27.0%	11,219,083	6.5%	-	0.0%	2,712,153	1.6%	173,762,006
2004	62,824,662	29.6%	1,971,739	0.9%	33,496,234	15.8%	2,069,194	1.0%	18,698,381	8.8%	4,172,104	2.0%	80,804,323	38.0%	5,186,086	2.4%	-	0.0%	3,183,193	1.5%	212,405,916
2005	64,092,906	29.5%	2,165,315	1.0%	39,739,370	18.3%	1,498,687	0.7%	11,517,848	5.3%	4,354,591	2.0%	72,445,434	33.4%	13,576,749	6.3%	-	0.0%	7,693,026	3.5%	217,083,926
2006	76,543,807	28.5%	1,067,667	0.4%	45,462,646	16.9%	1,944,434	0.7%	14,747,589	5.5%	4,518,411	1.7%	99,485,272	37.1%	13,804,446	5.2%	-	0.0%	10,808,046	4.0%	268,382,318
2007	91,596,156	32.5%	1,083,633	0.4%	50,318,414	17.9%	2,748,328	1.0%	34,849,428	12.4%	4,667,297	1.7%	52,894,363	18.8%	29,287,538	10.4%	4,598,769	1.6%	9,321,989	3.3%	281,365,915
2008	91,864,344	34.0%	2,271,298	0.8%	54,408,172	20.1%	2,564,656	0.9%	37,648,103	13.9%	4,868,154	1.8%	30,706,687	11.4%	20,579,581	7.7%	11,261,996	4.2%	13,867,981	5.2%	270,040,972

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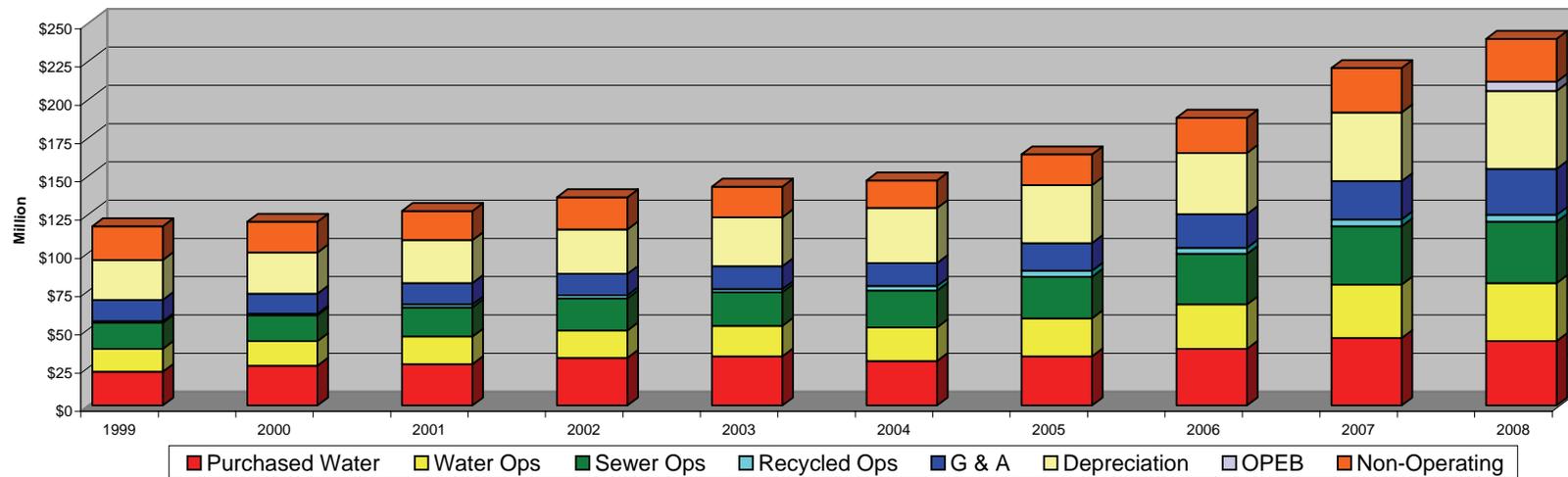
**Notes:**

1. In 2007, the District received its full share of property taxes, which were lower for the prior two years due to the state mandated property tax shift from local governments. The increase is also due to a 20% increase in assessed valuations and growth in customer base.
2. The decrease in connection fees is due to lower construction activity in 2007 and 2008.
3. Increased interest income for 2007 and 2008 is due to a higher average portfolio balance and higher average yields.
4. Grants revenue was separately stated for 2007 and 2008. Previously, these amounts were shown as capital contributions or other revenue.
5. Gain on sale of fixed assets of \$6.6 million is included in the amount for 2008.

