

EASTERN MUNICIPAL WATER DISTRICT

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

HEMET/SAN JACINTO WETLANDS AREA

PERRIS, CALIFORNIA
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EASTERN MUNICIPAL WATER DISTRICT

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED

JUNE 30, 2011

PREPARED BY THE FINANCE DEPARTMENT

2270 Trumble Road • Box 8300 • Perris, CA 92572-8300 • www.emwd.org

INTRODUCTORY SECTION

INTRODUCTORY SECTION



CALIFORNIA FRIENDLY LANDSCAPING AT
MORENO VALLEY REGIONAL WATER RECLAMATION FACILITY

EASTERN MUNICIPAL WATER DISTRICT
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2011

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Board of Directors

October 27, 2011

**President and
Treasurer**

Joseph J. Kuebler, CPA

Board of Directors
Eastern Municipal Water District

Vice President

Philip E. Paule

We are pleased to present the Eastern Municipal Water District's (District) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2011. The purpose of this report is to provide the Board of Directors (Board), the public and other interested parties a complete set of annual financial statements.

Ronald W. Sullivan
Randy A. Record
David J. Slawson

General Manager

Paul D. Jones II, P.E.

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

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

Randy A. Record

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

Rosemarie V. Howell

Legal Counsel

Redwine & Sherrill

The District's financial statements have been audited by Vavrinek, Trine, Day & Company, LLP 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, 2011, 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, 2011, are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

Profile of the District

Authority, Services and Customers

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

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

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

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

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

Governance

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

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

The Board has the sole authority to set rates and charges for water and sewer services. The enabling legislation that created the District, in conjunction with various bond covenants, require that rates and charges be sufficient to provide for operation and maintenance costs, general expenses of the District, and debt service payments.

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

Service Area

The District is located in southern California and its service area lies within the westerly third of Riverside County, encompassing 346,732 acres (542 square miles). The map below indicates the location of the District's service area in southern California. When the District was annexed to the MWD by the District's voters in 1951, its service area consisted of 86 square miles. Growth has resulted from 98 annexations and 8 detachments of service areas ranging in area from 1 to 72,000 acres. The assessed valuation has grown from \$72.0 million when formed to approximately \$51.1 billion for this past fiscal year.



Riverside County's population increased to a total of approximately 2.22 million as of January 2011. Of this population, the District serves approximately 705,000 (32 percent).

Water Supply and Services

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

Approximately 18 percent of the District's water supply comes from local groundwater sources with an additional 7 percent from desalination via its two desalter facilities. Such sources are heavily dependent upon rainfall and other sources of recharge. The remaining 75 percent 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.

Beginning with April 2009 bills, the District implemented a water budget-based tiered rate structure for water sales to its single and multi-family residential and landscape customers. This new structure was required to provide customers with an adequate amount of water and is designed to reward customers who use water efficiently and to discourage those who waste water.

Sewer Services

For the purposes of transmission, treatment and disposal of wastewater, the District is divided into five sewer service areas: Hemet/San Jacinto, Moreno Valley, Sun City, Temecula Valley, and Perris Valley. The Sun City plant has been deactivated as a cost reduction measure and all flows from this service area are treated at the larger Perris facility. Each service area is served by a single regional water reclamation facility (RWRF), for which costs and methods of treatment vary. The facilities are capable of treating 63 million gallons per day (MGD) of wastewater and serve approximately 705,000 people. They are linked to a network of 1,727 miles of pipeline and 46 active lift stations.

Recycled Water Supply

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

The District currently generates approximately 46 MGD of effluent at its four active regional water reclamation facilities. The District's goal is to provide 100 percent of all recycled water produced as a product to customers as an opportunity for them to maximize the offset of potable water use and to also manage salinity levels in the water basins.

Budget Process

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

Information Useful in Assessing Economic Condition

Local Economy

The Riverside County economy continued to slow due to the nationwide financial recession and its impact on new housing construction. Building permits decreased 14.9 percent to 3,505 from the prior year amount of 4,121 while the median home price decreased approximately 5.0 percent to \$190,000 from the prior year amount of \$200,000. The average unemployment rate for 2010 increased 1.1 percent to 14.7 percent over the 2009 average of 13.6 percent and was at 14.4 percent for the month of June 2011. While the District's population increased by 6,000 or 0.9 percent, assessed valuations decreased by approximately 4.3 percent from the 2010 level.

Although the District experienced some growth in fiscal year 2011; measured by the number of system hookups, this rate was at the slower pace of approximately 17 percent of the prior year. System hookups during fiscal year 2011 were 1,710 for sewer and 1,157 for water. The expectation is that growth will continue at the current slower pace over the next five years. Due to the increase in available recycled water and the demand on available potable water, the District is moving toward developing its recycled water system into a pressurized system. This improvement will allow municipal customers, who currently receive potable water for landscape, decorative ponds and other irrigation purposes, to substitute recycled water at nearly half the price of potable water. This in turn will make available the potable water for the residential customers.

Long-term Financial Planning

Although the growth rate has continued to slow, rapid growth over the past five years and the projections for the next five, have placed significant demands on the District's infrastructure, people and financial resources. Capital expenditures over the past five years were approximately \$158 million, \$162 million, \$204 million, \$174 million and \$100 million for fiscal years 2005/06 through 2009/10 respectively.

The District's current comprehensive Capital Improvement Financial Plan covers the period from 2012 – 2016. This plan calls for total expenditures for water, sewer and recycled water facilities of approximately \$385 million. The planned expenditures for 2011 were at \$153 million compared to the actual \$124 million.

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

Financial Policies

The District has formally adopted a cash reserve policy which states the purpose, source, and funding limits for each of its designated reserves within its four main funds; operating; construction; debt service; and trust. Within each of these funds are various reserves established to meet internal and/or external discretionary/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 the District's AA ratings with a stable outlook.

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

Major Initiatives

Water and Sewer Operations

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

Water operations and facility improvements included:

- Initiated a Supervisory Control and Data Acquisition (SCADA) system evaluation and upgrade, which included expanding servers, updating programming and software, and upgrading equipment to keep the system current, functional, and reliable through the next ten years.
- Continued to provide automation and access to electronic global interface systems maps to field personnel. This accomplishment has resulted in increased efficiency and improved customer service by providing timely and accurate information.
- Continued to implement phases of the Derceto energy optimization program. This program works in concert with the 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.
- Initiated the design of a reject water recovery system for the Perris Water Filtration Plant. Reject water is water that did not pass through the filtering membranes and would be sent to waste. When completed, this project will result in up to one million gallons per day of reject water being redistributed to customers as potable water.
- Implemented “the Backtrack”; a backflow program management software, which replaces and greatly expands on several other programs. It tracks customer information, records site inspection data and testing results, and automatically generates notifications, enforcement letters, and reports. This software has greatly improved efficiency and made tracking, updating, and accessing data much easier.
- Improved recovery rates at the Menifee and Perris I Desalter facilities, resulting in higher production from the filtering membranes. This was achieved by reducing the pretreatment chemical dosage, which increased the raw water quality for treatment at the desalter facilities.

Sewer operations and facility improvements included:

- The Moreno Valley RWRP Secondary Clarifier and Tertiary Treatment project. This project increased the plant’s capacity from 14 to 16 MGD and improved reliability and redundancy of the wastewater treatment process.
- The Moreno Valley RWRP Digester Gas Augmentation project, which helped maximize energy outputs from the plant’s cogeneration fuel cells and resulted in significant reductions in electrical power bills for the plant. This project provided minor modifications to existing chemical feed systems to allow for the addition of waste syrup to the anaerobic sludge digesters. The added waste syrup increased digester gas production 40 to 50 percent, as needed, to fuel the cogeneration fuel cells.

-
- The Temecula Valley RWRf Effluent Storage Ponds project. This project added 28 million gallons of on-site emergency storage ponds, which will help prevent discharge of untreated or partially treated sewage in the event of process and/or equipment problems in the plant.
 - The Perris Valley RWRf Plant 1 Biosolids Improvement project, which enhanced the sludge treatment for all solids from Plant 1 by extending the processing time. This resulted in improved biosolids quality which converted it into a desirable product for use on agriculture lands.

Bond Credit Rating

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

Accounting Systems

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

Internal Controls

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

Awards & Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Eastern Municipal Water District for its comprehensive annual financial report for the fiscal year ended June 30, 2010. This was the eighth 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, Charles Turner, Finance Manager and the entire Finance Department, numerous staff members of other departments, and the independent accounting firm of Vavrinek, Trine, Day & Company, LLP 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,



Paul D. Jones, II
General Manager



Charles E. Rathbone, Jr.
Chief Financial Officer

Certificate of Achievement for Excellence in Financial Reporting

Presented to
Eastern Municipal Water District
California

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

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.



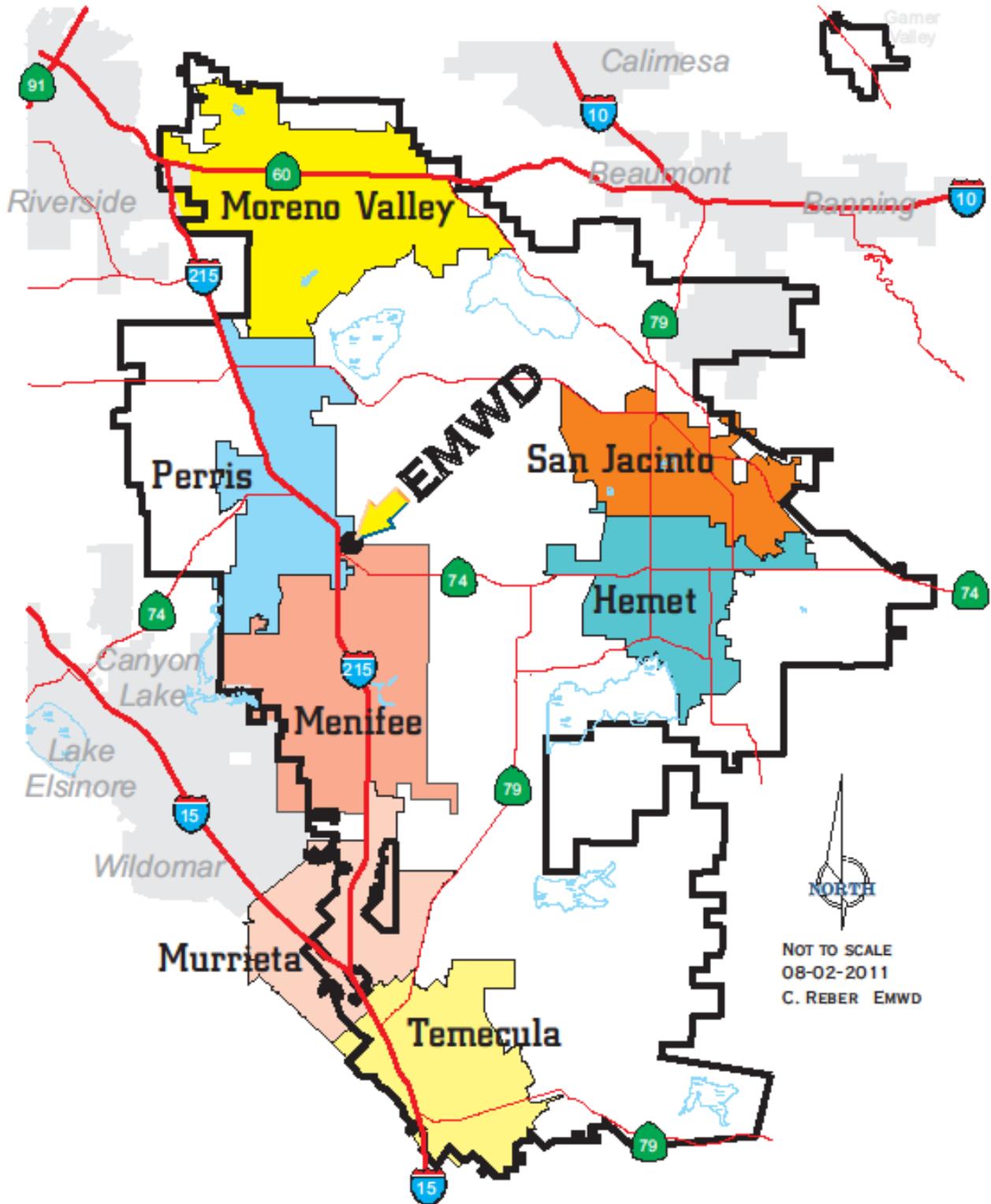
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President

A stylized, handwritten signature in black ink.

Executive Director

Service Area Map and Incorporated Cities



District Officials

June 30, 2011

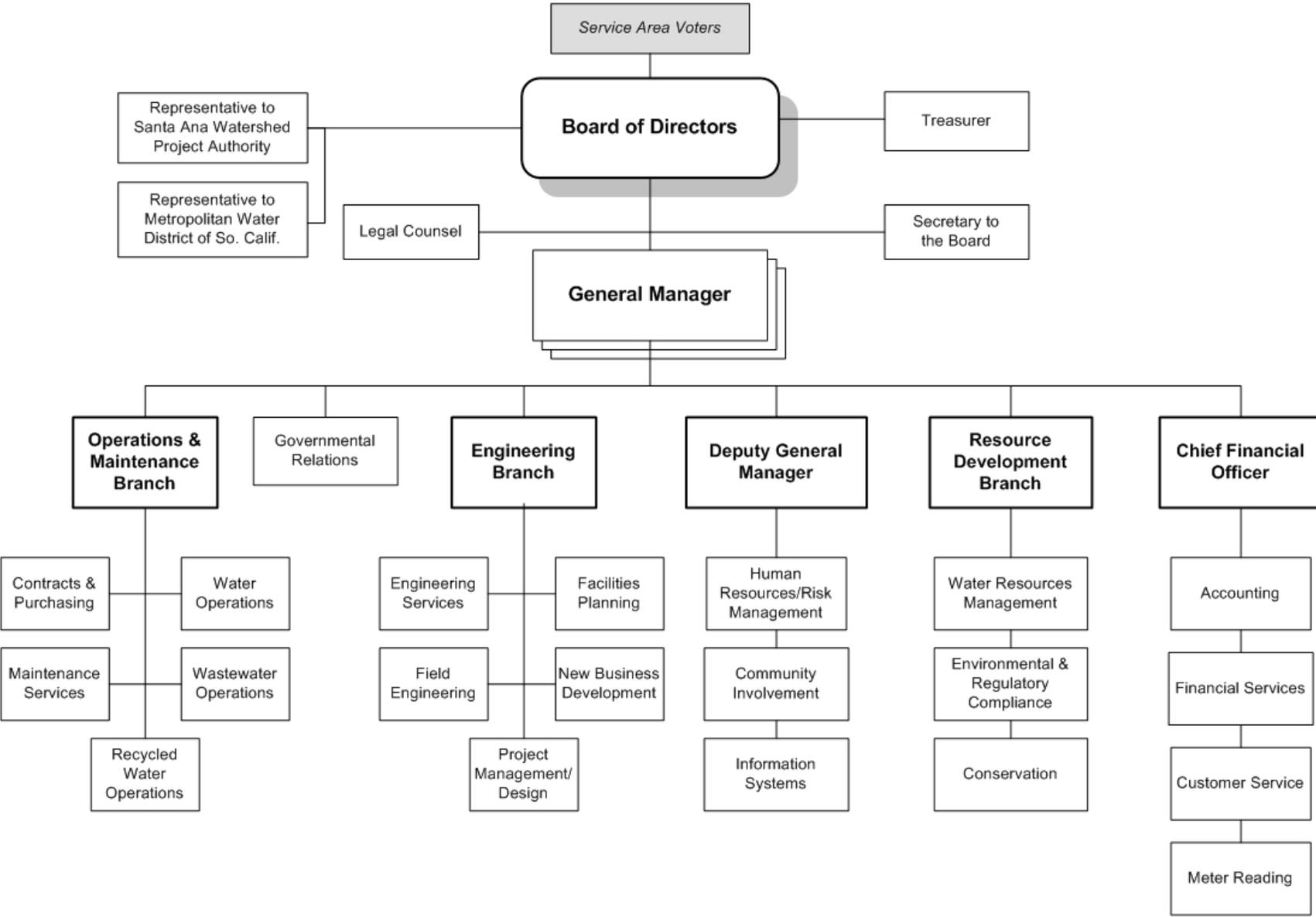
Elected Board of Directors

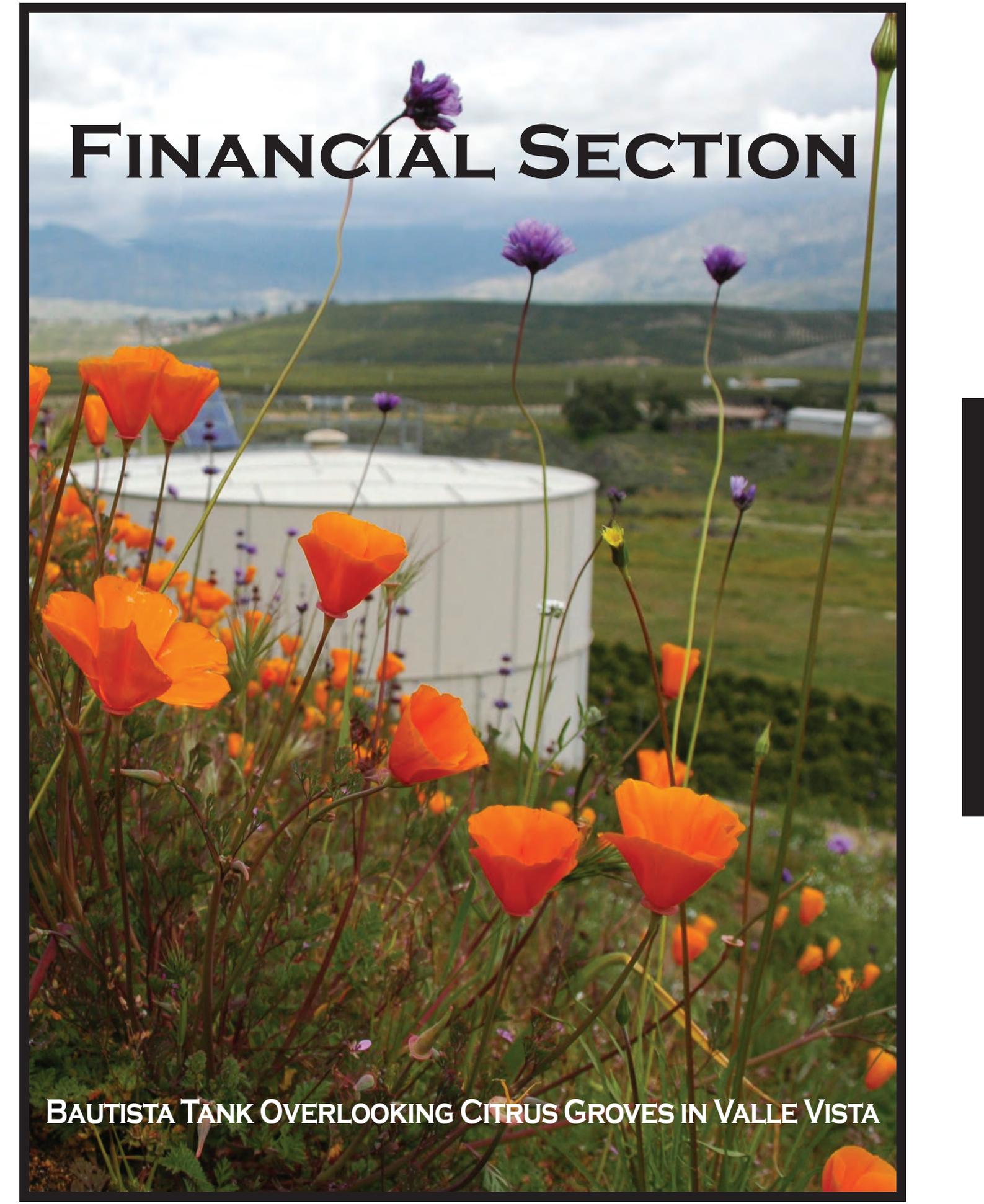
<u>Position</u>	<u>Name</u>	<u>Elected</u>	<u>Current Term of Office</u>
President/Treasurer	Joseph J. Kuebler, CPA	4/2006	1/2011 – 1/2015
Vice President	Philip E. Paule	1/2007	1/2011 – 1/2015
Director	Ronald W. Sullivan	1/2003	1/2009 – 1/2013
Director	Randy A. Record	1/2001	1/2009 – 1/2013
Director	David J. Slawson	1/1995	1/2011 – 1/2015