## EXPENSES BY FUNCTION LAST TEN FISCAL YEARS

Fiscal Year	Purchased Water	% of Total	Water Operations	% of Total	Sewer Operations	% of Total	Recycled		General & Admin. <sup>1</sup>	% of Total	Depr. & Amort.		% of Total	Net OPEB <sup>2</sup>	% of Total	Total Non-Operating		Total Expenses
							Water Operations	% of Total			% of Total	% of Total				Total Expenses	% of Total	
1999	\$21,788,173	18.7%	\$14,845,543	12.7%	\$17,219,223	14.7%	\$1,439,250	1.2%	\$13,909,581	11.9%	\$25,976,208	22.2%	\$ -	0.0%	\$21,741,837	18.6%	\$116,919,815	
2000	26,331,029	21.6%	16,348,960	13.4%	17,453,978	14.3%	1,313,145	1.1%	13,429,893	11.0%	27,279,095	22.4%	-	0.0%	19,790,677	16.2%	121,946,777	
2001	26,985,006	21.2%	17,606,824	13.8%	19,313,651	15.2%	1,922,568	1.5%	14,463,535	11.4%	27,887,507	21.9%	-	0.0%	19,062,414	15.0%	127,241,505	
2002	30,632,930	22.6%	17,886,826	13.2%	20,540,533	15.2%	1,988,321	1.5%	14,395,481	10.6%	29,435,014	21.7%	-	0.0%	20,530,179	15.2%	135,409,284	
2003	32,307,403	22.4%	19,534,843	13.6%	22,151,919	15.4%	2,410,213	1.7%	15,317,533	10.6%	31,911,657	22.2%	-	0.0%	20,385,823	14.1%	144,019,391	
2004	29,104,840	19.9%	21,777,484	14.9%	23,789,668	16.2%	2,992,339	2.0%	15,186,601	10.4%	35,574,113	24.3%	-	0.0%	18,021,438	12.3%	146,446,483	
2005	32,380,524	19.6%	25,111,134	15.2%	27,194,672	16.5%	3,789,915	2.3%	18,418,043	11.2%	37,572,961	22.8%	-	0.0%	20,392,573	12.4%	164,859,822	
2006	36,817,458	19.6%	29,030,238	15.4%	33,061,321	17.6%	4,289,919	2.3%	21,520,070	11.4%	40,091,319	21.3%	-	0.0%	23,333,879	12.4%	188,144,204	
2007	43,866,732	19.9%	35,332,561	16.0%	37,404,662	17.0%	4,379,135	2.0%	25,292,047	11.5%	45,255,839	20.5%	-	0.0%	28,989,556	13.1%	220,520,532	
2008	41,653,430	17.3%	38,447,533	16.0%	39,976,740	16.6%	5,071,116	2.1%	30,138,792	12.5%	51,030,538	21.3%	6,218,949	2.6%	28,020,506	11.6%	240,557,604	

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**Notes:**

1. The increase in general and administrative charges in 2007 and 2008 primarily relates to increased legal expense for a lawsuit the District is involved in - United States of America v. EMWD.
2. The District implemented GASB Statement No. 45 for 2008; net other postemployment benefit expense of \$6.2 million is included.

Source: Eastern Municipal Water District

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

Fiscal Year	← Gallons Produced <sup>1</sup> →				Water →					Gallons of Wastewater Treated	← Total Direct Rate Water →		
	Purchased	Wells	Desalters <sup>2</sup>	Total	Domestic	Ag & Irrig	Total	Unbilled Total	Avg %		Base Rate <sup>3</sup>	Usage Rate <sup>4</sup>	Sewer <sup>5</sup>
<b>1999</b>	18,041	6,553	-	24,594	20,835	1,875	22,710	1,884	7.7%	11,216	\$ 6.02	\$ 29.52	\$ 15.43
<b>2000</b>	21,690	6,777	-	28,467	24,518	2,577	27,095	1,372	4.8%	11,529	6.02	29.48	15.18
<b>2001</b>	22,128	6,596	-	28,724	24,590	2,893	27,483	1,241	4.3%	11,695	6.02	29.46	14.68
<b>2002</b>	25,096	6,032	-	31,128	26,748	2,656	29,404	1,724	5.5%	11,508	6.02	29.46	14.84
<b>2003</b>	26,056	5,925	95	32,076	28,315	2,135	30,450	1,626	5.1%	12,417	7.27	29.50	15.18
<b>2004</b>	24,722	5,763	536	31,021	27,092	1,689	28,781	2,240	7.2%	13,963	7.45	30.10	16.17
<b>2005</b>	24,532	5,352	217	30,101	26,247	1,698	27,945	2,156	7.2%	15,805	7.70	31.04	17.40
<b>2006</b>	25,818	6,353	944	33,115	29,688	771	30,459	2,656	8.0%	16,352	8.15	32.36	18.86
<b>2007</b>	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
<b>2008</b>	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

Notes:

The information shown does not include recycled water

1. Gallons are presented in millions.

2. No desalter facilities existed prior to 2003.

3. Rate shown is based on the Daily Fixed Charge for meters up to and including 1".

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

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

Source: Eastern Municipal Water District

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

Fiscal Year	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
<b>Water Rates</b>										
<b>Monthly base rate (meter size)</b>										
<=1"	\$ 6.02	\$ 6.02	\$ 6.02	\$ 6.02	\$ 7.27	\$ 7.45	\$ 7.70	\$ 8.15	\$ 8.43	\$ 10.04
1 1/2"	9.03	9.03	9.03	9.03	10.90	11.19	11.56	12.23	12.65	15.06
2"	12.05	12.05	12.05	12.05	14.54	14.90	15.39	16.30	16.85	20.08
3"	24.09	24.09	24.09	24.09	29.08	29.81	30.78	32.61	33.70	40.15
4"	30.11	30.11	30.11	30.11	36.35	37.26	38.48	40.76	42.16	50.19
6"	42.16	42.16	42.16	42.16	50.89	52.16	53.87	57.06	59.01	70.26
8"	48.18	48.18	48.18	48.18	58.16	59.62	61.56	65.21	67.40	80.30
<b>Usage rate (per billing unit)<sup>1</sup></b>	\$ 29.52	\$ 29.48	\$ 29.46	\$ 29.46	\$ 29.50	\$ 30.10	\$ 31.04	\$ 32.36	\$ 34.40	\$ 36.38
<b>Sewer Rates (avg per month)<sup>2</sup></b>	\$ 15.43	\$ 15.18	\$ 14.68	\$ 14.84	\$ 15.18	\$ 16.17	\$ 17.40	\$ 18.86	\$ 19.64	\$ 20.58

Notes:

The information shown does not include recycled water.

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

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

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

Source: Eastern Municipal Water District

**LARGEST DOMESTIC WATER CUSTOMERS  
AS OF JUNE 30, 2008**

	<b>Customer Name</b>	<b>Annual Water Sales in Acre Feet</b>	<b>Annual Revenues</b>	<b>Percentage</b>
1	Western Municipal Water District <sup>2</sup>	2,188	\$ 1,454,235	32.7%
2	City of Perris <sup>1</sup>	2,101	1,389,021	31.2%
3	Nuevo Mutual Water Company <sup>1</sup>	955	569,574	12.8%
4	County of Riverside Building Dept.	279	224,940	5.0%
5	Moreno Valley School District	226	176,237	4.0%
6	Val Verde Unified School District <sup>1</sup>	198	164,117	3.7%
7	GBW Investments	191	149,438	3.3%
8	Western States Mobile Home Park	302	137,543	3.1%
9	Soboba Springs	121	95,278	2.1%
10	City of Murrieta	115	92,537	2.1%
	<b>Total</b>	<b>6,676</b>	<b>\$ 4,452,920</b>	
	Total domestic water sales	99,077	\$ 91,864,344	
	Percentage of total	6.7%	4.8%	

Notes:

Information for fiscal year ended June 30, 1999 is not available.

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

1. Wholesale customer.

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

Source: Eastern Municipal Water District

**LARGEST AGRICULTURAL & IRRIGATION WATER CUSTOMERS  
AS OF JUNE 30, 2008**

	<b>Customer Name</b>	<b>Annual Water Sales in Acre Feet</b>	<b>Annual Revenues</b>	<b>Percentage</b>
1	C and R Farms	962	\$ 405,136	43.6%
2	Mc Anally Egg Enterprises	160	95,461	10.3%
3	Kevin and Pauline Doan	121	71,546	7.7%
4	Abacherli Dairy	106	63,444	6.8%
5	Metropolitan Water District	92	55,207	5.9%
6	Sunnymead Ranch PCA	93	53,594	5.8%
7	Valley Wide Recreation & Park	77	50,927	5.5%
8	Demler Egg Ranch	113	48,720	5.2%
9	H P Mobile Home Estates	80	47,826	5.2%
10	San Jacinto Cemetery District <sup>1</sup>	111	36,959	4.0%
	<b>Total</b>	<b>1,915</b>	<b>\$ 928,820</b>	
	Total ag. & irrigation water sales	4,717	\$ 2,271,298	
	Percentage of total	40.6%	40.9%	

Notes:

Information for fiscal year ended June 30, 1999 is not available.