District Management

<u>Position</u>	<u>Name</u>
General Manager	Paul D. Jones II, P.E.
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





FINANCIAL SECTION

FINANCIAL SECTION

BAUTISTA TANK OVERLOOKING CITRUS GROVES IN VALLE VISTA



INDEPENDENT AUDITORS' REPORT

Board of Directors
Eastern Municipal Water District
Perris, California

We have audited the accompanying financial statements of Eastern Municipal Water District (the District), as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of District's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from Eastern Municipal Water District's 2010 financial statements and, were audited by other auditors whose report dated October 22, 2010, expressed an unqualified opinion on these 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*. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes 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, 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, 2011, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed more fully at Note 15, the District recorded a prior period adjustment to record the effects of construction period interest.

As discussed in the first paragraph and more fully at Note 1, the District has included selected financial information from the 2010 financial statements for comparative purposes. Due to the prior period adjustment discussed above, management adjusted the comparative information subsequent to the date of the other auditor's report.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2011, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 11, is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The introductory and statistical sections listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such additional information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Varrinck, Trine, Day & Co. LLP

Rancho Cucamonga, California
October 27, 2011

Management's Discussion & Analysis

We offer readers this narrative overview and analysis of the financial statements of the Eastern Municipal Water District (District) for the fiscal year ended June 30, 2011. Readers are encouraged to consider the information presented in this section in conjunction with the accompanying financial statements and additional information furnished in our letter of transmittal.

Operations

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

Basic Financial Statements

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

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

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

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

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

Financial Highlights

Statement of Net Assets June 30, 2011 and 2010

	2011	2010	<u>Increase/(Decrease)</u>	
			Amount	% Change
Assets				
Current assets	\$ 250,990,698	\$ 258,956,481	\$ (7,965,783)	-3.1
Restricted assets	274,619,686	312,201,892	(37,582,206)	-12.0
Net capital assets	1,925,091,987	1,841,254,720	83,837,267	4.6
Other assets	24,003,029	26,028,954	(2,025,925)	-7.8
Total assets	2,474,705,400	2,438,442,047	36,263,353	1.5
Liabilities				
Current liabilities	97,803,684	104,907,109	(7,103,425)	-6.8
Other liabilities	110,533,051	64,058,851	46,474,200	72.5
Long-term debt outstanding	754,502,800	771,023,241	(16,520,441)	-2.1
Total liabilities	962,839,535	939,989,201	22,850,334	2.4
Net assets				
Invested in capital assets, net of related debt	1,239,967,393	1,153,155,186	86,812,207	7.5
Restricted for debt service/covenants	65,433,313	65,090,658	342,655	0.5
Restricted for construction	127,083,266	150,977,362	(23,894,096)	-15.8
Unrestricted	79,381,893	129,229,640	(49,847,747)	-38.6
Total net assets	\$ 1,511,865,865	\$ 1,498,452,846	\$ 13,413,019	0.9
Liabilities to assets ratio	39%	39%		

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 remained consistent. Total net assets increased \$13.4 million. Overall, the financial position of the District has improved for the fiscal year ended June 30, 2011 and remains strong, providing a foundation for continued growth.

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

- Current assets decreased by net \$8.0 million due to a decrease in cash of \$11.7 million used to finance District construction projects; an increase of \$4.7 million in grants receivable; and a net decrease of \$1.0 million in various other current assets.
- Restricted assets decreased by a net \$37.6 million due to decreases of \$37.1 million in construction cash used to finance District construction projects; and \$0.5 million in notes receivable.

-
- Net capital assets increased by a net \$83.8 million due to \$224.1 million of operating assets being added to the system; added land of \$3.1 million; and added equipment and general facilities of \$7.0 million; which was offset by a net decrease in construction in progress of \$85.7 million and a net increase in accumulated depreciation totaling \$64.7.
 - Other assets decreased by a net \$2.0 million due to a decrease of \$1.3 million in the deferred outflow of resources relating to the District's two swap contracts. The District implemented GASB Statement No. 53 for the fiscal year ended June 30, 2010 and both contracts were determined to be hedge effective for fiscal years 2010 and 2011. The remaining \$0.7 million decrease relates to amortization of prepaid PERS contributions and debt issuance costs.
 - Current liabilities decreased by a net \$7.1 million due to decreases of \$4.4 million in accounts and other payables; \$2.8 million in advances from developers relating to the slowdown in construction activity; \$1.5 million in current portion of advances for construction, notes and assessments payable relating to the payoff of the 1991 Federal Reclamation Facilities Project loan and the Elsinore Valley Municipal Water District loan; and \$0.9 million in accrued interest payable relating to debt repayment. These decreases were offset by a net increase of \$2.5 million in various other current liabilities.
 - Other liabilities increased by \$46.5 million due to the additions of \$37.5 million in construction deposits relating to state revolving loan reimbursements for the Acid Phase Anerobic Digester (APAD), Secondary Clarifier and Tertiary Treatment Expansion (SCATT) and San Jacinto Valley RWRP Expansion projects; and an increase of \$9.2 million in net other postemployment benefits; offset by a net decrease of \$0.2 million in various other liabilities.
 - Long-term debt outstanding decreased by \$16.5 million due to \$3.0 million, \$11.2 million, and \$2.3 million in payments that were made in the 2010/11 fiscal year for advances for construction, notes and assessments payable, COPs, and GO Bonds, respectively. Also see Note 5 to the basic financial statements regarding debt payments and outstanding balances.
 - The District's net assets increased \$13.4 million; or 0.9 percent over the prior year. This can be attributed to a net non-operating income of \$41.2 million offset by a net operating loss of \$67.3 million plus contributed capital from developers of \$23.9 million and contributed capital from grants of \$15.6 million for the year. Further information regarding restrictions and commitments associated with net assets can be identified in Notes 10 and 11 to the basic financial statements.

Revenues, Expenses and Changes in Net Assets
For the Fiscal Years Ended June 30, 2011 and 2010

	<u>2011</u>		<u>2010</u>		<u>Increase/(Decrease)</u>	
	Amount	% of Total	Amount	% of Total	Amount	% Change
Operating revenues:						
Water sales – domestic	\$ 100,668,729	59.3	\$ 100,699,778	59.7	\$ (31,049)	0.0
Water sales – irrigation	1,811,255	1.1	2,047,253	1.2	(235,998)	-11.5
Sewer service charges	62,840,013	37.0	61,885,298	36.7	954,715	1.5
Recycled water sales	4,504,923	2.6	4,052,665	2.4	452,258	11.2
Total operating revenues	169,824,920	100.0	168,684,994	100.0	1,139,926	0.7
Non-operating revenues:						
Property taxes – general levy	25,884,964	39.8	29,474,227	37.4	(3,589,263)	-12.2
Property taxes – bond levy	4,469,721	6.9	4,084,984	5.2	384,737	9.4
Standby charges	5,569,818	8.6	5,246,008	6.7	323,810	6.2
Water and sewer connection fees	10,815,294	16.7	13,010,929	16.5	(2,195,635)	-16.9
Interest – operations and restricted funds	10,677,951	16.4	12,381,473	15.7	(1,703,522)	-13.8
Net (decrease) increase in fair value of investments	(3,203,812)	- 4.9	3,564,466	4.5	(6,768,278)	-189.9
Interest – bond funds	79,213	0.1	82,469	0.1	(3,256)	-3.9
Grant revenues	517,888	0.8	398,251	0.5	119,637	30.0
Other revenues	9,665,568	14.9	10,456,056	13.3	(790,488)	-7.6
Gain on disposal of fixed assets	452,063	0.7	54,043	0.1	398,020	736.5
Total non-operating revenues	64,928,668	100.0	78,752,906	100.0	(13,824,238)	-17.6
Total revenues	234,753,588		247,437,900		(12,684,312)	-5.1
Operating expenses:						
Purchased water	46,489,850	19.6	46,936,179	20.3	(446,329)	-1.0
Water operations	41,364,910	17.4	39,967,447	17.3	1,397,463	3.5
Sewer operations	41,247,883	17.4	39,657,747	17.2	1,590,136	4.0
Recycled water operations	6,103,502	2.6	5,466,039	2.4	637,463	11.7
General and administrative	27,408,299	11.5	30,256,670	13.1	(2,848,371)	-9.4
Depreciation and amortization	65,354,991	27.6	59,347,777	25.7	6,007,214	10.1
Net other postemployment benefits	9,180,682	3.9	9,131,657	4.0	49,025	0.5
Total operating expenses	237,150,117	100.0	230,763,516	100.0	6,386,601	2.8
Non-operating expenses:						
Interest – certificates of participation	12,268,928	51.8	13,980,725	51.6	(1,711,797)	-12.2
Interest – bond	2,097,993	8.8	1,993,650	7.4	104,343	5.2
Interest – other	963,140	4.1	1,064,412	3.9	(101,272)	-9.5
Bond service fees	79,834	0.3	70,472	0.3	9,362	13.3
Other expenses	8,310,730	35.0	9,951,955	36.8	(1,641,225)	-16.5
Total non-operating expenses	23,720,625	100.0	27,061,214	100.0	(3,340,589)	-12.3
Total expenses	260,870,742		257,824,730		3,046,012	1.2
Loss before contributions	(26,117,154)		(10,386,830)		(15,730,324)	151.4
Capital contributions:						
Developer contributions	23,910,155	60.5	43,704,311	88.5	(19,794,156)	-45.3
Capital grants	15,620,018	39.5	5,665,326	11.5	9,954,692	175.7
Total capital contributions	39,530,173	100.0	49,369,637	100.0	(9,839,464)	-19.9
Change in net assets	13,413,019		38,982,807		(25,569,788)	-65.6
Total net assets at beginning of year, restated	1,498,452,846		1,459,470,039		38,982,807	2.7
Total net assets at end of year	\$1,511,865,865		\$1,498,452,846		\$ 13,413,019	0.9

Changes in Financial Performance of the District

The charts in the statistical section of this report on pages 69 and 70 illustrate revenues by source and expenses by function, respectively, for the last ten fiscal years. The following denotes explanations for the major changes between the 2010/11 and 2009/10 fiscal years as shown in the previous table.

- Total revenues – Combined revenues for the fiscal year totaled \$234.8 million compared to a prior year of \$247.4 million. This is a decrease of approximately 5.1 percent. The table on the previous page presents a comparison of revenues by major source for the two fiscal years 2010/11 and 2009/10.
- Total expenses – Combined expenses for the fiscal year totaled \$260.9 million compared to a prior year of \$257.8 million. This is an increase of approximately 1.2 percent. The table on the previous page presents a comparison of expenses by category for the two fiscal years 2010/11 and 2009/10.
- Water sales – Total domestic and irrigation sales remained relatively flat with an approximate \$0.3 million decrease. This change reflects an increase in revenues relating to a tiered water rates, offset by a decrease of 4.0 percent in water purchases and a 7.5 percent increase in purchased water costs from MWD. (See water purchases.)
- Sewer service - Wastewater service charges increased \$1.0 million (1.5 percent) over the previous year's total to end at \$62.8 million. This is primarily attributed to additional billings related to 1,710 additional sewer hook-ups.
- Property taxes - general – The District's general property tax revenue decreased by \$3.6 million (12.2 percent) mainly due to decreased home values resulting in assessed valuations 4.3 percent less than the previous year.
- Connection fees – These revenues decreased over the prior year due to the continued downturn in the real estate development market. Sewer hookups were 1,710 compared to a prior year of 2,001, representing a decrease of 14.5 percent and water hookups were 1,157 compared to a prior year of 1,444, representing a decrease of 19.9 percent. This resulted in revenue \$2.2 million (16.9 percent) lower than the previous year.
- Interest earnings – The current fiscal year's interest earnings was lower by \$1.7 million (13.8 percent) compared to the prior years, due to an average portfolio balance decline from the previous years by \$25.1 million, along with yields on investments averaging 2.14 percent for the year compared to 2.72 percent for the previous year.
- Net (decrease) increase in fair value of investments – In accordance with Governmental Accounting Standards Board Statement No. 31, the District adjusts the value of investments each fiscal year end to reflect fair value. This adjustment amount was \$6.8 million greater than the prior year amount due to a decline in short term interest rates during the year.
- Water operations – The net increase in expenses of \$1.4 million is primarily a result of higher well maintenance expense and electricity expenses.
- Sewer operations – The net increase in expenses of \$1.6 million is primarily a result of higher energy rates, increased regulatory requirements, and sludge hauling expenses.

-
- General and administrative – The \$2.8 million net decrease is primarily due to a \$3.0 million increase in worker’s compensation liability reserve being recorded in the prior fiscal year, offset by \$0.2 million in decreased costs from efforts to eliminate or postpone expenditures.
 - Depreciation and amortization – The District capitalized a net additional \$230.3 million of depreciable assets over the course of the year which resulted in the \$6.0 million of additional expense.
 - Interest – certificates of participation – The \$1.7 million decrease is primarily due to lower interest rates on the 2008 series B, D, E, F and G, COPs, which carry a variable interest rate.
 - Other non-operating expenses – The \$1.6 million decrease is primarily due to less work-in-progress project costs being written off to reports and studies expense compared to the prior year.
 - Capital contributions from developers - Facilities built by developers and turned over to the District to operate and maintain decreased to \$23.9 million compared to \$43.7 million in the previous year, a decrease of \$19.8 million. This decrease relates to the downturn in the housing market and the number of developer-funded projects closed out and capitalized during the year.
 - Capital contributions from grants - The District actively pursues grant funding and revenues vary from year to year. Major capital grant revenues for fiscal year 2010/11 include \$2.9 million from Southern California Edison for the Moreno Valley RWRf fuel cells; and \$8.8 million from the U.S. Bureau of Reclamation for recycled water system pressurization and expansion efforts (\$4.1 million), and water resource development efforts related to integrated recharge and recovery (\$4.7 million).
 - Net assets - The financial condition of the District has improved slightly from the previous year. The District’s net assets increased by \$13.4 million to \$1,511.9 million. This is a 0.9 percent 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 2010/11 and 2009/10.

Capital Assets

Net of accumulated depreciation, the District reported capital assets of \$1,925.1 million in fiscal year 2010/11 compared to \$1,841.3 million in fiscal year 2009/10. A comparison of this change is provided below by major category. Also see Note 3 to the basic financial statements for further information regarding capital assets.

Capital Assets For the Fiscal Years Ended June 30, 2011 and 2010

	2011	2010	Increase/(Decrease)	
			Amount	% Change
Land	\$ 39,624,376	\$ 36,540,023	\$ 3,084,353	8.4
Tunnel water seepage agreement	1,750,900	1,750,900	-	0.0
Water capacity rights	23,832,124	23,832,124	-	0.0
Plans & designs	7,518,748	9,481,264	(1,962,516)	-20.7
Water plant, lines & equipment	859,277,862	833,233,844	26,044,018	3.1
Sewer plant, lines & equipment	1,345,270,137	1,145,226,544	200,043,593	17.5
Equipment and general facilities	112,011,835	104,964,349	7,047,486	6.7
Construction in progress	238,925,619	324,628,041	(85,702,422)	-26.4
Total capital assets	2,628,211,601	2,479,657,089	148,554,512	6.0
Less accumulated depreciation	703,119,614	638,402,369	64,717,245	10.1
Net capital assets	\$ 1,925,091,987	\$ 1,841,254,720	\$ 83,837,267	4.6

Significant additions to capital assets include \$23.9 million in contributed capital from developers. Most of the contributed assets were water and sewer line additions relating to development in the area. Other additions resulted from the completion and capitalization of \$216.0 million construction in progress.