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

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

Source: Eastern Municipal Water District

**LARGEST RECYCLED WATER CUSTOMERS  
AS OF JUNE 30, 2008**

	<u>Customer Name</u>	<u>Annual Water Sales in Acre Feet</u>	<u>Annual Revenues</u>	<u>Percentage</u>
1	Hemet Golf Club Landmark	556	\$ 201,714	16.9%
2	Agri Empire	2,907	181,738	15.2%
3	SCGA Members Club	656	165,058	13.8%
4	Quail Ranch Golf Course	517	121,900	10.2%
5	Sun City Golf Course LLC	480	121,087	10.1%
6	Joyful Farm Inc.	1,589	104,824	8.8%
7	A G Sod	1,888	103,173	8.6%
8	SJ Wildlife Dept of Fish and Game	2,331	81,747	6.9%
9	West Coast Turf	1,428	57,442	4.8%
10	North Golf Course	223	56,291	4.7%
	<b>Total</b>	<b><u>12,575</u></b>	<b><u>\$ 1,194,974</u></b>	
	Total recycled water sales	25,467	\$ 2,564,656	
	Percentage of total	49.4%	46.6%	

Notes:

Information for fiscal year ended June 30, 1999 is not available.

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

Source: Eastern Municipal Water District

**LARGEST SEWER CUSTOMERS  
AS OF JUNE 30, 2008**

	<u>Customer Name</u>	<u>Annual Revenues</u>	<u>Percentage</u>
1	Pechanga Resort & Casino	\$ 449,517	34.7%
2	United Dominion Realty Trust	117,650	9.1%
3	Stonegate Apartments	111,694	8.6%
4	Western States Mobile Home Park	97,738	7.6%
5	Riverside County Regional Med. Ctr	92,366	7.1%
6	Montego Home Owners Assn.	91,039	7.0%
7	Eagle Glen Apartments LLC	89,630	6.9%
8	Towngate Lot 12 Apts LLC	86,396	6.7%
9	Golden Village RV Resort	80,600	6.2%
10	Colonial Country Club Estates	78,666	6.1%
	<b>Total</b>	<b><u>\$ 1,295,296</u></b>	
	Total sewer revenue	\$ 54,408,172	
	Percentage of total revenue	2.4%	

Note:

Information for fiscal year ended June 30, 1999 is not available.

Source: Eastern Municipal Water District

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

Rates Effective Beginning January <sup>1</sup>	Full Service Domestic Groundwater Replenishment and Reservoir		Interim Agricultural Program		Shift Seasonal Storage		Recycled	Long Term Seasonal Storage	
	Treated	Untreated	Treated	Untreated	Treated	Untreated		Treated	Untreated
<b>1999</b>	\$ 431	\$ 349	\$ 294	\$ 236	\$ 312	\$ 255	\$ 113	\$ 290	\$ 233
<b>2000</b>	431	349	294	236	323	266	113	290	233
<b>2001</b>	431	349	294	236	334	277	113	290	233
<b>2002</b>	431	349	294	236	345	288	113	290	233
<b>2003 Tier 1</b>	408	326	294	236	-	-	-	290	233
<b>Tier 2</b>	489	407	n/a	n/a	-	-	-	n/a	n/a
<b>2004 Tier 1</b>	418	326	304	236	-	-	-	300	233
<b>Tier 2</b>	499	407	n/a	n/a	-	-	-	n/a	n/a
<b>2005 Tier 1</b>	443	331	329	241	-	-	-	325	238
<b>Tier 2</b>	524	412	n/a	n/a	-	-	-	n/a	n/a
<b>2006 Tier 1</b>	453	331	339	241	-	-	-	335	238
<b>Tier 2</b>	549	427	n/a	n/a	-	-	-	n/a	n/a
<b>2007 Tier 1</b>	478	331	364	241	-	-	-	360	238
<b>Tier 2</b>	574	427	n/a	n/a	-	-	-	n/a	n/a
<b>2008 Tier 1</b>	508	351	394	261	-	-	-	390	258
<b>Tier 2</b>	606	449	n/a	n/a	-	-	-	n/a	n/a

Note:

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

Source: (MWD) Metropolitan Water District of Southern California

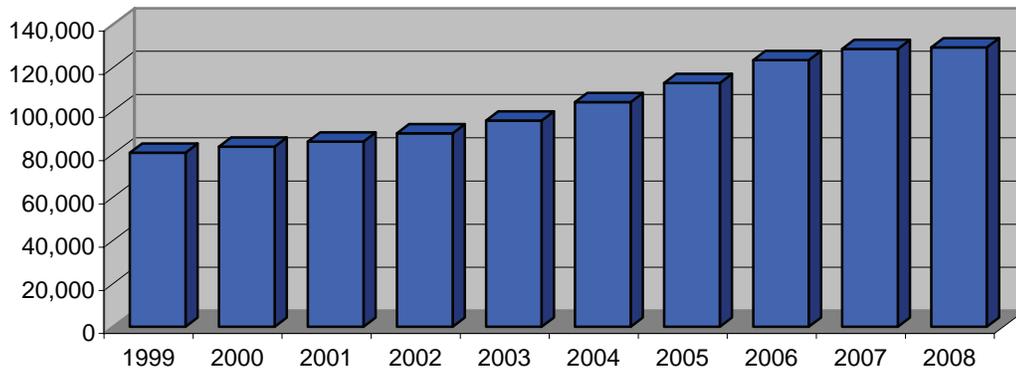
## ANNUAL DOMESTIC CONSUMPTION (AF) LAST TEN FISCAL YEARS

Fiscal Year	Usage (AF)	Active Accounts	Average AF per Account
<b>1999</b>	54,212	80,517	0.67
<b>2000</b>	61,007	83,293	0.73
<b>2001</b>	60,231	85,638	0.70
<b>2002</b>	66,293	89,569	0.74
<b>2003</b>	67,345	95,449	0.71
<b>2004</b>	79,006	103,919	0.76
<b>2005</b>	77,066	112,845	0.68
<b>2006</b>	87,488	123,384	0.71
<b>2007</b>	99,658	128,506	0.78
<b>2008</b>	93,956	129,344	0.73

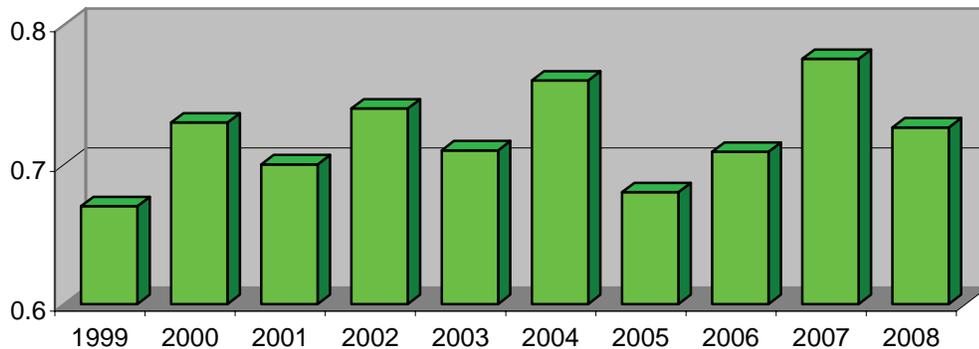
Note: Amounts exclude wholesale accounts.

Source: Eastern Municipal Water District

**Number of Accounts**

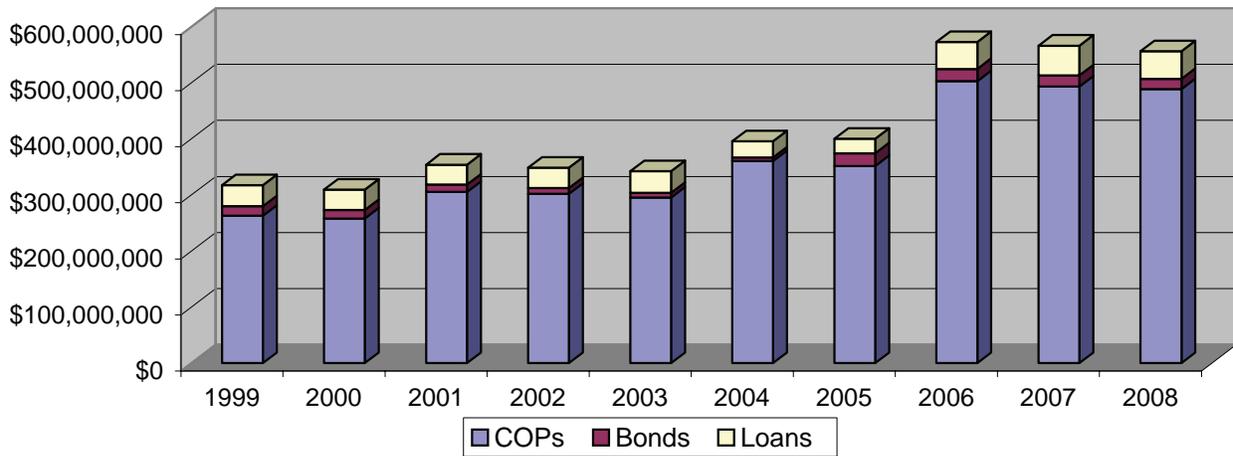


**Average AF/Account**



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

Fiscal Year	Certificates of Participation <sup>1</sup>	General Obligation Bonds	Loans	Total	Percentage of Assessed Value <sup>2</sup>
<b>1999</b>	\$ 263,000,000	\$ 16,975,000	\$ 37,175,525	\$ 317,150,525	1.70%
<b>2000</b>	258,075,000	14,790,000	36,556,179	309,421,179	1.59%
<b>2001</b>	305,615,000	12,675,000	35,588,494	353,878,494	1.65%
<b>2002</b>	301,880,000	10,515,000	36,124,905	348,519,905	1.47%
<b>2003</b>	295,475,000	8,450,000	38,556,914	342,481,914	1.29%
<b>2004</b>	360,370,000	6,455,000	28,603,485	395,428,485	1.31%
<b>2005</b>	351,615,000	22,695,000	25,705,169	400,015,169	1.10%
<b>2006</b>	502,990,000	21,675,000	48,103,473	572,768,473	1.25%
<b>2007</b>	493,190,000	19,945,000	52,874,716	566,009,716	0.98%
<b>2008</b>	488,460,000	18,140,000	49,630,496	556,230,496	0.82%