The three largest District projects that were capitalized during the 2010/11 fiscal year include the Perris Valley Regional Water Reclamation Facility (RWRF) Expansion to 22 million gallons per day (MGD) (\$166.6 million); the Sanderson Lift Station Diversion and Force Main (\$3.6 million); and the Nandina Recycled Water Pump Station Upgrade (\$2.9 million).

The Perris Valley RWRF Expansion project included the design and construction of a new Plant 3 which will provide an additional 12 MGD of primary and secondary treatment capacity. This project is also converting the Bardenpho Plant (Plant 2) to a more reliable and less energy intensive conventional plant with nitrification and denitrification capabilities. The work relating to these two plants will expand the Perris Valley RWRF's total capacity to 22 MGD. Construction of Plant 3 was substantially complete at June 30, 2011, with Plant 2 modifications beginning in the next few months and expected to be completed in mid 2013.

The Sanderson Lift Station Diversion and Force Main project included the design and construction of approximately two miles of additional 20-inch force main and modifications to the Sanderson and Cawston lift stations. This project will allow diversion of 3 MGD of sewage flow from the Sanderson lift station to the Perris Valley RWRF. This project was substantially complete at June 30, 2011, with final work to be completed by December 2011.

The Nandina Recycled Water Pump Station Upgrade project includes the design and construction for upgrading the existing pump station. Tertiary effluent at the Moreno Valley RWRf is stored in ponds during low demand periods. To augment the recycled water supply during peak demand periods, the stored effluent is pumped back into the recycled water distribution system. Several modifications to the pump station were constructed to allow a higher flow of recycled water from the storage ponds into the 1627 pressure zone, as needed. This project was completed in April 2011.

The District had \$145,732,191 in construction contract commitments as of June 30, 2011. 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 \$130.3 million. Some of the major projects currently underway and where expenditures in fiscal year 2010/11 exceeded \$4.0 million include the:

	<u>Millions</u>
• San Jacinto Valley RWRf Expansion to 14 MGD	\$ 21.7
• Moreno Valley RWRf - APAD	17.4
• Moreno Valley RWRf - SCATT	13.9
• Perris Valley RWRf – Fuel Cell Cogeneration	6.9
• Capitalized Interest	6.8
• Perris Valley RWRf Plant No. 3 Expansion	6.2
• Temecula Valley RWRf Effluent Storage Expansion	5.9
• Benton Road Recycled Water Tank and Pipeline Replacements	4.2
• San Jacinto Valley Recycled Water Pipeline	4.0
• Three sewer projects between \$3,000,000 - \$4,000,000	9.5
• Five water and sewer projects between \$1,000,000 - \$3,000,000	7.0
• Eight water and sewer projects between \$500,000 - \$1,000,000	5.8
• Sixty water and sewer projects between \$100,000 - \$500,000	13.1
• Remaining water and sewer projects with expenditures less than \$100,000	7.9
	<u>\$ 130.3</u>

Noncurrent Liabilities

Noncurrent liabilities consist of debt, including advances for construction, notes and assessments, certificates of participation (COPs), and general obligation (GO) bonds; unamortized deferred amounts for premiums/discounts and refundings relating to COP and GO debt issuances; State Revolving Fund (SRF) construction advances; reimbursable agreements; compensated absences; net other postemployment benefits obligation and the fair value of swap contracts. Detailed information relating to the net other postemployment benefits obligation of \$31.6 million is presented in Note 9 to the basic financial statements.

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

Excluding net other postemployment benefits obligation and the fair value of swap contracts, at June 30, 2011, the District had a net \$840.3 million in total outstanding long-term debt and other noncurrent liabilities, a net increase of \$21.4 million or 2.6 percent from the prior year. The amount of debt due within one year totaled \$16.5 million, net of deferred amounts, and the amount of compensated absences due within one year totaled \$5.5 million. Long-term debt decreased \$17.2 million due to scheduled debt payments. The District received \$37.5 million in construction advances from the SRF and had an obligation for compensated absences of \$12.2 million at fiscal year end. Deferred amounts were (\$12.8) million at fiscal year end; a decrease of \$1.1 million from the prior year with an amortized amount of (\$1.1) million due within one year. The District's COP debt has been assigned an AA+, AA and Aa2 rating from Fitch Ratings, Standard & Poor's Rating Services and Moody's Investor Service, Inc., respectively. More detailed information about the District's long-term debt and other noncurrent liabilities is presented in Note 5 to the basic financial statements.

Contacting the District's Financial Management

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

Eastern Municipal Water District

Statement of Net Assets

June 30, 2011

(with prior year data for comparison purposes only)

	June 30	
	2011	2010
Assets		
Current assets:		
Cash and investments (Note 2)	\$ 199,873,564	\$ 211,612,980
Utility accounts receivable, net of allowances	22,579,582	22,854,457
Property taxes receivable	11,572,595	11,445,500
Accrued interest receivable	2,375,504	2,905,256
Other receivables	9,127,548	4,407,342
Prepaid expenses	2,503,739	2,525,132
Materials and supplies inventory	2,930,964	3,191,072
Deposits	27,202	14,742
Total current assets	250,990,698	258,956,481
Noncurrent assets:		
Restricted assets:		
Debt service/covenants cash and investments (Note 2)	137,154,579	137,049,923
Property taxes receivable	1,118,047	1,120,180
Construction cash and investments (Note 2)	136,229,512	173,364,496
Notes receivable	117,548	667,293
Total restricted assets	274,619,686	312,201,892
Capital assets: (Note 3)		
Land	39,624,376	36,540,023
Tunnel water seepage agreement	1,750,900	1,750,900
Structures, improvements and water rights	2,235,898,871	2,011,773,776
Equipment and general facilities	112,011,835	104,964,349
Construction in progress	238,925,619	324,628,041
Total capital assets	2,628,211,601	2,479,657,089
Less accumulated depreciation	(703,119,614)	(638,402,369)
Net capital assets	1,925,091,987	1,841,254,720
Other assets:		
Prepaid PERS contribution (Note 4)	5,091,076	5,622,024
Deferred outflow of resources – swap contracts (Note 6)	15,116,413	16,377,731
Unamortized debt issuance costs	3,795,540	4,029,199
Total other assets	24,003,029	26,028,954
Total noncurrent assets	2,223,714,702	2,179,485,566
Total assets	\$ 2,474,705,400	\$ 2,438,442,047

	June 30	
	2011	2010
Liabilities:		
Current liabilities:		
Accounts payable	\$ 30,017,975	\$ 34,468,882
Accrued salaries and benefits	3,063,854	2,620,329
Other accrued expenses	4,866,399	4,664,075
Customer deposits	6,526,565	5,907,889
Compensated absences (Note 5)	5,489,745	5,415,193
Accrued interest	9,211,663	10,148,810
Other payables	2,563,481	2,103,790
Advances from developers (Note 14)	19,543,561	22,338,776
Advances for construction, notes and assessments (Note 5)	3,002,221	4,461,146
Certificates of participation (Note 5)	11,182,330	10,587,329
General obligation bonds (Note 5)	2,335,890	2,190,890
Total current liabilities	<u>97,803,684</u>	<u>104,907,109</u>
Noncurrent liabilities:		
Advances for construction, notes and assessments (Note 5)	32,815,861	35,818,082
State Revolving Fund construction advances (Note 5)	57,096,562	19,608,033
Certificates of participation (Note 5)	678,541,435	689,723,765
General obligation bonds (Note 5)	43,145,504	45,481,394
Reimbursable agreements (Note 5)	27,743	94,383
Compensated absences (Note 5)	6,695,573	5,562,626
Net other postemployment benefits obligation (Note 9)	31,596,760	22,416,078
Fair value of swap contracts (Note 6)	15,116,413	16,377,731
Total noncurrent liabilities	<u>865,035,851</u>	<u>835,082,092</u>
Total liabilities	<u>\$ 962,839,535</u>	<u>\$ 939,989,201</u>
Net assets:		
Invested in capital assets, net of related debt	\$ 1,239,967,393	\$ 1,153,155,186
Restricted for debt service/covenants	65,433,313	65,090,658
Restricted for construction	127,083,266	150,977,362
Unrestricted	79,381,893	129,229,640
Total net assets	<u>\$ 1,511,865,865</u>	<u>\$ 1,498,452,846</u>

See accompanying notes to the basic financial statements.

Eastern Municipal Water District
Statement of Revenues, Expenses and Changes in Net Assets

For the Fiscal Year Ended June 30, 2011
(with prior year data for comparison purposes only)

	Fiscal Year Ended June 30	
	2011	2010
Operating revenues:		
Water sales – domestic	\$ 100,668,729	\$ 100,699,778
Water sales – irrigation	1,811,255	2,047,253
Sewer service charges	62,840,013	61,885,298
Recycled water sales	4,504,923	4,052,665
Total operating revenues	<u>169,824,920</u>	168,684,994
Operating expenses:		
Purchased water	46,489,850	46,936,179
Water operations	41,364,910	39,967,447
Sewer operations	41,247,883	39,657,747
Recycled water operations	6,103,502	5,466,039
General and administrative	27,408,299	30,256,670
Depreciation and amortization	65,354,991	59,347,777
Net other postemployment benefits	9,180,682	9,131,657
Total operating expenses	<u>237,150,117</u>	230,763,516
Loss from operations	(67,325,197)	(62,078,522)
Non-operating revenues (expenses):		
Property taxes – general levy	25,884,964	29,474,227
Property taxes – bond levy	4,469,721	4,084,984
Standby charges	5,569,818	5,246,008
Water and sewer connection fees	10,815,294	13,010,929
Interest – operations and restricted funds	10,677,951	12,381,473
Net (decrease) increase in fair value of investments	(3,203,812)	3,564,466
Interest – bond funds	79,213	82,469
Grant revenues	517,888	398,251
Other revenues	9,665,568	10,456,056
Gain on disposal of capital assets	452,063	54,043
Interest – certificates of participation	(12,268,928)	(13,980,725)
Interest – bond	(2,097,993)	(1,993,650)
Interest – other	(963,140)	(1,064,412)
Bond service fees	(79,834)	(70,472)
Other expenses	(8,310,730)	(9,951,955)
Total non-operating revenues	<u>41,208,043</u>	51,691,692
Loss before contributions	(26,117,154)	(10,386,830)
Capital contributions:		
Developer contributions	23,910,155	43,704,311
Capital grants	15,620,018	5,665,326
Total capital contributions	<u>39,530,173</u>	49,369,637
Change in net assets	<u>13,413,019</u>	38,982,807
Total net assets at beginning of year, restated	<u>1,498,452,846</u>	1,459,470,039
Total net assets at end of year	<u>\$ 1,511,865,865</u>	\$ 1,498,452,846

See accompanying notes to the basic financial statements.

Eastern Municipal Water District

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2011
(with prior year data for comparison purposes only)

	Fiscal Year Ended June 30	
	2011	2010
Cash flows from operating activities		
Cash received from customers	\$ 168,665,550	\$ 166,654,761
Cash payments for water	(46,489,851)	(46,936,179)
Cash payments to employees for services	(62,766,903)	(59,447,854)
Cash payments to suppliers for goods and services	(55,360,454)	(38,838,871)
Cash payments for energy and utilities	(13,733,950)	(13,274,243)
Other operating revenues	12,565,660	9,203,242
Net cash provided by operating activities	2,880,052	17,360,856
Cash flows from noncapital financing activities		
Proceeds from property taxes, general levy	25,793,470	27,993,145
Proceeds from availability charges	5,534,218	5,342,201
Proceeds from grants	517,888	398,251
Net cash provided by noncapital financing activities	31,845,576	33,733,597
Cash flows from capital and related financing activities		
Acquisitions and construction of capital assets	(149,491,357)	(137,711,710)
Proceeds from sale of capital assets	751,163	112,392
Proceeds from long-term debt issuance	-	31,505,041
Proceeds from SRF construction advances	37,488,529	19,608,033
Repayment of bonds and certificates of participation	(13,875,000)	(12,255,000)
Proceeds from reimbursement agreements	129,527	108,572
Repayments of notes payable and reimbursements	(4,657,313)	(5,196,692)
Interest paid	(16,267,208)	(16,787,933)
Proceeds from property taxes, bond levy	4,471,854	4,423,289
Proceeds from water and sewer connection fees	10,815,294	13,010,929
Payments of developer advances	(2,335,524)	(6,417,494)
Proceeds from grants	15,620,018	5,665,326
Net cash (used for) capital and related financing activities	(117,350,017)	(103,935,247)
Cash flows from investing activities		
Purchases of investment securities	(384,377,560)	(578,909,717)
Proceeds from sales and maturities of investment securities	418,027,858	622,627,460
Proceeds from earnings on investments	11,286,916	12,810,423
Net cash provided by investing activities	44,937,214	56,528,166
Total (decrease) increase in cash and cash equivalents	(37,687,175)	3,687,372
Cash and cash equivalents at beginning of year	89,228,267	85,540,895
Cash and cash equivalents at end of year (Note 2)	\$ 51,541,092	\$ 89,228,267

(Continued on next page)

Eastern Municipal Water District

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2011
(with prior year data for comparison purposes only)
(continued)

	Fiscal Year Ended June 30	
	2011	2010
Reconciliation of loss from operations to net cash provided by operating activities:		
Loss from operations	\$ (67,325,197)	\$ (62,078,522)
Adjustments to reconcile loss from operations to net cash provided by operating activities:		
Operating activities:		
Depreciation and amortization	65,354,991	59,347,777
Other revenues/expenses	1,275,004	433,629
Changes in assets and liabilities:		
Decrease (increase) in utility accounts receivable	274,875	1,054
Decrease (increase) in other receivables	(4,720,206)	(1,540,409)
Decrease (increase) in prepaid expenses	21,393	41,322
Decrease (increase) in materials and supplies inventory	260,108	(354,393)
Decrease (increase) in deposits	(12,460)	2,267
Decrease (increase) in notes receivable	549,745	950,118
Increase (decrease) in accounts payable	(4,450,907)	6,874,671
Increase (decrease) in accrued expenses	645,849	3,535,833
Increase (decrease) in customer deposits	618,676	1,012,705
Increase (decrease) in compensated absences	1,207,499	3,147
Increase (decrease) in net other postemployment benefits obligation	9,180,682	9,131,657
Net cash provided by operating activities	\$ 2,880,052	\$ 17,360,856
Reconciliation of cash and cash equivalents to statement of net assets:		
Current cash and investments	\$199,873,564	\$211,612,980
Restricted cash and investments:		
Debt service/covenants	137,154,579	137,049,923
Construction	136,229,512	173,364,496
Total cash and investments	473,257,655	522,027,399
Less investments	421,716,563	432,799,132
Cash and cash equivalents (Note 2)	\$ 51,541,092	\$ 89,228,267
Noncash capital, financing, and investing activities		
Contributions of capital assets from developers and others	\$ 23,910,155	\$ 43,704,311
Net (decrease) increase in fair value of investments	(3,203,812)	3,564,466
Amortized costs - prepaid PERS and long-term debt	1,861,389	1,536,274

See accompanying notes to the basic financial statements.

Eastern Municipal Water District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

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

Reporting Entity

The Eastern Municipal Water District (District) was formed in October 1950, under the California Water Code for the primary purpose of importing Colorado River Water to augment local water supplies. The District serves an area of approximately 346,691 acres (542 square miles), encompassing the westerly third of Riverside County. The District is operated under the direction of a five-member Board of Directors (Board) elected for four-year terms. The District presently imports 75 percent of its water supply from the Metropolitan Water District of Southern California (MWD) and derives the remaining 25 percent 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 blended component unit of the District.

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

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

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

Basis of Accounting and Measurement Focus

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

Cash Equivalents

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

Classification of Revenues and Expenses

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, connection fees and miscellaneous income. Capital contributions consist of facilities built by developers and turned over to the District to operate and maintain; and federal, state and private grants used for capital purposes. Non-operating expenses mainly consist of debt service interest and debt-related fees.

Eastern Municipal Water District
Notes to the Basic Financial Statements

(continued)

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

Capital Assets

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

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

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

Assets	Years
Water source of supply and treatment	30-40
Water storage and distribution	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 or more days delinquent at year-end. This allowance is netted against the receivable on the Statement of Net Assets and amounts to \$610,537 and \$678,848 at June 30, 2011 and 2010, respectively.

Inventories

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

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

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

Restricted Assets

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

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

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

Revenue Recognition

Revenues are recognized when earned. Metered water accounts are read and billed daily on 30-day cycles. Wastewater customers are also billed and included with the water billing. In certain areas of the District, the wastewater billing is handled by another water utility agency, but is accrued as revenues by the District each month. Collections are forwarded monthly, based on actual receipts. Unbilled water and wastewater charges are accrued for the period from the last meter reading through year-end and are included in accounts receivable. Unbilled accounts receivable amounted to \$6,704,031 and \$7,671,001 at June 30, 2011 and 2010, respectively.

Property Taxes

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

The property tax calendar is as follows:

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

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

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

Debt Issuance Costs

General obligation bond and certificate of participation premiums and discounts, deferred amounts on refunding (amortized over the shorter life of the new or old bonds), and issuance costs are deferred and amortized over the term of the bonds using the effective interest method. Net bond and certificate of participation premiums/discounts and deferred amounts 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 percent of their unused sick leave up to 625 hours and 50 percent for all hours in excess of 625 hours, at their regular payroll rates in effect at the date of termination. All employees who separate from the District, other than for retirement, who have completed at least six months of continuous service and/or have been authorized to use their sick leave, are entitled to receive 25 to 75 percent of their then unused sick leave at their regular payroll rate. The District has provided for these future costs by accruing 100 percent of all earned and unused sick leave and vacation.

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. Accordingly, actual results could differ from those estimates.

Prior Year Data

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the District's prior year financial statements, from which this selected financial data was derived. The District recorded a prior period adjustment to capitalize construction period interest and the 2010 comparative schedules and statements were also restated. Refer to Note 15 for further information.

Interest Rate Swap Contracts

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

On July 1, 2009, the District implemented GASB Statement No. 53 which requires that the fair value of financial instruments be recognized on the Statement of Net Assets. The changes in fair value of hedging financial instruments do not affect investment revenue, but are recorded as deferred outflows. As of June 30, 2011 and June 30, 2010, all potential hedging instruments of the District are considered effective hedges.