**Notes:**

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

1. The District issued over \$160 million of new certificates of participation in 2006.
2. Assessed value includes both secured and unsecured property.

Source: Eastern Municipal Water District

**REVENUE BOND COVERAGE  
LAST TEN FISCAL YEARS**

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>OPERATING REVENUES:</b>										
Water sales	\$ 48,589,630	\$ 54,018,590	\$ 54,219,695	\$ 58,355,346	\$ 60,565,819	\$ 64,796,401	\$ 66,258,221	\$ 77,611,474	\$ 92,679,789	\$ 94,135,642
Sewer service sales	25,020,585	25,361,569	26,123,677	27,825,278	29,973,084	33,496,234	39,739,370	45,462,646	50,318,414	54,408,172
Recycled water	1,078,322	1,102,441	1,364,456	1,182,868	1,409,824	2,069,194	1,498,687	1,944,434	2,748,328	2,564,656
<b>Total operating revenues</b>	<b>74,688,537</b>	<b>80,482,600</b>	<b>81,707,828</b>	<b>87,363,492</b>	<b>91,948,727</b>	<b>100,361,829</b>	<b>107,496,278</b>	<b>125,018,554</b>	<b>145,746,531</b>	<b>151,108,470</b>
<b>OPERATING EXPENSES:</b>										
Water purchases	21,788,173	26,331,029	26,985,006	30,632,930	32,307,403	29,104,840	32,380,524	36,817,458	43,866,732	41,653,430
Water operations	14,845,543	16,348,960	17,606,824	17,886,826	19,634,843	21,777,484	25,111,134	29,030,238	35,332,561	38,447,533
Sewer operations	18,658,473	18,767,123	21,236,219	22,528,854	24,562,132	26,782,007	30,984,587	37,351,240	41,783,797	45,047,856
General & administrative	13,909,581	13,429,893	14,463,535	14,395,481	15,317,533	15,186,601	18,418,043	21,520,070	25,292,047	30,138,792
<b>Total operating expenses</b>	<b>69,201,770</b>	<b>74,877,005</b>	<b>80,291,584</b>	<b>85,444,091</b>	<b>91,821,911</b>	<b>92,850,932</b>	<b>106,894,288</b>	<b>124,719,006</b>	<b>146,275,137</b>	<b>155,287,611</b>
<b>OPERATING INCOME (LOSS)</b>	<b>5,486,767</b>	<b>5,605,595</b>	<b>1,416,244</b>	<b>1,919,401</b>	<b>126,816</b>	<b>7,510,897</b>	<b>601,990</b>	<b>299,548</b>	<b>(528,606)</b>	<b>(4,179,141)</b>
<b>NON-OPERATING REVENUES:</b>										
Property taxes - general purpose	9,804,684	10,778,537	11,753,408	12,887,334	14,477,271	16,531,907	8,707,881	11,213,568	31,293,863	34,528,767
Standby charges	3,771,928	3,816,486	3,858,132	3,929,860	4,006,786	4,172,104	4,354,591	4,518,411	4,667,297	4,868,154
Water and sewer connection fees	21,572,990	20,767,021	25,949,508	25,740,750	46,960,911	80,804,323	72,445,434	99,485,272	52,894,363	30,706,687
Interest income	12,262,116	13,948,178	21,827,134	15,105,192	10,986,525	4,987,397	13,354,263	13,545,983	28,899,522	20,128,848
Other income/(expense)	(2,539,326)	(978,297)	(2,107,544)	(1,637,861)	(1,564,986)	780,603	3,077,188	7,088,624	4,093,851	8,812,367
<b>Total non-operating revenues</b>	<b>44,872,392</b>	<b>48,331,925</b>	<b>61,280,638</b>	<b>56,025,275</b>	<b>74,866,507</b>	<b>107,276,334</b>	<b>101,939,357</b>	<b>135,851,858</b>	<b>121,848,896</b>	<b>99,044,823</b>
<b>NON-OPERATING EXPENSES:</b>										
Debt service interest payments	15,260,659	15,069,255	14,033,057	15,736,862	15,427,928	15,042,051	15,358,957	18,404,817	22,670,400	21,953,962
<b>Total non-operating expenses</b>	<b>15,260,659</b>	<b>15,069,255</b>	<b>14,033,057</b>	<b>15,736,862</b>	<b>15,427,928</b>	<b>15,042,051</b>	<b>15,358,957</b>	<b>18,404,817</b>	<b>22,670,400</b>	<b>21,953,962</b>
<b>EXCESS OF REVENUE OVER EXPENSES BEFORE EXTRAORDINARY ITEM</b>										
	35,098,500	38,868,265	48,663,825	42,207,814	59,565,395	99,745,180	87,182,390	117,746,589	98,649,890	72,911,720
Add back for COP interest	15,260,659	15,069,255	14,033,057	15,736,862	15,427,928	15,042,051	15,358,957	18,404,817	22,670,400	21,953,962
<b>Net revenues for debt coverage</b>	<b>50,359,159</b>	<b>53,937,520</b>	<b>62,696,882</b>	<b>57,944,676</b>	<b>74,993,323</b>	<b>114,787,231</b>	<b>102,541,347</b>	<b>136,151,406</b>	<b>121,320,290</b>	<b>94,865,682</b>
COP principal and interest	20,065,659	20,994,255	19,233,057	19,471,862	21,832,928	21,737,051	24,113,957	27,374,817	32,005,400	28,708,962
<b>DEBT COVERAGE RATIO</b>	<b>2.5</b>	<b>2.6</b>	<b>3.3</b>	<b>3.0</b>	<b>3.4</b>	<b>5.3</b>	<b>4.3</b>	<b>5.0</b>	<b>3.8</b>	<b>3.3</b>