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:

	2011	2010
Current assets	\$ 199,873,564	\$ 211,612,980
Restricted assets:		
Debt service/covenants	137,154,579	137,049,923
Construction	136,229,512	173,364,496
Totals	\$ 473,257,655	\$ 522,027,399

Cash and investments at June 30 consisted of the following:

	2011	2010
Cash on hand	\$ 4,900	\$ 4,900
Deposits with financial institutions *	(1,649,204)	1,317,174
Investments	474,901,959	520,705,325
Total cash and investments	\$ 473,257,655	\$ 522,027,399

* The credit balance for fiscal year 2011 relates to payments issued but not yet drawn on the bank. The District had \$3.1 million in outstanding checks at June 30, 2011.

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

	2011	2010
Demand accounts and on hand	\$ (1,644,304)	\$ 1,322,074
Local Agency Investment Fund (LAIF)	28,432,899	63,706,473
Investment Trust of California (CalTRUST)	512,501	286,313
Money market mutual funds	24,239,996	23,913,407
Total cash and cash equivalents	\$ 51,541,092	\$ 89,228,267

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)

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

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

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

Investments Authorized by Debt Agreements

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

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

Eastern Municipal Water District
Notes to the Basic Financial Statements

(continued)

2. Cash and Investments (continued)

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)	\$ 53,215,958	\$ -	\$ -	\$ 53,215,958	\$ -
Federal Home Loan Bank (FHLB)	22,307,425	-	-	22,307,425	-
Federal Home Loan Mortgage Corp. (FHLMC)	62,790,962	-	-	62,790,962	-
Federal National Mortgage Assn. (FNMA)	212,904,005	-	-	212,904,005	-
LAIF	19,154,502	19,154,502	-	-	-
Investment Trust of California (CalTRUST)	512,501	512,501	-	-	-
Money market mutual funds	2,226,072	2,226,072	-	-	-
Held by trustee:					
LAIF	9,278,397	9,278,397	-	-	-
Money market mutual funds	22,013,924	22,013,924	-	-	-
Guaranteed investment contracts (GICs) *	15,582,797	-	-	-	15,582,797
U.S. agency securities: FNMA	54,915,416	-	-	-	54,915,416
Total investments	\$ 474,901,959	\$ 53,185,396	\$ -	\$ 351,218,350	\$ 70,498,213

* The District has GICs with Assured Guaranty Municipal Corporation (Assured) and AIG Matched Funding Corporation (AIG) with values of \$8,379,797 and 7,203,000, respectively, as of June 30, 2011. The contract with Assured requires securities as collateral in value relative to the investment balance amounting to at least 100% cash, 104% government securities, or 105% FNMA and FHLMC in the event Assured's rating is downgraded to Aa3/AA- by both Moody's and S&P. As of June 30, 2011, Assured was rated Aa3/AA+ by Moody's and S&P. The contract with AIG required AIG to deposit securities as collateral with Wells Fargo Bank Minnesota, NA at a value of at least 105% of the investment balance. The termination of the investment contract and release of collateral would occur in the event of default by AIG. As of June 30, 2011, AIG was not in default and the value of the investment exceeded 105% of the investment balance.

Eastern Municipal Water District
Notes to the Basic Financial Statements

(continued)

2. Cash and Investments (continued)

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented on the next page is a table showing 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.

Investment Type	Total Amount	Min. Legal Rating	Rating at End of Year			
			AAA	AA	A+	Unrated
U.S. agency securities:						
FFCB	\$ 53,215,958	N/A	\$ 53,215,958	\$ -	\$ -	\$ -
FHLB	22,307,425	N/A	22,307,425	-	-	-
FHLMC	62,790,962	N/A	62,790,962	-	-	-
FNMA	212,904,005	N/A	212,904,005	-	-	-
LAIF	19,154,502	N/A	-	-	-	19,154,502
CalTRUST	512,501	N/A	-	512,501	-	-
Money market mutual funds	2,226,072	AAA(1)	2,226,072	-	-	-
Held by trustee:						
LAIF	9,278,397	N/A	-	-	-	9,278,397
Money market mutual funds	22,013,924	N/A	22,013,924	-	-	-
Guaranteed investment contracts	15,582,797	N/A	-	-	-	15,582,797
U.S. agency securities:						
FNMA	54,915,416	N/A	54,915,416	-	-	-
Total investments	\$ 474,901,959		\$ 430,373,762	\$ 512,501	\$ -	\$ 44,015,696

(1) Money market mutual funds are rated AAAm by S&P and Aaa-mf by Moodys at June 30, 2011. These ratings meet minimum rating requirements.

Concentration of Credit Risk

This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Investments in any one issuer other than U.S. Treasury securities, mutual funds and external investment pools that represent five percent or more of the District's total investments are shown below as of June 30, 2011.

Issuer	Investment Type	Reported Amount
FNMA	U.S. Agency Securities	\$ 267,819,421
FHLMC	U.S. Agency Securities	62,790,962
FFCB	U.S. Agency Securities	53,215,958

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

2. Cash and Investments (continued)

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of a failure of the counter party (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or 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. The market value of the pledged securities in the collateral pool must equal 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits. As of June 30, 2011, 100 percent of the District's investments were held in the District's name.

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. Additional information about the State of California's LAIF can be found on their website: www.treasurer.ca.gov/pmia-laif.

Investment in Investment Trust of California (CalTRUST)

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

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

3. Capital Assets

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

	Beginning Balance June 30, 2010	Additions	Reductions	Transfers	Ending Balance June 30, 2011
Capital assets, not being depreciated:					
Land	\$ 36,540,023	\$ 3,084,353	\$ -	\$ -	\$ 39,624,376
Tunnel Water Seepage Agreement	1,750,900	-	-	-	1,750,900
Plans and designs ¹	9,481,264	890,959	-	(2,853,475)	7,518,748
Construction in progress ²	324,628,041	130,313,114	(216,015,536)	-	238,925,619
Total capital assets, not being depreciated	372,400,228	134,288,426	(216,015,536)	(2,853,475)	287,819,643
Capital assets, being depreciated:					
Water plant, lines and equipment ^{1,2}	833,233,844	25,358,925	(118,821)	803,914	859,277,862
Water capacity rights	23,832,124	-	-	-	23,832,124
Sewer plant, lines and equipment ^{1,2}	1,145,226,544	198,165,333	(11,853)	1,890,113	1,345,270,137
Equipment and general facilities ¹	104,964,349	7,694,209	(806,171)	159,448	112,011,835
Total capital assets, being depreciated	2,107,256,861	231,218,467	(936,845)	2,853,475	2,340,391,958
Less accumulated depreciation for:					
Water plant, lines and equipment ²	237,922,016	24,131,649	(77,769)	12,607	261,988,503
Water capacity rights	4,604,830	595,802	-	-	5,200,632
Sewer plant, lines and equipment ²	331,333,179	34,033,500	(6,292)	(12,607)	365,347,780
Equipment and general facilities	64,542,344	6,594,039	(553,684)	-	70,582,699
Total accumulated depreciation	638,402,369	65,354,990	(637,745)	-	703,119,614
Total capital assets, being depreciated, net	1,468,854,492	165,863,477	(299,100)	2,853,475	1,637,272,344
Capital assets, net	<u>\$1,841,254,720</u>	<u>\$300,151,903</u>	<u>\$(216,314,636)</u>	<u>\$ -</u>	<u>\$1,925,091,987</u>

1. Beginning balance was restated for correction in classification of categories.

2. Beginning balance was restated for prior period adjustment relating to capitalized construction period interest. Refer to Note 15 for more information.

Net interest cost capitalized during fiscal years ended June 30, 2011 and 2010 was \$8,602,199 and \$6,697,235, respectively.

Depreciation breakdown at June 30, 2011:

Water	\$ 24,129,492
Sewer	29,726,954
Recycled	4,812,995
General/Admin	6,685,549
Total	<u>\$ 65,354,990</u>

The District entered into a Tunnel Water Seepage Agreement with the Metropolitan Water District (MWD) in 1951 to set forth the terms and conditions of annexation to the MWD service area. Among other provisions, the agreement provided that for all future time, the tunnel water seepage of MWD's San Jacinto tunnel would come under the control and be delivered free to the District. In 1953, the District established an intangible asset that represented the value of

Eastern Municipal Water District
Notes to the Basic Financial Statements

(continued)

3. Capital Assets (continued)

this agreement based on an engineering report by Warren O. Wagner, consulting hydraulic engineer. The original appraisal was established at \$1,669,000 based on an annual value of this additional water at 5,840 acre feet per year at \$10.00 per acre foot and a money value of 3.5 percent. This value was reevaluated in 1957 with Mr. Wagner and a revised value of \$1,750,900 was established based on \$12.00 per acre foot and a 4.0 percent value of money. This agreement is not amortized because it has an indefinite useful life.

4. PERS Prepaid Unfunded Liability

The District amended its California Public Employees Retirement System (PERS) contract on January 4, 1998 to implement a 2.0 percent at 55 retirement program. The actuarial division of PERS determined that the present value impact on the District was an unfunded liability of \$4,939,895. This would result in an employer rate increase of 1.495 percent of eligible payroll over the next 20 years. However, the District opted to pay this liability in advance and is amortizing this prepaid amount over the next 20 years. The current portion is \$246,995, and future deferred expense is \$1,399,685 at June 30, 2011.

The District amended its PERS contract on August 5, 2005 to implement a 2.5 percent at 55 retirement program. The actuarial division of PERS determined that the present value impact on the District was an unfunded liability of \$5,679,062. This would result in an employer rate increase of 2.145 percent of eligible payroll over the next 20 years. However, the District opted to pay this liability in advance and is amortizing this prepaid amount over the next 20 years. The current portion is \$283,953 and future deferred expense is \$3,691,391 at June 30, 2011.

5. Noncurrent Liabilities

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

	Beginning Balance June 30, 2010	Additions	Reductions	Ending Balance June 30, 2011	Due Within One Year
Long-term Debt					
Advances for construction, notes and assessments	\$ 40,279,228	\$ -	\$ (4,461,146)	\$ 35,818,082	\$ 3,002,221
Certificates of participation	700,311,094	-	(10,587,329)	689,723,765	11,182,330
General obligation bonds	47,672,284	-	(2,190,890)	45,481,394	2,335,890
Sub-total	788,262,606	-	(17,239,365)	771,023,241	16,520,441
Other Liabilities					
State Revolving Fund construction advances	19,608,033	37,488,529	-	57,096,562	-
Reimbursable agreements	94,383	129,527	(196,167)	27,743	-
Compensated absences	10,977,819	10,438,185	(9,230,686)	12,185,318	5,489,745
Sub-total	30,680,235	48,056,241	(9,426,853)	69,309,623	5,489,745
Total noncurrent liabilities	\$ 818,942,841	\$ 48,056,241	\$(26,666,218)	\$ 840,332,864	\$ 22,010,186

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

5. Noncurrent Liabilities (continued)

The future maturities of long-term debt (excluding State Revolving Fund (SRF) construction advances, reimbursable agreements and compensated absences) as of June 30, 2011 are as follows:

Year Ending June 30:	Principal	Interest	Total
2012	\$ 17,617,222	\$ 23,302,329	\$ 40,919,551
2013	21,845,358	22,462,513	44,307,871
2014	21,628,689	21,445,943	43,074,632
2015	22,960,032	20,569,373	43,529,405
2016	22,182,226	19,728,972	41,911,198
2017-21	127,727,890	85,023,039	212,750,929
2022-26	141,269,110	64,108,921	205,378,031
2027-31	138,417,555	44,150,870	182,568,425
2032-36	164,395,000	18,981,511	183,376,511
2037-39	105,800,000	767,004	106,567,004
Sub-total	783,843,082	320,540,475	1,104,383,557
Less: Unamortized premium/discount and deferred refunding charges	(12,819,841)	-	(12,819,841)
Total	<u>\$ 771,023,241</u>	<u>\$ 320,540,475</u>	<u>\$ 1,091,563,716</u>

Advances for Construction, Notes and Assessments

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

	2011	2010
State of California Department of Water Resources- Safe, Clean, Reliable Water Supply Act (Proposition 204)	\$ 30,252,920	\$ 31,646,488
State of California Department of Water Resources- Safe, Clean, Reliable Water Supply Act (Proposition 204)	1,326,444	1,418,283
State of California Department of Water Resources- Water Conservation Bond Law of 1988 (Proposition 82)	2,093,297	2,238,229
Elsinore Valley Municipal Water District	-	25,849
Santa Ana Watershed Project Authority	344,340	669,189
1992 State of California Agricultural Drainage Water Management Loan	1,801,081	2,760,542
1991 Federal Reclamation Facilities Project Loan	-	1,520,648
Total	35,818,082	40,279,228
Less: Current portion	(3,002,221)	(4,461,146)
Total long-term advances for construction, notes and assessments	<u>\$ 32,815,861</u>	<u>\$ 35,818,082</u>

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

Eastern Municipal Water District
Notes to the Basic Financial Statements

(continued)

5. Noncurrent Liabilities (continued)

Advances for Construction, Notes and Assessments (continued)

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

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

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

Year Ending June 30:	Principal	Interest	Total
2012	\$ 1,425,419	\$ 679,501	\$ 2,104,920
2013	1,457,998	646,921	2,104,919
2014	1,491,322	613,597	2,104,919
2015	1,525,408	579,512	2,104,920
2016	1,560,272	544,647	2,104,919
2017-21	8,352,868	2,171,729	10,524,597
2022-26	9,352,078	1,172,519	10,524,597
2027-29	5,087,555	174,743	5,262,298
Total	<u>\$ 30,252,920</u>	<u>\$ 6,583,169</u>	<u>\$ 36,836,089</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 percent.

Year Ending June 30:	Principal	Interest	Total
2012	\$ 94,354	\$ 36,560	\$ 130,914
2013	97,158	33,755	130,913
2014	99,827	31,087	130,914
2015	102,642	28,272	130,914
2016	105,485	25,429	130,914
2017-21	574,069	80,501	654,570
2022-23	252,909	8,917	261,826
Total	<u>\$ 1,326,444</u>	<u>\$ 244,521</u>	<u>\$ 1,570,965</u>

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

5. Noncurrent Liabilities (continued)

Advances for Construction, Notes and Assessments (continued)

Water Conservation Bond Law of 1988 (Proposition 82)

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

Year Ending June 30:	Principal	Interest	Total
2012	\$ 148,902	\$ 57,697	\$ 206,599
2013	153,328	53,270	206,598
2014	157,540	49,059	206,599
2015	161,982	44,617	206,599
2016	166,469	40,130	206,599
2017-21	905,953	127,039	1,032,992
2022-23	399,123	14,074	413,197
Total	<u>\$ 2,093,297</u>	<u>\$ 385,886</u>	<u>\$ 2,479,183</u>

Elsinore Valley Municipal Water District

Elsinore Valley Municipal Water District, financial participation agreement note; interest rates ranging from 2.0 percent to 4.0 percent with annual principal installments ranging from \$21,314 to \$25,849 through July 15, 2011. The final payment for this loan was remitted in June 2011.

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 percent; annual payment including principal and interest of \$365,000 through June 30, 2012.

Year Ending June 30:	Principal	Interest	Total
2012	\$ 344,340	\$ 20,660	\$ 365,000
Total	<u>\$ 344,340</u>	<u>\$ 20,660</u>	<u>\$ 365,000</u>

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

5. Noncurrent Liabilities (continued)

Advances for Construction, Notes and Assessments (continued)

1992 State of California Agricultural Drainage Water Management Loan

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

<u>Year Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 989,207	\$ 55,834	\$ 1,045,041
2013	811,874	20,065	831,939
Total	<u>\$ 1,801,081</u>	<u>\$ 75,899</u>	<u>\$ 1,876,980</u>

1991 Federal Reclamation Facilities Project Loan

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

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

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

Total federal funding	\$ 32,425,000
Less nonrepayable grant portion	<u>6,733,300</u>
Maximum loan proceeds including interest	<u><u>\$ 25,691,700</u></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><u>\$ 25,691,700</u></u>

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

5. Noncurrent Liabilities (continued)

Advances for Construction, Notes and Assessments (continued)

1991 Federal Reclamation Facilities Project Loan (continued)

Repayment of the loan began on May 1, 1999, with net loan proceeds repayable in 15 annual installments varying from \$552,900 to \$2,650,300 plus interest at rates varying from 0 percent to 9 percent 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 percent for the fiscal year ended June 30, 2011. 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 2011, the water delivery ratio was 8.11 percent, resulting in an actual interest rate of 0.64 percent for the period and the actual IOI and RIDC amounts paid were \$9,712 and \$55,537, respectively.

The District received \$31,095,440 on this contract, of which the grant portion amounted to \$6,624,268 and the loan portion amounted to \$24,471,172. Since the total repayment obligation is less than the maximum loan proceeds of \$24,366,700, the above repayment schedule will still apply until the obligation is paid in full, in effect reducing the length of the repayment period. The final payment for this loan was remitted in April 2011.

Clean Water State Revolving Fund (SRF) Construction Advances

On June 15, 2009 and June 23, 2009, the District executed loan contracts with the California State Water Resources Control Board to provide financing under the Clean Water State Revolving Fund. These loans are for construction costs relating to two projects located at the Moreno Valley RWRf; the Secondary Clarifier and Tertiary Treatment (SCATT) project and the Acid Phase Anerobic Digestion (APAD) project. Both projects consist of upgrading various current and adding new facilities that will result in increased secondary and tertiary treatment capacity. The SCATT project focuses on the treatment of liquid waste and the APAD project focuses on the treatment of solid waste. These projects are anticipated to be complete in September 2011 and March 2012, respectively. The future 20-year loans to the District are anticipated to be \$38,362,890 with an interest rate of 1.000 percent for the SCATT and \$43,546,128 with an interest rate of 0.422 percent for the APAD project, of which \$29,374,593 and \$24,698,929, respectively, was received through June 30, 2011.