Source: Eastern Municipal Water District

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

<b>Calendar Year</b>	<b>Population<sup>1</sup></b>	<b>Personal Income<sup>2</sup> (thousands of \$)</b>	<b>Per Capita Personal Income<sup>2</sup></b>	<b>Unemployment Rate<sup>2</sup></b>
<b>2000</b>	450,000	\$ 37,014,951	\$ 23,728	5.4%
<b>2001</b>	480,000	39,974,556	24,668	5.5%
<b>2002</b>	501,000	42,010,066	24,797	6.5%
<b>2003</b>	520,300	42,655,266	24,814	6.5%
<b>2004</b>	553,000	45,016,790	25,337	6.0%
<b>2005</b>	596,000	49,443,185	26,342	5.4%
<b>2006</b>	629,000	53,246,505	27,449	5.0%
<b>2007</b>	675,000	57,666,983	28,730	6.2%

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

Source State of California Employment Development Department

**PRINCIPAL EMPLOYERS  
FISCAL YEAR ENDED JUNE 30, 2008**

<b>Employer</b>	<b>No. of Employees</b>	<b>Percentage of Total Labor Force</b>
County of Riverside	19,595	2.3%
March Air Reserve Base	8,400	1.0%
University of California Riverside	6,657	0.8%
Stater Bros. Markets	6,425	0.8%
Pechanga Resort and Casino	4,800	0.6%
Abbott Vascular	4,500	0.5%
Riverside Unified School District	4,141	0.5%
Riverside Community College	3,753	0.4%
Kaiser Permanente Medical Center	3,200	0.4%
Temecula Valley Unified School Dist.	2,952	0.4%
<b>Total</b>	<b>64,423</b>	<b>7.7%</b>

Notes: Information for fiscal year ended June 30, 1999 is not available.  
Data is for the County of Riverside. The District is located within the County.

Sources: The Business Press' 2007 Book of Lists  
State of California Employment Development Department

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

<b><u>Water Operations</u></b>	<b><u>2008</u></b>	<b><u>2007</u></b>	<b><u>2006</u></b>
Water Resources Development and Management <sup>2</sup>	17	13	12
Water Quality	15	18	17
Water Operations and Distribution	66	57	60
<b><u>Wastewater Operations</u></b>			
Wastewater Collection	15	15	13
Source Control	10	10	12
Water Reclamation Plant	82	76	75
<b><u>Maintenance Services</u></b>			
Maintenance	20	20	19
Auto and Fabrication	14	14	14
Mechanical	27	27	26
Electrical and Controls	21	20	20
Field and Grounds	37	37	36
<b><u>Engineering Services</u></b>			
General Engineering <sup>1</sup>	56	52	61
Inspections and Construction Management	39	44	36
New Business Development <sup>1</sup>	28	34	20
<b><u>Administration</u></b>			
Environmental and Regulatory Compliance	7	9	8
Executive and Administration	10	8	8
Billing/Customer Service	49	47	41
Meter Reading	25	25	24
Finance and Accounting	20	18	18
Human Resources	13	12	12
Legislative Affairs	3	3	3
Information Systems	33	35	37
Purchasing, Warehouse and Records Management	28	28	28
Community Involvement <sup>2</sup>	9	13	10
<b>Total</b>	<b><u>644</u></b>	<b><u>635</u></b>	<b><u>610</u></b>

Notes: All directors and managers are included with their divisions.  
Temporary, contract and summer help employees are not included.  
Data is not readily available for fiscal years prior to 2006.

1. The General Engineering and New Business Development departments were reorganized.
2. The Conservation work group was moved from Community Involvement to Water Resources Development and Management.

Source: Eastern Municipal Water District

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

	Fiscal Year					
	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
<b><u>POTABLE WATER SYSTEM</u></b>						
Miles of pipeline:						
transmission and distribution	2,437	2,442	2,345	2,051	1,867	1,528
Number of storage tanks	78	79	78	77	78	76
Maximum storage capacity (million gallons)	189	193	193	188	188	178
Number of active pumping plants	81	83	82	80	80	79
Number of active wells:						
domestic	18	18	18	18	18	17
desalter	5	7	9	2	2	2
Domestic well production capacity:						
gallons per minute	21,597	22,076	19,747	19,000	17,953	18,179
million gallons per day	31.1	31.8	28.4	27.4	25.9	26.2
acre feet per year	0	0	0	30,407	28,959	29,310
Number of water treatment plants:						
desalter	2	2	2	1	1	1
filtration	2	2	1	1	1	1
Treatment plant capacity (million gallons per day):						
desalter plants	8.0	8.0	8.0	3.0	3.0	3.0
filtration plants	31.4	21.4	21.4	11.4	11.4	11.4
Number of service connections:						
active domestic accounts	129,344	128,506	123,384	112,845	103,919	95,449
active agriculture and irrigation accounts	140	129	130	139	153	167
<b><u>SEWER SYSTEM</u></b>						
Miles of sewer lines <sup>1</sup>	1,721	1,857	1,750	1,500	1,400	1,200
Number of treatment plants	5	5	5	5	5	5
Treatment plant capacity (million gallons per day)	59	59	59	53	53	53
Average million gallons per day treated	46.2	46.0	44.8	43.3	38.2	34.0
Percentage of capacity utilized	78%	78%	76%	82%	72%	64%
Number of active lift stations	47	46	46	43	40	35
<b><u>RECYCLED SYSTEM</u></b>						
Miles of pipeline:						
transmission and distribution	201	192	174	159	139	123
Number of active pumping facilities	18	18	18	16	15	15
Maximum storage capacity (acre feet)	6,764	6,694	6,571	6,670	6,653	6,669
<b><u>GENERAL INFORMATION</u></b>						
Service area:						
acres	346,449	346,425	346,337	346,148	346,125	345,903
square miles	541.3	541.3	541.2	540.9	540.8	540.5
Average years of service of employees	10.05	9.98	9.80	10.63	10.90	10.86

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

1. Miles of sewer lines decreased in 2008 because the District transferred sewer lines to the City of San Jacinto.

Source: Eastern Municipal Water District

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

<b>Fiscal Year</b>	<b>Retail Sales</b>	<b>Write Offs</b>	<b>% of Sales</b>
<b>1999</b>	\$ 58,067,579	\$ 376,289	0.6%
<b>2000</b>	63,682,193	259,197	0.4%
<b>2001</b>	63,691,389	244,161	0.4%
<b>2002</b>	68,291,381	236,168	0.3%
<b>2003</b>	70,041,876	301,164	0.4%
<b>2004</b>	83,551,697	255,260	0.3%
<b>2005</b>	88,297,280	259,410	0.3%
<b>2006</b>	103,371,554	384,329	0.4%
<b>2007</b>	121,769,923	724,045	0.6%
<b>2008</b>	126,144,814	1,155,769	0.9%
<b>Total</b>	<b>\$ 846,909,686</b>	<b>\$ 4,195,792</b>	<b>0.5%</b>

Note: Excludes sales collected by other agencies.

Source: Eastern Municipal Water District

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

<b>Fiscal Year</b>	<b>Year End A/R Balance</b>	<b>Reserves</b>	<b>% of A/R</b>
<b>1999</b>	\$ 4,525,491	\$ 222,503	4.9%
<b>2000</b>	5,501,355	116,267	2.1%
<b>2001</b>	5,070,308	56,097	1.1%
<b>2002</b>	5,477,258	69,363	1.3%
<b>2003</b>	5,499,953	56,569	1.0%
<b>2004</b>	5,707,462	89,413	1.6%
<b>2005</b>	5,973,588	91,578	1.5%
<b>2006</b>	7,350,203	187,390	2.5%
<b>2007</b>	9,278,477	368,961	4.0%
<b>2008</b>	9,375,405	690,461	7.4%

Note: Reserves equal accounts over 60 days.

Source: Eastern Municipal Water District