On March 23, 2011, the District executed a loan contract with the California State Water Resources Control Board to provide financing under the Clean Water State Revolving Fund. This loan is for construction costs relating to the San Jacinto Valley RWRf Title 22 Tertiary Treatment Upgrade and Plant 2 Facilities project. This project consists of modifying and constructing new facilities to increase reliable capacity from 7.5 to 14.0 MGD with improved efficiency and better effluent quality. This project is anticipated to be completed in November 2015. The future 20-year loan to the District is anticipated to be \$145,000,000 with an interest rate of 2.7 percent, of which \$3,023,040 was received through June 30, 2011.

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

5. Noncurrent Liabilities (continued)

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

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

Certificates of Participation

Certificates of participation consist of the following at June 30:

	2011	2010
1991 certificates of participation	\$ 8,890,000	\$ 12,920,000
2001A refunding certificates of participation	43,610,000	46,900,000
2001C refunding certificates of participation	5,105,000	6,675,000
2006A certificates of participation	106,320,000	106,320,000
2007A refunding certificates of participation	20,560,000	20,635,000
2008A refunding certificates of participation	55,895,000	56,155,000
2008B refunding certificates of participation	54,575,000	54,575,000
2008C refunding certificates of participation	53,725,000	54,070,000
2008D refunding certificates of participation	53,790,000	54,205,000
2008E refunding certificates of participation	60,470,000	62,235,000
2008F certificates of participation	50,000,000	50,000,000
2008G certificates of participation	50,000,000	50,000,000
2008H certificates of participation	140,035,000	140,035,000
Total	702,975,000	714,725,000
Less: Current portion	(12,345,000)	(11,750,000)
Total noncurrent certificates of participation payable	\$ 690,630,000	\$ 702,975,000
Total current portion	\$ 12,345,000	\$ 11,750,000
Less: Net unamortized discount/premium and deferred refunding charges	(1,162,670)	(1,162,671)
Total net current portion	\$ 11,182,330	\$ 10,587,329
Total noncurrent portion	\$ 690,630,000	\$ 702,975,000
Less: Net unamortized discount/premium and deferred refunding charges	(12,088,565)	(13,251,235)
Total net noncurrent portion	\$ 678,541,435	\$ 689,723,765

Eastern Municipal Water District
Notes to the Basic Financial Statements

(continued)

5. Noncurrent Liabilities (continued)

Certificates of Participation (continued)

2008H Certificates of Participation

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

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

	Beginning Balance June 30, 2010	Additions	Reductions	Ending Balance June 30, 2011	Due Within One Year
Certificates of participation	\$ 140,035,000	\$ -	\$ -	\$ 140,035,000	\$ -
COP discount	(2,022,885)	-	80,915	(1,941,970)	(80,915)
Total	\$ 138,012,115	\$ -	\$ 80,915	\$ 138,093,030	\$ (80,915)

Year Ending June 30:	Principal	Interest	Total
2012	\$ -	\$ 7,001,750	\$ 7,001,750
2013	-	7,001,750	7,001,750
2014	-	7,001,750	7,001,750
2015	-	7,001,750	7,001,750
2016	-	7,001,750	7,001,750
2017-21	-	35,008,750	35,008,750
2022-26	10,810,000	34,479,250	45,289,250
2027-31	32,890,000	28,353,500	61,243,500
2032-36	96,335,000	13,066,375	109,401,375
Total	\$ 140,035,000	\$ 145,916,625	\$ 285,951,625

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

5. Noncurrent Liabilities (continued)

Certificates of Participation (continued)

2008D Refunding Certificates of Participation

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

The 2008D Certificates include principal installments due in varying amounts from \$315,000 to \$11,820,000 annually from July 1, 2009 to July 1, 2023; with interest payable monthly at a variable rate for a weekly period. The District may prepay all or part of the certificates at any time at par. The future interest amounts shown below are calculated using the interest rate in effect at June 30, 2011, which was 0.04 percent. The average annual interest rate experienced in the fiscal year was 0.20 percent and the actual interest paid was \$107,654 and \$103,183 for the fiscal years ended June 30, 2011 and June 30, 2010.

	Beginning Balance June 30, 2010	Additions	Reductions	Ending Balance June 30, 2011	Due Within One Year
Certificates of participation	\$ 54,205,000	\$ -	\$ (415,000)	\$ 53,790,000	\$ 435,000
Deferred refunding charges	(3,603,400)	-	277,185	(3,326,215)	(277,185)
COP discount	(66,985)	-	5,153	(61,832)	(5,153)
Total	\$ 50,534,615	\$ -	\$ (132,662)	\$ 50,401,953	\$ 152,662

Year Ending June 30:	Principal	Interest	Total
2012	\$ 435,000	\$ 21,516	\$ 456,516
2013	590,000	21,342	611,342
2014	315,000	21,106	336,106
2015	2,350,000	20,980	2,370,980
2016	2,425,000	20,040	2,445,040
2017-21	13,375,000	84,900	13,459,900
2022-24	34,300,000	27,748	34,327,748
Total	\$ 53,790,000	\$ 217,632	\$ 54,007,632

Eastern Municipal Water District
Notes to the Basic Financial Statements

(continued)

5. Noncurrent Liabilities (continued)

Certificates of Participation (continued)

2008E Refunding Certificates of Participation

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

The 2008E Certificates include principal installments due in varying amounts from \$1,780,000 to \$3,640,000 annually from July 1, 2009 to July 1, 2033; with interest payable monthly at a variable rate for a weekly period. The District may prepay all or part of the certificates at any time at par. The future interest amounts shown below are calculated using the interest rate in effect at June 30, 2011, which was 0.04 percent. The average annual interest rate experienced in the fiscal year was 0.21 percent and the actual interest paid was \$125,214 and \$135,280 for the fiscal years ended June 30, 2011 and June 30, 2010.

	Beginning Balance June 30, 2010	Additions	Reductions	Ending Balance June 30, 2011	Due Within One Year
Certificates of participation	\$ 62,235,000	\$ -	\$ (1,765,000)	\$ 60,470,000	\$ 1,820,000
Deferred refunding charges	(1,008,059)	-	43,829	(964,230)	(43,829)
COP discount	(82,963)	-	3,607	(79,356)	(3,607)
Total	\$ 61,143,978	\$ -	\$ (1,717,564)	\$ 59,426,414	\$ 1,772,564

Year Ending June 30:	Principal	Interest	Total
2012	\$ 1,820,000	\$ 24,188	\$ 1,844,188
2013	2,035,000	23,460	2,058,460
2014	1,780,000	22,646	1,802,646
2015	2,000,000	21,934	2,021,934
2016	2,065,000	21,134	2,086,134
2017-21	11,345,000	92,646	11,437,646
2022-26	13,290,000	68,518	13,358,518
2027-31	15,555,000	40,184	15,595,184
2032-34	10,580,000	8,554	10,588,554
Total	\$ 60,470,000	\$ 323,264	\$ 60,793,264

Eastern Municipal Water District
Notes to the Basic Financial Statements

(continued)

5. Noncurrent Liabilities (continued)

Certificates of Participation (continued)

2008F Certificates of Participation

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

The 2008F Certificates include principal installments due in varying amounts from \$16,000,000 to \$17,290,000 annually from July 1, 2036 to July 1, 2038; with interest payable monthly at a variable rate for a weekly period. The District may prepay all or part of the certificates at any time at par. The future interest amounts shown below are calculated using the interest rate in effect at June 30, 2011, which was 0.05 percent. The average annual interest rate experienced in the fiscal year was 0.22 percent and the actual interest paid was \$111,096 and \$107,000 for the fiscal years ended June 30, 2011 and June 30, 2010.

	Beginning Balance June 30, 2010	Additions	Reductions	Ending Balance June 30, 2011	Due Within One Year
Certificates of participation	\$ 50,000,000	\$ -	\$ -	\$ 50,000,000	\$ -
COP discount	(65,879)	-	2,353	(63,526)	(2,353)
Total	\$ 49,934,121	\$ -	\$ 2,353	\$ 49,936,474	\$ (2,353)

Year Ending June 30:	Principal	Interest	Total
2012	\$ -	\$ 25,000	\$ 25,000
2013	-	25,000	25,000
2014	-	25,000	25,000
2015	-	25,000	25,000
2016	-	25,000	25,000
2017-21	-	125,000	125,000
2022-26	-	125,000	125,000
2027-31	-	125,000	125,000
2032-36	-	125,000	125,000
2037-39	50,000,000	50,645	50,675,645
Total	\$ 50,000,000	\$ 675,645	\$ 50,675,645

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

5. Noncurrent Liabilities (continued)

Certificates of Participation (continued)

2008G Certificates of Participation

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

The 2008G Certificates include principal installments due in varying amounts from \$16,000,000 to \$17,290,000 annually from July 1, 2036 to July 1, 2038; with interest payable monthly at a variable rate for a weekly period. The District may prepay all or part of the certificates at any time at par. The future interest amounts shown below are calculated using the interest rate in effect at June 30, 2011, which was 0.04 percent. The average annual interest rate experienced in the fiscal year was 0.22 percent and the actual interest paid was \$109,438 and \$109,973 for the fiscal years ended June 30, 2011 and June 30, 2010.

	Beginning Balance June 30, 2010	Additions	Reductions	Ending Balance June 30, 2011	Due Within One Year
Certificates of participation	\$ 50,000,000	\$ -	\$ -	\$ 50,000,000	\$ -
COP discount	(65,674)	-	2,345	(63,329)	(2,345)
Total	\$ 49,934,326	\$ -	\$ 2,345	\$ 49,936,671	\$ (2,345)

Year Ending June 30:	Principal	Interest	Total
2012	\$ -	\$ 20,000	\$ 20,000
2013	-	20,000	20,000
2014	-	20,000	20,000
2015	-	20,000	20,000
2016	-	20,000	20,000
2017-21	-	100,000	100,000
2022-26	-	100,000	100,000
2027-31	-	100,000	100,000
2032-36	-	100,000	100,000
2037-39	50,000,000	40,516	50,040,516
Total	\$ 50,000,000	\$ 540,516	\$ 50,540,516

Eastern Municipal Water District
Notes to the Basic Financial Statements

(continued)

5. Noncurrent Liabilities (continued)

Certificates of Participation (continued)

2008C Refunding Certificates of Participation

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

The 2008C Certificates include principal installments due in varying amounts from \$330,000 to \$7,955,000 annually from July 1, 2009 to July 1, 2020; with interest payable monthly at a variable rate for a weekly period. The District may prepay all or part of the certificates at any time at par.

	Beginning Balance June 30, 2010	Additions	Reductions	Ending Balance June 30, 2011	Due Within One Year
Certificates of participation	\$ 54,070,000	\$ -	\$ (345,000)	\$ 53,725,000	\$ 370,000
Deferred refunding charges	(2,478,410)	-	225,310	(2,253,100)	(225,310)
COP discount	(116,466)	-	10,588	(105,878)	(10,588)
Total	\$ 51,475,124	\$ -	\$ (109,102)	\$ 51,366,022	\$ 134,102

The following table incorporates the net swap payments associated with the 2008C Certificates and the related financial instrument. Using a variable interest rate of 0.05 percent as of June 30, 2011, the debt service requirements of the 2008C Certificates and the associated swap payments, assuming the current and the reference interest rates remain the same for their term, are as follows. As rates vary, the variable rate interest payments and net swap payments on the financial instrument will vary. Refer to note 6 for additional information regarding the financial instrument associated with the 2008C Certificates.

Year Ending June 30:	Principal	Interest	Net Payment to Counterparty	Total
2012	\$ 370,000	\$ 25,873	\$ 2,573,054	\$ 2,968,927
2013	375,000	25,658	2,558,820	2,959,478
2014	5,435,000	23,224	2,316,410	7,774,634
2015	5,735,000	20,453	2,040,059	7,795,512
2016	6,055,000	17,576	1,748,299	7,820,875
2017-21	35,755,000	37,863	3,776,871	39,569,734
Total	\$ 53,725,000	\$ 150,647	\$ 15,013,513	\$ 68,889,160

Eastern Municipal Water District
Notes to the Basic Financial Statements

(continued)

5. Noncurrent Liabilities (continued)

Certificates of Participation (continued)

2008B Refunding Certificates of Participation

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

The 2008B Certificates include principal installments due in varying amounts from \$3,805,000 to \$5,370,000 annually from July 1, 2024 to July 1, 2035; with interest payable monthly at a variable rate for a weekly period. The future interest amounts shown below are calculated using the interest rate in effect at June 30, 2011, which was 0.05 percent. The average annual interest rate experienced in the fiscal year was 0.20 percent and the actual interest paid was \$109,898 and \$112,978 for the fiscal years ended June 30, 2011 and June 30, 2010.

	Beginning Balance June 30, 2010	Additions	Reductions	Ending Balance June 30, 2011	Due Within One Year
Certificates of participation	\$ 54,575,000	\$ -	\$ -	\$ 54,575,000	\$ -
COP discount	(122,039)	-	4,882	(117,157)	(4,881)
Total	\$ 54,452,961	\$ -	\$ 4,882	\$ 54,457,843	\$ (4,881)

Year Ending June 30:	Principal	Interest	Total
2012	\$ -	\$ 27,287	\$ 27,287
2013	-	27,288	27,288
2014	-	27,287	27,287
2015	-	27,288	27,288
2016	-	27,287	27,287
2017-21	-	136,437	136,437
2022-26	7,750,000	134,535	7,884,535
2027-31	21,585,000	96,163	21,681,163
2032-36	25,240,000	38,673	25,278,673
Total	\$ 54,575,000	\$ 542,245	\$ 55,117,245

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

5. Noncurrent Liabilities (continued)

Certificates of Participation (continued)

2008A Refunding Certificates of Participation

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

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

	Beginning Balance June 30, 2010	Additions	Reductions	Ending Balance June 30, 2011	Due Within One Year
Certificates of participation	\$ 56,155,000	\$ -	\$ (260,000)	\$ 55,895,000	\$ 270,000
Deferred refunding charges	(4,617,283)	-	230,864	(4,386,419)	(230,864)
COP discount	(181,449)	-	9,072	(172,377)	(9,072)
Total	\$ 51,356,268	\$ -	\$ (20,064)	\$ 51,336,204	\$ 30,064

The following table incorporates the net swap payments associated with the 2008A Certificates and the related financial instrument. Using a variable interest rate of 0.05 percent as of June 30, 2011, the debt service requirements of the 2008A Certificates and the associated swap payments, assuming the current and the reference interest rates remain the same for their term, are as follows. As rates vary, the variable rate interest payments and net swap payments on the financial instruments will vary. Refer to note 6 for additional information regarding the financial instruments associated with the 2008A Certificates.

Year Ending June 30:	Principal	Interest	Net Payment to Counterparty	Total
2012	\$ 270,000	\$ 27,868	\$ 1,654,800	\$ 1,952,668
2013	275,000	27,642	1,646,858	1,949,500
2014	290,000	27,542	1,638,159	1,955,701
2015	295,000	27,395	1,629,399	1,951,794
2016	305,000	27,286	1,620,243	1,952,529
2017-21	1,675,000	133,716	7,955,930	9,764,646
2022-26	14,760,000	120,139	7,145,893	22,026,032
2027-31	38,025,000	40,785	2,426,872	40,492,657
Total	\$ 55,895,000	\$ 432,373	\$ 25,718,154	\$ 82,045,527

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

5. Noncurrent Liabilities (continued)

Certificates of Participation (continued)

2007A Refunding Certificates of Participation

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

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

	Beginning Balance June 30, 2010	Additions	Reductions	Ending Balance June 30, 2011	Due Within One Year
Certificates of participation	\$ 20,635,000	\$ -	\$ (75,000)	\$ 20,560,000	\$ 80,000
Deferred refunding charges	(1,611,355)	-	123,950	(1,487,405)	(123,950)
COP premium	1,080,050	-	(83,081)	996,969	83,081
Total	\$ 20,103,695	\$ -	\$ (34,131)	\$ 20,069,564	\$ 39,131

Year Ending June 30:	Principal	Interest	Total
2012	\$ 80,000	\$ 1,016,900	\$ 1,096,900
2013	80,000	1,013,700	1,093,700
2014	85,000	1,010,400	1,095,400
2015	90,000	1,006,900	1,096,900
2016	90,000	1,003,300	1,093,300
2017-21	525,000	4,956,400	5,481,400
2022-24	19,610,000	1,502,750	21,112,750
Total	\$ 20,560,000	\$ 11,510,350	\$ 32,070,350

Eastern Municipal Water District
Notes to the Basic Financial Statements

(continued)

5. Noncurrent Liabilities (continued)

Certificates of Participation (continued)

2006A Certificates of Participation

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

The 2006A Certificates include principal installments due in varying amounts from \$3,725,000 to \$6,350,000 annually from July 1, 2012 to July 1, 2035, with interest payable semiannually beginning July 1, 2006, at rates per annum ranging from 3.75 percent to 5.00 percent.

	Beginning Balance June 30, 2010	Additions	Reductions	Ending Balance June 30, 2011	Due Within One Year
Certificates of participation	\$ 106,320,000	\$ -	\$ -	\$ 106,320,000	\$ -
COP premium	3,230,214	-	(125,852)	3,104,362	125,852
Total	\$ 109,550,214	\$ -	\$ (125,852)	\$ 109,424,362	\$ 125,852

Year Ending June 30:	Principal	Interest	Total
2012	\$ -	\$ 5,119,444	\$ 5,119,444
2013	3,725,000	5,030,850	8,755,850
2014	3,985,000	4,842,631	8,827,631
2015	4,180,000	4,638,506	8,818,506
2016	4,250,000	4,431,506	8,681,506
2017-21	25,220,000	18,781,152	44,001,152
2022-26	24,170,000	12,381,975	36,551,975
2027-31	17,945,000	7,684,500	25,629,500
2032-36	22,845,000	2,706,564	25,551,564
Total	\$ 106,320,000	\$ 65,617,128	\$ 171,937,128

Eastern Municipal Water District
Notes to the Basic Financial Statements

(continued)

5. Noncurrent Liabilities (continued)

Certificates of Participation (continued)

2001A, 2001C Refunding Certificates of Participation

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

2001A Refunding Certificates of Participation

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

2001C Refunding Certificates of Participation

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

2001A Refunding Certificates of Participation

	Beginning Balance June 30, 2010	Additions	Reductions	Ending Balance June 30, 2011	Due Within One Year
Certificates of participation	\$ 46,900,000	\$ -	\$ (3,290,000)	\$ 43,610,000	\$ 3,435,000
Deferred refunding charges	(3,579,384)	-	364,005	(3,215,379)	(364,005)
COP premium	1,211,992	-	(123,253)	1,088,739	123,253
Total	\$ 44,532,608	\$ -	\$ (3,049,248)	\$ 41,483,360	\$ 3,194,248

Year Ending June 30:	Principal	Interest	Total
2012	\$ 3,435,000	\$ 2,163,465	\$ 5,598,465
2013	3,610,000	1,978,538	5,588,538
2014	3,800,000	1,784,025	5,584,025
2015	4,000,000	1,581,650	5,581,650
2016	4,205,000	1,370,538	5,575,538
2017-21	24,560,000	3,228,751	27,788,751
Total	\$ 43,610,000	\$ 12,106,967	\$ 55,716,967

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

5. Noncurrent Liabilities (continued)

Certificates of Participation (continued)

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

2001C Refunding Certificates of Participation

	Beginning Balance June 30, 2010	Additions	Reductions	Ending Balance June 30, 2011	Due Within One Year
Certificates of participation	\$ 6,675,000	\$ -	\$ (1,570,000)	\$ 5,105,000	\$ 1,635,000
Deferred refunding charges	(310,192)	-	109,479	(200,713)	(109,479)
COP discount	(3,739)	-	1,320	(2,419)	(1,320)
Total	<u>\$ 6,361,069</u>	<u>\$ -</u>	<u>\$ (1,459,201)</u>	<u>\$ 4,901,868</u>	<u>\$ 1,524,201</u>

Year Ending June 30:	Principal	Interest	Total
2012	\$ 1,635,000	\$ 180,175	\$ 1,815,175
2013	1,700,000	111,350	1,811,350
2014	1,770,000	37,613	1,807,613
Total	<u>\$ 5,105,000</u>	<u>\$ 329,138</u>	<u>\$ 5,434,138</u>

Eastern Municipal Water District
Notes to the Basic Financial Statements

(continued)

5. Noncurrent Liabilities (continued)

Certificates of Participation (continued)

1991 Certificates of Participation

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

The 1991 Certificates include \$26,815,000 of serial certificates maturing in varying amounts from \$1,440,000 to \$2,910,000 annually from July 1, 1993 to July 1, 2005, with interest payable semiannually at rates ranging from 5.1 percent to 7.5 percent. Also, in this issue are \$101,875,000 of term certificates due in varying amounts on July 1, 2008, 2012, 2020 and 2023, with interest payable semiannually at rates ranging from 6 percent to 6.75 percent. 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 percent in 2002, 1 percent in 2003, and 0 percent 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 on July 1, 2023.

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

	Beginning Balance June 30, 2010	Additions	Reductions	Ending Balance June 30, 2011	Due Within One Year
Certificates of participation	\$ 12,920,000	\$ -	\$ (4,030,000)	\$ 8,890,000	\$ 4,300,000
Total	\$ 12,920,000	\$ -	\$ (4,030,000)	\$ 8,890,000	\$ 4,300,000

Year Ending June 30:	Principal	Interest	Total
2012	\$ 4,300,000	\$ 454,950	\$ 4,754,950
2013	4,590,000	154,913	4,744,913
Total	\$ 8,890,000	\$ 609,863	\$ 9,499,863

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

5. Noncurrent Liabilities (continued)

General Obligation Bonds

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

General obligation bonds consist of the following at June 30:

	2011	2010
2005 General obligation bonds: Interest rates of the various bond issues outstanding range from 3.0 percent to 5.0 percent. Bonds mature annually in varying amounts through 2035.	\$ 15,055,000	\$ 15,550,000
2009 General obligation bonds: Interest rates of the various bond issues outstanding range from 3.0 percent to 5.625 percent. Bonds mature annually in varying amounts through 2040.	29,995,000	31,625,000
Total	45,050,000	47,175,000
Less: Current portion	(2,270,000)	(2,125,000)
Total noncurrent general obligation bonds	\$ 42,780,000	\$ 45,050,000
Total current portion	\$ 2,270,000	\$ 2,125,000
Add: Net unamortized discount/premium	65,890	65,890
Total net current portion	\$ 2,335,890	\$ 2,190,890
Total noncurrent portion	\$ 42,780,000	\$ 45,050,000
Add: Net unamortized discount/premium	365,504	431,394
Total net noncurrent portion	\$ 43,145,504	\$ 45,481,394

At June 30, 2011, general obligation bonds authorized but not issued total \$547,650,000.

	Beginning Balance June 30, 2010	Additions	Reductions	Ending Balance June 30, 2011	Due Within One Year
General obligation bonds	\$ 47,175,000	\$ -	\$ (2,125,000)	\$ 45,050,000	\$ 2,270,000
Net bond premium/discount	497,284	-	(65,890)	431,394	65,890
Total	\$ 47,672,284	\$ -	\$ (2,190,890)	\$ 45,481,394	\$ 2,335,890

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

5. Noncurrent Liabilities (continued)

General Obligation Bonds (continued)

<u>Year Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 2,270,000	\$ 2,115,807	\$ 4,385,807
2013	2,345,000	2,041,333	4,386,333
2014	2,420,000	1,954,407	4,374,407
2015	2,520,000	1,855,658	4,375,658
2016	955,000	1,784,807	2,739,807
2017-21	5,440,000	8,225,354	13,665,354
2022-26	6,575,000	6,827,603	13,402,603
2027-31	7,330,000	5,109,123	12,439,123
2032-36	9,395,000	2,936,345	12,331,345
2037-40	5,800,000	675,843	6,475,843
Total	<u>\$ 45,050,000</u>	<u>\$ 33,526,280</u>	<u>\$ 78,576,280</u>

Reimbursable Agreements

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

Debt Service Reserve Funds

The District is required to maintain a Debt Service Reserve Fund to be used for the payment of principal and interest of its Certificates of Participation Bonds in the event that the District has not provided the Trustee with sufficient funds by the Installment Payment date to make the required Installment Sale Payments. The current required reserve amount as determined by the bond documents and the reserve balance at June 30, 2011 for each outstanding bond issue is shown on the following page.

Eastern Municipal Water District
Notes to the Basic Financial Statements

(continued)

5. Noncurrent Liabilities (continued)

Debt Service Reserve Funds (continued)

Description	Required	Actual	Excess
1991 COP	\$ 4,900,075	\$ 4,908,009	\$ 7,934
2001A/2007A COP	7,203,000	7,421,865	218,865
2001C COP	510,500	510,500	-
2006A COP	8,724,843	8,932,548	207,705
2008A COP	5,651,000	5,659,081	8,081
2008B COP	4,253,624	4,337,137	83,513
2008C COP	5,440,000	5,447,779	7,779
2008D COP	5,476,000	5,487,836	11,836
2008E COP	5,102,395	5,112,300	9,905
2008F COP	5,000,000	5,098,629	98,629
2008G COP	5,000,000	5,099,040	99,040
2008H COP	14,003,500	14,025,027	21,527
Subtotal - COPs	71,264,937	72,039,751	774,814
Prop. 82 loan - \$3.15M	212,545	212,545	-
Prop. 204 loan - \$2.00M	134,955	134,955	-
Prop. 204 loan - \$42.10M	649,192	649,192	-
Subtotal - Loans	996,692	996,692	-
Total	\$ 72,261,629	\$ 73,036,443	\$ 774,814

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, 2011, the District's debt coverage ratio was 1.9 times.

2) Operating Reserve Fund

The District has covenanted that it will maintain a minimum of one quarter of its annual maintenance and operating costs as set forth in its operating budget in a separate reserve fund. The required reserve amounts at June 30, 2011 and 2010 were \$34,347,207 and \$33,889,464, respectively. The District was in compliance with this requirement and had actual reserve balances of \$34,755,618 at June 30, 2011 and \$34,007,084 at June 30, 2010.

Eastern Municipal Water District
Notes to the Basic Financial Statements

(continued)

5. Noncurrent Liabilities (continued)

Defeasance of Debt

In January 2008, the District defeased Certificates of Participation series 2001B by placing the proceeds of the new debt in an irrevocable trust to provide for all future debt service payments on the defeased debt. Accordingly, the trust's assets and the liability for the defeased debt issue are not included on the District's statement of net assets. As of June 30, 2011 the outstanding balance of the 2001B COP was \$51,370,000.

Standby Certificate Purchase Agreements

Included in long-term debt at June 30, 2011, is \$378,455,000 Variable Rate Certificates of Participation, Series 2008A, 2008B, 2008C, 2008D, 2008E, 2008F, and 2008G (collectively, the Variable Rate Certificates). The Variable Rate Certificates have a tender provision for certificate holders, on 7 days notice, to tender their certificates at par value plus accrued interest. In connection with the issuance of the Variable Rate Certificates, the District executed Standby Certificate Purchase Agreements (SCPA) between the Corporation and various banks. The SCPA is terminated prior to the expiration date only if there is an occurrence of "events of defaults". As of June 30, 2011, there were no outstanding certificates that have been tendered but failed to be remarketed. The bank and expiration date for each SCPA at June 30, 2011 for each Variable Rate Certificate is:

Description	SCPA Bank	SCPA Expiration Date
2008A COP	Wells Fargo	1/31/2015
2008B COP	Wells Fargo	3/26/2013
2008C COP	JP Morgan	6/15/2012
2008D COP*	Lloyds	7/20/2011
2008E COP*	Lloyds	7/20/2011
2008F COP	JP Morgan	7/26/2012
2008G COP	JP Morgan	7/26/2012

* 2008D and 2008E COP SCPA's with Lloyds were substituted in July 2011 by new SCPA's with U.S. Bank and Wells Fargo, respectively.

6. Interest Rate Swap Contracts

Plan Description

The fair value balances and notional amounts of financial instruments (instruments) outstanding subject to the requirements of Governmental Accounting Standards Board (GASB) Statement No. 53 at June 30, 2011, classified by type and the changes in fair value of such instruments for the year then ended are shown on the following page.

Eastern Municipal Water District
Notes to the Basic Financial Statements

(continued)

6. Interest Rate Swap Contracts (continued)

Plan Description (continued)

	Changes in Fair Value		Fair Value at June 30, 2011		Notional
	Classification	Amount	Classification	Amount	
Cash flow hedges:					
(2008A COP) Pay-fixed interest rate swap					
Deferred outflow		\$ 1,773,094	Debt	\$ (4,749,977)	\$ 55,895,000
(2008C COP) Pay-fixed interest rate swap – cost of funds					
Deferred outflow		\$ (511,776)	Debt	\$ (10,366,436)	\$ 51,145,000

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

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

Objective and Terms of Financial Instruments

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

The following table displays the objective and terms of the District's financial instruments outstanding at June 30, 2011, along with the credit rating of the associated counterparty.

Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms	Counterparty Credit Rating
Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2008A COP debt issue	\$ 55,895,000	1/18/2008	7/1/2030	Pay 3.1%; receive 66% of 1-month LIBOR from UBS	S&P: A+ Moody's: Aa3
Pay-fixed interest rate swap – cost of funds	Hedge of changes in cash flows on the 2008C COP debt issue	\$ 51,145,000	5/26/1993	7/1/2020	Pay 5.135%; receive the variable rate on the EMWD 2008C COPs from AIG	S&P: A- Moody's: Baa1

Credit Risk

The counterparty credit ratings as of June 30, 2011 are shown in the table above. If the counterparty credit rating is lowered to or below BBB+ and Baa1 by Standard & Poor's (S&P) and Moody's Investors Service (Moody's), respectively, the financial instruments may be terminated. The District does not plan to terminate the financial instruments.

Eastern Municipal Water District

Notes to the Basic Financial Statements

(continued)

6. Interest Rate Swap Contracts (continued)

Interest Rate Risk

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

Basis Risk

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

Termination Risk

The financial instruments may be terminated by the District or its counterparty if the other party fails to perform under the terms of the contract. In addition, the District has the option to terminate the financial instruments upon proper notification to the counterparties. If the financial instruments are terminated, the District would prospectively pay the variable rates on the 2008A and 2008C COPs rather than fixed rate payments under the financial instruments. The termination could therefore increase the District's total debt service. If, at the time of termination, the financial instrument is in a liability position, the District would be liable to the counterparty for a payment equal to the negative fair value. As of June 30, 2011 and June 30, 2010 the financial instruments had a combined negative fair value of \$15,116,413 and \$16,377,731, respectively. The District does not plan to terminate the financial instruments.

Collateral Requirements

The District's financial instruments include provisions that require the District to post collateral in the event its credit rating falls below A- as issued by Fitch Ratings and Standard & Poor's, or A3 as issued by Moody's Investors Service. The collateral posted is required to be in the form of cash or U.S. Treasury securities in the amount of the fair value of the financial instrument, net of agreed upon adjustments. If the District does not post collateral, the financial instruments may be terminated by the counterparties. At June 30, 2011, the aggregate fair value of all financial instruments with these collateral posting provisions is a negative \$15,116,413. If the collateral posting requirements were triggered at June 30, 2011, the District would be required to post \$15,116,413 to its counterparties. The District's credit rating is AA/AA+/Aa2 from Standard & Poor's, Fitch Ratings and Moody's Investors Service respectively; therefore, no collateral has been posted at June 30, 2011.

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

7. Defined Benefit Pension Plan

Plan Description

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

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

Funding Policy

For the 2.5 percent at 55 plan, District employees are required to contribute 8 percent of their annual salary to PERS. Of this 8 percent, the District funds 7 percent 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, 2011, the amount contributed by the District on behalf of the employees is \$3,289,015 (7 percent of the employee's 8 percent required contribution). The required employer contribution rate for fiscal year ended June 30, 2011 is 11.296 percent as determined by the annual PERS valuation. However, in July 2010, the District prepaid the required contribution as a lump-sum discounted amount of \$5,365,705 which reduced the effective employer contribution rate to 0 percent.

For the 2.0 percent at 55 plan, District employees are required to contribute 7 percent of their annual salary to PERS. Of this 7 percent, the District funds 4 percent as agreed to in negotiations with the union. For the year ended June 30, 2011, the amount contributed by the District on behalf of the employees is \$10,451 (4 percent of the employee's 7 percent required contribution).

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, 2010 to June 30, 2011 has been determined by an actuarial valuation of the plan as of June 30, 2008. The contribution rate for the indicated period is 11.296 percent of payroll for the Retirement Program. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2011, 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, 2010 to June 30, 2011.

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

7. Defined Benefit Pension Plan (continued)

Annual Pension Cost (continued)

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

Valuation date	June 30, 2008
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll
Average remaining period	26 years as of the valuation date
Asset valuation method	15 year smoothed market
Actuarial assumptions:	
Investment rate of return	7.75% (net of administrative expenses) 3.25% to 14.45% depending on age, service, and type of employment
Projected salary increases	
Inflation rate	3.00%
Payroll growth	3.25%
Individual salary growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%

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

For the 2.5 percent at 55 plan, the total employees' required contribution paid to the PERS for 2011 and 2010 was \$3,758,875 and \$3,645,785, respectively (8 percent of current covered payroll). In both 2011 and 2010, the District paid 7 percent and the employees paid 1 percent. In 2011, the District paid \$3,289,015 and employees paid \$469,859. In 2010, the District paid \$3,190,062 and the employees paid \$455,723. The total employer's required contribution paid to PERS for 2011 and 2010 was \$5,365,705 and \$5,181,022, respectively. The contributions were made in accordance with actuarially determined requirements computed through an actuarial valuation performed prior to the beginning of each fiscal year by the PERS Actuarial Division.

The 2.0 percent at 55 plan was initiated in 2011 and applies to all employees hired on or after November 2, 2010. The total employees' required contribution paid to the PERS for this plan in 2011 was \$24,386 (7 percent of current covered payroll), with the District paying \$10,451 and employees paying \$13,935.

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

7. Defined Benefit Pension Plan (continued)

Trend Information

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

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

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06/30/09	\$ 7.43	100%	\$ -
06/30/10	8.37	100%	-
06/30/11	8.67	100%	-

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

Actuarial Valuation Date	(A) Entry Age Actuarial Accrued Liability (AAL)	(B) Actuarial Value of Assets	(C) Unfunded AAL (UAAL) (A)-(B)	Funded Ratio (B)/A	(D) Covered Payroll	UAAL as a Percentage of Covered Payroll (C)/(D)
06/30/09	\$ 244.92	\$ 193.85	\$ 51.07	79.1%	\$ 46.80	109.1%

8. Defined Contribution Plan

The District maintains the EMWD Security Trust (Plan), a defined contribution money purchase pension plan that is qualified under Internal Revenue Code Section 401(a). The District has an agreement with Nationwide Retirement Solutions (Nationwide) whereby Nationwide receives, invests, and reports on the funds sent to them on behalf of eligible employees. Employees are vested in the funds contributed on their behalf after one year of service and have several investment options within the lineup of funds available at Nationwide. The Plan was adopted in January 1978 and may be amended by the District, provided Nationwide joins in such amendment. The District's required contributions to the Plan are 7.15 percent of each eligible employee's compensation, up to a maximum annual compensation of \$16,500. The District's contributions to the Plan were \$827,530 and \$780,660 in 2011 and 2010, respectively.

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

9. Postemployment Benefits Other Than Pensions

Plan Description

Health Care Benefits

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

Life Insurance Benefits

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

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

Funding Policy and Annual OPEB Cost

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

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

9. Postemployment Benefits Other Than Pensions (continued)

Funding Policy and Annual OPEB Cost (continued)

Contribution rates:

District 100% of pay-as-you-go amounts for employee and elected official monthly health care and life premiums

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

Annual required contribution (ARC)	\$ 11,447,000
Interest on net OPEB obligation (NOO)	1,009,000
Amortization on NOO	<u>(951,000)</u>
Annual OPEB cost	11,505,000
Contributions made	(2,256,318)
Implied subsidy benefit payments	<u>(68,000)</u>
Increase in net OPEB obligation	9,180,682
Net OPEB obligation – beginning of year	<u>22,416,078</u>
Net OPEB obligation – end of year	<u>\$ 31,596,760</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 2009 through 2011 are shown in the following table. The District implemented GASB Statement No. 45 for the June 30, 2008 fiscal year end, so information is not available prior to 2008.

Plan	Year Ended	Annual OPEB Cost	Actual Contributions	Percentage of OPEB Cost Contributed	Net OPEB Obligation
Retired Employees/Elected	06/30/09	\$ 8,940,000	\$ 1,874,528	21.0%	\$ 13,284,421
Officials Healthcare and Life	06/30/10	11,137,000	2,005,343	18.0%	22,416,078
Insurance Plans	06/30/11	11,505,000	2,256,318	19.6%	31,596,760

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

9. Postemployment Benefits Other Than Pensions (continued)

Funded Status and Funding Progress

The funded status of the plans as of June 30, 2010, the plan's most recent actuarial valuation date, is shown in the following table (dollar amounts in thousands). Actuarially determined amounts were not calculated separately for each plan. The Schedule of Funding Progress, presented as required supplementary information following the notes to the basic financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability.

Actuarial accrued liability (a)	\$ 130,362
Actuarial value of plan assets (b)	-
Unfunded actuarial accrued liability (funding excess) (a) – (b)	\$ 130,362
Funded ratio (b)/(a)	N/A
Covered Payroll – active plan members (c)	\$ 46,112
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll $[(a)-(b)]/(c)$	282.7%

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, 2010		
Actuarial cost method	Entry age normal		
Amortization method	Level percent of payroll		
Remaining amortization period	28 years as of the valuation date		
Asset valuation method	N/A – no assets		
Actuarial assumptions:			
Investment rate of return	4.50%		
General inflation rate	3.00%		
Payroll growth	3.25%		
Healthcare cost trend rate	Fiscal	(% Increase Over Prior Year)	
	Year	Non-Medicare	Medicare
	2010	Actual PEMHCA ¹ / Kaiser A Premiums	
	2011	Actual PEMHCA / Kaiser A Premiums	
	2012 ²	9.5%	10.0%
		Decreases 0.50% each	Decreases 0.55% each
	2013-2021	year	year
	2021+	5.0%	5.0%

1. PEHMCA relates to the Public Employees' Medical and Hospital Care Act.

2. For 2012, actual premiums were used for PEMHCA and medical trend assumptions for Kaiser A.

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

9. Postemployment Benefits Other Than Pensions (continued)

Actuarial Methods and Assumptions (continued)

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

10. Restricted and Unrestricted Net Assets

Restricted Net Assets

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

Unrestricted Net Assets

As required by GASB Statement No. 34, net assets have been classified according to guidelines established for restricted assets. However, the unrestricted assets, although not legally restricted, have been established pursuant to Board Resolution No. 3359 and are primarily composed of reserves for various purposes. The unrestricted net assets at June 30, 2011 consist of:

Replacement and system betterment reserve	\$ 58,238,092
Operational debt service reserve	11,849,369
General liability and workers comp. reserve	776,365
Other reserves	<u>8,518,067</u>
Total unrestricted net assets	<u><u>\$ 79,381,893</u></u>

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

11. Commitments

Construction Contracts

The District is committed to approximately \$148,882,623 of open construction contracts as of June 30, 2011. The ten largest contracts outstanding include:

	Contract Amount	Balance To Complete
San Jacinto Valley RWRP Expansion to 14 MGD	\$ 113,144,167	\$ 95,595,379
Menifee/Perris 1 Desalter Iron Manganese Removal Facility	15,197,402	14,938,646
Temecula Valley RWRP 18 MGD Upgrades	11,668,965	11,068,965
Perris Valley RWRP Plant No. 3 Expansion	151,185,035	7,832,998
Moreno Valley RWRP - APAD	30,455,256	6,137,928
Perris Valley RWRP Fuel Cell Cogeneration	5,023,128	3,151,162
Moreno Valley RWRP - SCATT	29,065,584	2,465,429
Hemet/San Jacinto IRRP Warren/Commonwealth Pump Station Modification	2,607,324	1,679,664
Temecula Valley RWRP Effluent Storage Expansion	6,715,545	1,611,912
Benton Rd Recycled Water Tank and Pipeline Replacements	4,643,730	1,250,108
Total	<u>\$ 369,706,136</u>	<u>\$ 145,732,191</u>

Soboba Settlement Act

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

The Settlement Agreement provides that:

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

Eastern Municipal Water District
Notes to the Basic Financial Statements

(continued)

11. Commitments (continued)

Soboba Settlement Act (continued)

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

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

The District has opened escrow on the land and the designated funds deposit will occur when the agreement is enforceable, which is expected to be sometime in 2012.

Claims and Judgments

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

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

Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. The liability for claims and judgments is included in other accrued expenses. The District did not have any nonincremental claims adjustment expenses that needed to be included as part of the unpaid claims liability. No structured settlements were entered into for the years ended June 30, 2011 and 2010. Changes in claims payable for the years ended June 30 are as follows:

	<u>2011</u>	<u>2010</u>
Unpaid claims, beginning	\$ 4,652,395	\$ 1,686,386
Incurred claims and changes in estimates	1,308,618	4,361,365
Claim payments	(1,115,174)	(1,395,356)
Unpaid claims, ending	<u>\$ 4,845,839</u>	<u>\$ 4,652,395</u>

There was no significant reduction in insurance coverage by major categories of risk from fiscal year 2009/10 to fiscal year 2010/11. Furthermore, there has been no settlement which exceeded insurance coverage for the past three fiscal years.

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

11. Commitments (continued)

Special Funding District Bonds

These bonds are not direct liabilities of the District, and their payment is secured by valid liens on certain lands. Reserves have been established from the bond proceeds to meet delinquencies, should they occur. Neither the faith and credit nor the taxing power of the District is pledged to the payment of the bonds. If delinquencies occur beyond the amounts held in those reserves, the District has no duty to pay those delinquencies out of any other available funds. The District acts solely as an agent for those paying assessments or special taxes and the bond holders. The Special Funding District Bonds outstanding at June 30, 2011 and 2010, were \$208,758,803 and \$216,189,033 respectively, and are not included in the District's financial statements.

12. Contingencies

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

13. Santa Ana Watershed Project Authority

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

14. Advances from Developers

The District receives deposits from developers in advance to cover various costs for both sewer and water related projects. At June 30, 2011 and 2010, the amount of refundable deposits were \$19,543,561 and \$22,338,776, 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.

Eastern Municipal Water District
Notes to the Basic Financial Statements

(continued)

15. Prior Period Adjustment

During fiscal year 2011, the District determined that construction period interest was not calculated and recorded for prior periods as required by FASB Statements No. 34 and 62. The amount of construction period interest for the fiscal years 2000/01 through 2010/11 was material to the financial statements and has been reflected as an adjustment to beginning net assets. The 2010 comparative schedules and statements were also restated for this adjustment. The following table shows the effect of this adjustment.

Net assets, June 30, 2010, as previously reported	\$1,465,419,253
Add: Capitalized Interest	33,033,593
Net assets, June 30, 2010, as restated	<u>\$1,498,452,846</u>

16. Subsequent Events

- A. On July 20, 2011, the District issued \$56,255,000 of refunding revenue bonds (2011A Bonds). These 2011A Bonds refunded the 2001A and 2001C COP issues entirely and refunded certificates maturing from 2012 through 2016 of the 2008D and 2008E COPs. The 2011A Bonds are fixed rate bonds with rates from 2.00 percent to 5.00 percent with annual maturities from July 1, 2012 to July 1, 2020. The refunding bond proceeds, along with original issue premium of \$6.3 million, will fund escrow accounts to defease \$61.8 million in certificates, transfer \$4.8 million to a capital project fund from the prior reserve funds, and pay for costs of issuance.
- B. In August, 2011, the District signed a State Revolving Fund project financing agreement with the California State Water Resources Control Board for the Temecula Valley RWRP 18 MGD Reliable Capacity Upgrade project. This project generally consists of increasing tertiary treatment to comply with reliability standards and replacing portions of existing facilities and equipment to improve operational efficiencies. The agreement provides \$18,422,420 in funding with a 20-year loan at an interest rate of 2.600 percent. Loan repayment will begin one year after completion of construction, which is expected to be in December 2014. The term of the agreement is April 4, 2011 through December 30, 2034.
- C. In January 2011, California Governor Brown announced his intent to eliminate redevelopment agencies as an effort towards balancing the State budget. The Legislature then enacted and the Governor signed Assembly Bills 1X 26 and 1X 27, which took effect on June 29, 2011. The California League of Cities and the California Redevelopment Association filed suit in the California Supreme Court challenging the constitutionality of these bills. On August 11, 2011, the Supreme Court agreed to take the case and issued an immediate stay of AB 1X 27 in its entirety and a partial stay of AB 1X 26. The District received \$3.2 million in property taxes relating to redevelopment agencies in fiscal year 2011, and receipts have subsequently continued. Future impacts to the District relating to these assembly bills depends upon actions taken by the Supreme Court.

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

Pension Plan

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

Actuarial Valuation Date	(A) Entry Age Actuarial 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)
06/30/07	\$ 194.72	\$ 168.00	\$ 26.72	86.3%	\$ 42.44	63.0%
06/30/08	208.53	181.96	26.57	87.3%	44.79	59.3%
06/30/09	244.92	193.85	51.07	79.1%	46.80	109.1%

Other Postemployment Benefits

The following table (dollar amounts in millions) shows a three-year history of the funded status of the District's OPEB obligation. The information reflects the most recent biennial valuation and the previous biennial valuation. The District implemented GASB Statement No. 45 in 2008.

Fiscal Year Impacted	Actuarial Valuation Date	(A) Entry Age Actuarial 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)
06/30/09 & 06/30/10	06/30/08	\$ 94.5	\$ -	\$ 94.5	N/A	\$ 46.7	202.5%
06/30/11	06/30/10	130.4	-	130.4	N/A	\$ 46.1	282.7%

STATISTICAL SECTION

TEMECULA VALLEY REGIONAL WATER RECLAMATION FACILITY

STATISTICAL SECTION

Eastern Municipal Water District

Statistical Section

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

Contents

Financial Trends

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

Revenue Capacity

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

Debt Capacity

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

Demographic and Economic Information

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

Operating Information

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

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

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

<u>Fiscal Year</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u> ¹	<u>2011</u>
Invested in capital assets, net of related debt	\$ 564,160,887	\$ 615,364,770	\$ 670,647,558	\$ 747,790,921	\$ 864,024,679	\$ 963,472,752	\$ 1,097,667,937	\$ 1,084,747,657	\$ 1,153,155,186	\$ 1,239,967,393
Restricted for debt service/covenants	45,553,269	45,912,373	49,428,231	50,932,809	58,964,117	57,377,104	56,443,385	58,248,958	65,090,658	65,433,313
Restricted for construction	106,195,442	140,113,828	186,769,808	179,216,380	193,659,075	238,268,776	133,617,326	169,061,541	150,977,362	127,083,266
Unrestricted	130,885,167	90,953,153	84,967,519	96,710,649	86,541,422	62,672,401	101,896,457	120,482,286	129,229,640	79,381,893
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>	<u>\$ 1,432,540,442</u>	<u>\$ 1,498,452,846</u>	<u>\$ 1,511,865,865</u>
% Increase		5.4%	11.1%	8.4%	12.0%	9.9%	5.1%	3.1%	4.6%	0.9%

Note:

1. Invested in capital assets, net of related debt was restated for prior period adjustment relating to construction period interest. See Note 15 to the basic financial statements.

Source: Eastern Municipal Water District

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

Fiscal Year	Operating Revenues		Operating Expenses ^{2,4}		Operating Loss	Total Nonoperating Revenues/ (Expenses) ^{4,5}	Income Before Capital Contributions	Capital Contributions ¹	Change in Net Assets
	Water ³	Wastewater	Water	Wastewater					
2002	\$ 58,355,346	\$ 29,008,146	\$ 69,924,459	\$ 44,954,646	\$ (27,515,613)	\$ 42,575,251	\$ 15,059,638	\$ 11,251,237	\$ 26,310,875
2003	60,565,819	31,382,908	75,448,383	48,285,185	(31,784,841)	61,427,456	29,642,615	15,906,744	45,549,359
2004	64,796,401	35,565,428	76,225,644	52,199,401	(28,063,216)	94,022,649	65,959,433	33,509,559	99,468,992
2005	66,258,221	41,238,057	85,135,040	59,332,209	(36,970,971)	89,195,075	52,224,104	30,613,539	82,837,643
2006	77,611,474	47,407,080	96,891,371	67,918,954	(39,791,771)	120,029,885	80,238,114	48,300,420	128,538,534
2007	92,679,789	53,066,742	113,677,146	77,853,830	(45,784,445)	106,629,828	60,845,383	57,756,357	118,601,740
2008	94,135,642	56,972,828	122,519,535	90,017,563	(61,428,628)	90,911,996	29,483,368	38,350,704	67,834,072
2009	103,013,429	62,611,918	122,515,771	94,629,395	(51,519,819)	59,613,648	8,093,829	34,821,508	42,915,337
2010	102,747,031	65,937,963	134,462,273	96,301,243	(62,078,522)	57,357,018	(4,721,504)	43,704,311	38,982,807
2011	102,479,984	67,344,936	138,345,690	98,804,427	(67,325,197)	56,828,061	(10,497,136)	23,910,155	13,413,019

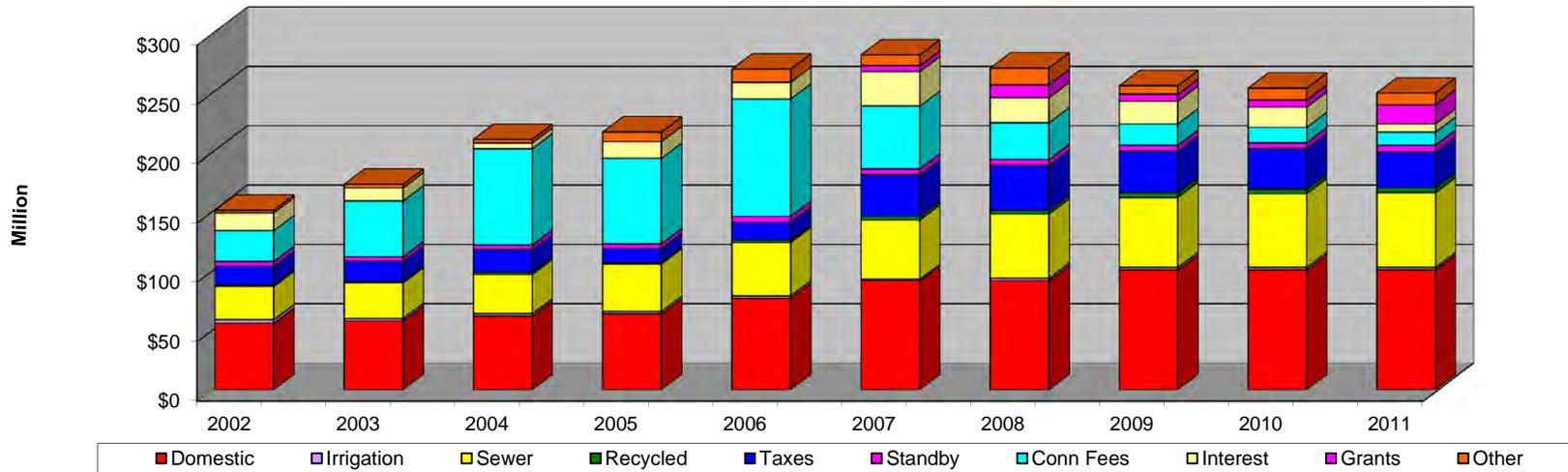
Notes:

1. Increased construction activity relating to growth and market conditions accounts for the increases in contributed infrastructure from 2004-2007. This amount decreased for 2008 and 2009 due to lower construction activity, and increased in 2010 due to District-wide efforts to close out construction projects.
2. GASB Statement No. 45 was implemented for 2008; net other postemployment benefit expense of \$6.2, \$7.1, \$9.1, and \$9.1 million for 2008 - 2011, respectively, is included.
3. The District implemented a budget-based tiered rate structure for April 2009 bills to single and multifamily residential and landscape customers. This structure is designed to be revenue neutral, but significant billings were in the higher use wasteful tiers. Billings in these tiers decreased beginning in 2010 due to conservation efforts.
4. In FY 2011, depreciation expense, interest revenue and interest expense were restated for prior period adjustment relating to construction period interest. See Note 15 to the basic financial statements.
5. Total grant revenues (operating and capital) are included in nonoperating revenues and expenses.

Source: Eastern Municipal Water District

REVENUES BY SOURCE LAST TEN FISCAL YEARS

Fiscal Year	Domestic Water Sales	% of Total	Ag & Irrig Water Sales	% of Total	Sewer Service Charges	% of Total	Recycled Water Sales	% of Total	Taxes & Assmnts ¹	% of Total	Standby Charges	% of Total	Connect Fees ²	% of Total	Interest Income ³	% of Total	Grants ⁴	% of Total	Other	% of Total	Total Revenues
2002	\$55,736,727	37.1%	\$2,618,619	1.7%	\$27,825,278	18.5%	\$1,182,868	0.8%	\$15,744,074	10.5%	\$3,929,860	2.6%	\$25,740,750	17.1%	\$15,407,309	10.2%	\$ -	0.0%	\$2,283,437	1.5%	\$150,468,922
2003	58,351,059	33.6%	2,214,760	1.3%	29,973,084	17.2%	1,409,824	0.8%	16,914,346	9.7%	4,006,786	2.3%	46,960,911	27.0%	11,219,083	6.5%	-	0.0%	2,712,153	1.6%	173,762,006
2004	62,824,662	29.6%	1,971,739	0.9%	33,496,234	15.8%	2,069,194	1.0%	18,698,381	8.8%	4,172,104	2.0%	80,804,323	38.0%	5,186,086	2.4%	-	0.0%	3,183,193	1.5%	212,405,916
2005	64,092,906	29.5%	2,165,315	1.0%	39,739,370	18.3%	1,498,687	0.7%	11,517,848	5.3%	4,354,591	2.0%	72,445,434	33.4%	13,576,749	6.3%	-	0.0%	7,693,026	3.5%	217,083,926
2006	76,543,807	28.5%	1,067,667	0.4%	45,462,646	16.9%	1,944,434	0.7%	14,747,589	5.5%	4,518,411	1.7%	99,485,272	37.1%	13,804,446	5.2%	-	0.0%	10,808,046	4.0%	268,382,318
2007	91,596,156	32.5%	1,083,633	0.4%	50,318,414	17.9%	2,748,328	1.0%	34,849,428	12.4%	4,667,297	1.7%	52,894,363	18.8%	29,287,538	10.4%	4,598,769	1.6%	9,321,989	3.3%	281,365,915
2008	91,864,344	34.0%	2,271,298	0.8%	54,408,172	20.1%	2,564,656	0.9%	37,648,103	13.9%	4,868,154	1.8%	30,706,687	11.4%	20,579,581	7.7%	11,261,996	4.2%	13,867,981	5.2%	270,040,972
2009	100,967,796	38.9%	2,045,633	0.8%	58,889,788	22.7%	3,722,130	1.4%	35,102,975	13.5%	5,015,076	1.9%	17,789,045	6.9%	19,093,011	7.4%	6,466,818	2.5%	10,224,676	4.0%	259,316,948
2010	100,699,778	39.8%	2,047,253	0.8%	61,885,298	24.5%	4,052,665	1.6%	33,559,211	13.3%	5,246,008	2.1%	13,010,929	5.1%	16,028,408	6.3%	6,063,577	2.4%	10,510,099	4.2%	253,103,226
2011	100,668,729	40.2%	1,811,255	0.7%	62,840,013	25.1%	4,504,923	1.8%	30,354,685	12.1%	5,569,818	2.2%	10,815,294	4.3%	7,553,352	3.0%	16,137,906	6.4%	10,117,631	4.0%	250,373,606

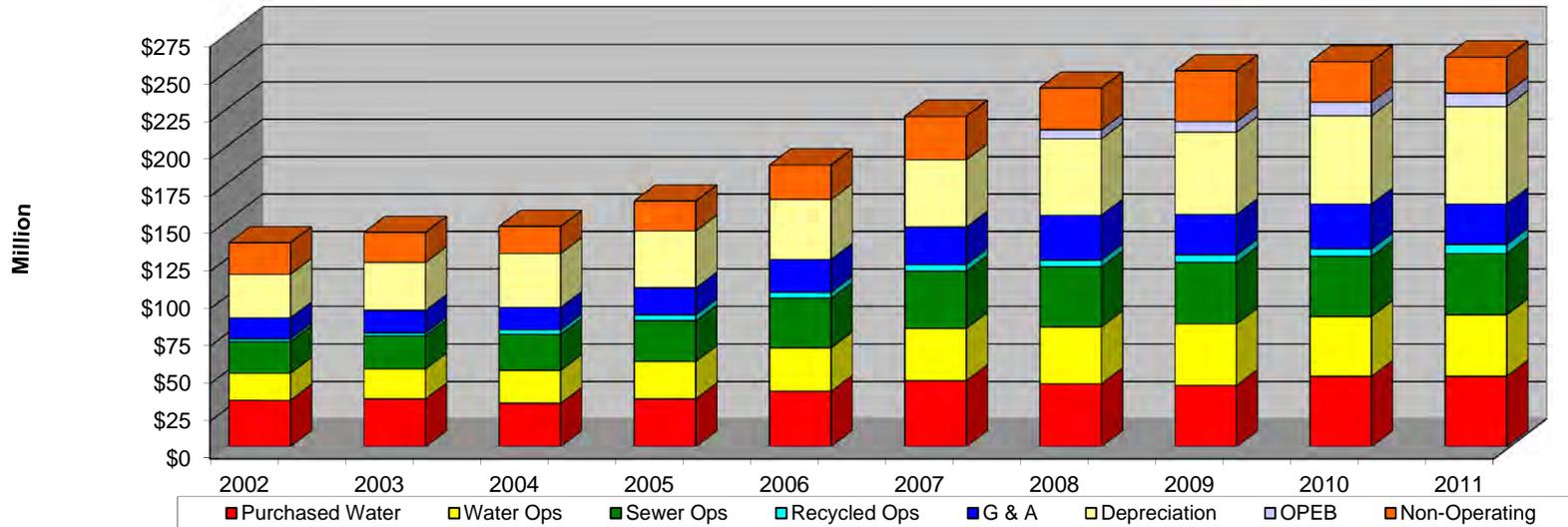


Notes:

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 2007-2011 relating to the nationwide financial recession.
3. Increased interest income for 2007 and 2008 is due to a higher average portfolio balance and higher average yields. For 2008-2010, the higher amount relates to invested COP and GO bond issuance funds. For 2011, the decrease primarily relates to a lower level of invested construction funds and recording a \$3.2 million decrease in fair value of investments.
4. Grant revenues were separately stated beginning 2007; previously, these amounts were shown as capital contributions or other revenue. Amounts include operating and capital grant revenues.

EXPENSES BY FUNCTION LAST TEN FISCAL YEARS

Fiscal Year	Purchased Water	% of Total	Water Operations	% of Total	Sewer Operations	% of Total	Recycled Water Operations	% of Total	General & Admin ¹	% of Total	Depr. & Amort	% of Total	Net OPEB ²	% of Total	Total Non-Operating Expenses ³	% of Total	Total Expenses
2002	\$30,632,930	22.6%	\$17,886,826	13.2%	\$20,540,533	15.2%	\$1,988,321	1.5%	\$14,395,481	10.6%	\$29,435,014	21.7%	\$ -	0.0%	\$20,530,179	15.2%	\$135,409,284
2003	32,307,403	22.4%	19,534,843	13.6%	22,151,919	15.4%	2,410,213	1.7%	15,317,533	10.6%	31,911,657	22.2%	-	0.0%	20,385,823	14.1%	144,019,391
2004	29,104,840	19.9%	21,777,484	14.9%	23,789,668	16.2%	2,992,339	2.0%	15,186,601	10.4%	35,574,113	24.3%	-	0.0%	18,021,438	12.3%	146,446,483
2005	32,380,524	19.6%	25,111,134	15.2%	27,194,672	16.5%	3,789,915	2.3%	18,418,043	11.2%	37,572,961	22.8%	-	0.0%	20,392,573	12.4%	164,859,822
2006	36,817,458	19.6%	29,030,238	15.4%	33,061,321	17.6%	4,289,919	2.3%	21,520,070	11.4%	40,091,319	21.3%	-	0.0%	23,333,879	12.4%	188,144,204
2007	43,866,732	19.9%	35,332,561	16.0%	37,404,662	17.0%	4,379,135	2.0%	25,292,047	11.5%	45,255,839	20.5%	-	0.0%	28,989,556	13.1%	220,520,532
2008	41,653,430	17.3%	38,447,533	16.0%	39,976,740	16.6%	5,071,116	2.1%	30,138,792	12.5%	51,030,538	21.3%	6,218,949	2.6%	28,020,506	11.6%	240,557,604
2009	41,318,803	16.4%	40,834,689	16.3%	41,160,507	16.4%	4,749,447	1.9%	27,471,196	10.9%	54,545,053	21.7%	7,065,471	2.8%	34,077,953	13.6%	251,223,119
2010	46,936,179	18.2%	39,967,447	15.5%	39,657,747	15.4%	5,466,039	2.1%	30,256,670	11.7%	59,347,777	23.0%	9,131,657	3.5%	27,061,214	10.5%	257,824,730
2011	46,489,850	17.8%	41,364,910	15.9%	41,247,883	15.8%	6,103,502	2.3%	27,408,299	10.5%	65,354,991	25.1%	9,180,682	3.5%	23,720,625	9.1%	260,870,742



Notes:

1. The increase in general and administrative charges in 2008 primarily relates to increased legal expense for a lawsuit the District is involved in - United States of America v. EMWD. The decrease in 2009 primarily relates to settlement of the lawsuit and department-wide cost-containment efforts. This amount was offset by a reclassification of net internal service funds which were reclassified to other nonoperating revenues beginning in 2009. The increase in 2010 primarily relates to recording a \$3.0 million increase in worker's compensation liability reserve.
2. The District implemented GASB Statement No. 45 for 2008.
3. The decrease in 2010 and 2011 primarily relates to recording \$6.7 and \$8.6 million, respectively, of capitalized construction period interest. See Note 15 to the basic financial statements.

Source: Eastern Municipal Water District

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

Fiscal Year	← Gallons Produced ¹ →				Water →					Gallons of Wastewater Treated	← Total Direct Rate Water →		
	Purchased	Wells	Desalters ²	Total	Domestic	Ag & Irrig	Total	Unbilled Total	Avg %		Base Rate ^{3,6}	Usage Rate ^{4,6}	Sewer ⁵
2002	25,096	6,032	-	31,128	26,748	2,656	29,404	1,724	5.5%	11,508	\$ 6.02	\$ 29.46	\$ 14.84
2003	26,056	5,925	95	32,076	28,315	2,135	30,450	1,626	5.1%	12,417	7.27	29.50	15.18
2004	24,722	5,763	536	31,021	27,092	1,689	28,781	2,240	7.2%	13,963	7.45	30.10	16.17
2005	24,532	5,352	217	30,101	26,247	1,698	27,945	2,156	7.2%	15,805	7.70	31.04	17.40
2006	25,818	6,353	944	33,115	29,688	771	30,459	2,656	8.0%	16,352	8.15	32.36	18.86
2007	29,866	6,071	1,613	37,550	33,883	1,263	35,146	2,404	6.4%	16,786	8.43	34.40	19.64
2008	28,254	6,591	982	35,827	32,284	1,537	33,821	2,006	5.6%	16,906	10.04	36.38	20.58
2009	25,390	6,332	1,455	33,177	30,721	1,225	31,946	1,232	3.7%	16,482	10.52	41.52	21.88
2010	23,042	5,555	1,816	30,413	27,001	1,116	28,117	2,296	7.5%	16,436	10.52	46.32	22.73
2011	21,611	5,220	1,943	28,774	25,958	857	26,814	1,960	6.8%	16,805	10.52	48.26	22.90

Notes:

The information shown does not include recycled water.

1. Gallons are presented in millions.

2. No desalter facilities existed prior to 2003.

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

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

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

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

Source: Eastern Municipal Water District

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

Fiscal Year	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009³</u>	<u>2010</u>	<u>2011</u>
Water Rates										
Monthly base rate (meter size)										
<=1"	\$ 6.02	\$ 7.27	\$ 7.45	\$ 7.70	\$ 8.15	\$ 8.43	\$ 10.04	\$ 10.52	\$ 10.52	\$ 10.52
1 1/2"	9.03	10.90	11.19	11.56	12.23	12.65	15.06	27.68	27.68	27.68
2"	12.05	14.54	14.90	15.39	16.30	16.85	20.08	51.40	51.40	51.40
3"	24.09	29.08	29.81	30.78	32.61	33.70	40.15	171.25	171.25	171.25
4"	30.11	36.35	37.26	38.48	40.76	42.16	50.19	270.40	270.40	270.40
6"	42.16	50.89	52.16	53.87	57.06	59.01	70.26	505.53	505.53	505.53
8"	48.18	58.16	59.62	61.56	65.21	67.40	80.30	633.28	633.28	633.28
Usage rate (per billing unit)¹	\$ 29.46	\$ 29.50	\$ 30.10	\$ 31.04	\$ 32.36	\$ 34.40	\$ 36.38	\$ 41.52	\$ 46.32	\$ 48.26
Sewer Rates (avg per month)²	\$ 14.84	\$ 15.18	\$ 16.17	\$ 17.40	\$ 18.86	\$ 19.64	\$ 20.58	\$ 21.88	\$ 22.73	\$ 22.90

Notes:

The information shown does not include recycled water.

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

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

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

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

Source: Eastern Municipal Water District

**LARGEST DOMESTIC WATER CUSTOMERS
AS OF JUNE 30, 2011**

	<u>Customer Name</u>	<u>Sales in Acre Feet</u>	<u>Total Revenues</u>	<u>Percentage</u>
1	City of Perris ¹	1,695	\$ 1,561,378	18.5%
2	Western Municipal Water District ^{1,2}	1,624	1,489,015	17.7%
3	Moreno Valley School District	1,001	890,477	10.6%
4	City of Moreno Valley	807	960,189	11.4%
5	Valley-Wide Recreation & Park	744	906,620	10.8%
6	Val Verde Unified School District	616	706,260	8.4%
7	City of Murrieta	420	509,701	6.1%
8	Shadow Mountain Comm. Assoc.	413	511,668	6.1%
9	Riverside County EDA	390	440,357	5.2%
10	Menifee Union School District	322	437,214	5.2%
	Total	<u>8,032</u>	<u>\$ 8,412,879</u>	
	Total domestic water sales	79,662	\$ 100,668,729	
	Percentage of total	10.1%	8.4%	

Notes:

For compliance with GASB Statement No. 34, data for fiscal year ended June 30, 2002 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, 2011**

	<u>Customer Name</u>	<u>Sales in Acre Feet</u>	<u>Total Revenues</u>	<u>Percentage</u>
1	Mc Anally Egg Enterprises	128	\$ 130,003	16.5%
2	Kevin and Pauline Doan	113	114,130	14.5%
3	Metropolitan Water District	118	110,774	14.0%
4	Abacherli Dairy	97	97,941	12.4%
5	C and R Farms	186	91,363	11.5%
6	Valley-Wide Recreation & Park	77	64,197	8.1%
7	Demler Egg Ranch	105	55,991	7.1%
8	HP Mobile Estates	60	50,183	6.3%
9	MCM Poultry	43	43,743	5.5%
10	Hein Hettinga Dairy	68	32,791	4.1%
	Total	<u>995</u>	<u>\$ 791,116</u>	
	Total ag. & irrigation water sales	2,629	\$ 1,811,255	
	Percentage of total	37.8%	43.7%	

Notes:

For compliance with GASB Statement No. 34, data for fiscal year ended June 30, 2002 is not available.

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

Source: Eastern Municipal Water District

**LARGEST RECYCLED WATER CUSTOMERS
AS OF JUNE 30, 2011**

	<u>Customer Name</u>	<u>Sales in Acre Feet</u>	<u>Total Revenues</u>	<u>Percentage</u>
1	Inland Empire Energy Center LLC	2,897	\$ 868,286	40.5%
2	Agri Empire	3,160	225,408	10.5%
5	Rancho Casa Loma	3,665	176,426	8.2%
4	Hemet Golf Club Landmark	353	151,288	7.0%
3	The Golf Club at Rancho California	486	146,445	6.8%
6	A G Sod Farms	1,899	140,897	6.6%
7	City of Moreno Valley	385	115,836	5.4%
8	Pechanga Water Systems	381	114,837	5.3%
9	Scott Bros Dairy	2,229	106,802	5.0%
10	Valley-Wide Recreation & Park	336	101,318	4.7%
	Total	<u>15,791</u>	<u>\$ 2,147,543</u>	
	Total recycled water sales	28,926	\$ 4,504,923	
	Percentage of total	54.6%	47.7%	

Notes:

For compliance with GASB Statement No. 34, data for fiscal year ended June 30, 2002 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, 2011**

	<u>Customer Name</u>	<u>Total Revenues</u>	<u>Percentage</u>
1	Pechanga Resort and Casino	\$ 459,486	26.7%
2	Broadstone Vista Apartments	246,078	14.3%
3	Westwind Enterprises	142,612	8.3%
4	Western States Mobile Home Park	140,805	8.2%
5	Murrieta Valley Unified School District	129,799	7.5%
6	Waterstone at Murrieta Apartments	129,534	7.5%
7	Silverado Apartment Homes	126,305	7.3%
8	Val Verde School District	121,741	7.1%
9	Sonoma at Mapleton Apartment Homes	113,189	6.6%
10	Gables Alta Murrieta Apartments	111,391	6.5%
	Total	<u>\$ 1,720,940</u>	
	Total sewer revenue	\$ 62,840,013	
	Percentage of total revenue	2.7%	

Note:

For compliance with GASB Statement No. 34, data for fiscal year ended June 30, 2002 is not available.

Source: Eastern Municipal Water District

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

Rates Effective Beginning January ¹	Full Service Domestic		Interim Agricultural Program		Shift Seasonal Storage		Recycled	Long Term Seasonal Storage	
	Treated	Untreated	Treated	Untreated	Treated	Untreated		Treated	Untreated
2002	431	349	294	236	345	288	113	290	233
2003 Tier 1	408	326	294	236	-	-	-	290	233
Tier 2	489	407	n/a	n/a	-	-	-	n/a	n/a
2004 Tier 1	418	326	304	236	-	-	-	300	233
Tier 2	499	407	n/a	n/a	-	-	-	n/a	n/a
2005 Tier 1	443	331	329	241	-	-	-	325	238
Tier 2	524	412	n/a	n/a	-	-	-	n/a	n/a
2006 Tier 1	453	331	339	241	-	-	-	335	238
Tier 2	549	427	n/a	n/a	-	-	-	n/a	n/a
2007 Tier 1	478	331	364	241	-	-	-	360	238
Tier 2	574	427	n/a	n/a	-	-	-	n/a	n/a
2008 Tier 1	508	351	394	261	-	-	-	390	258
Tier 2	606	449	n/a	n/a	-	-	-	n/a	n/a
2009 Tier 1	579	412	465	322	-	-	-	436	294
Tier 2	695	528	n/a	n/a	-	-	-	n/a	n/a
2010 Tier 1	701	484	615	416	-	-	-	558	366
Tier 2	811	594	n/a	n/a	-	-	-	n/a	n/a
2011 Tier 1	744	527	687	482	-	-	-	601	409
Tier 2	869	652	n/a	n/a	-	-	-	n/a	n/a

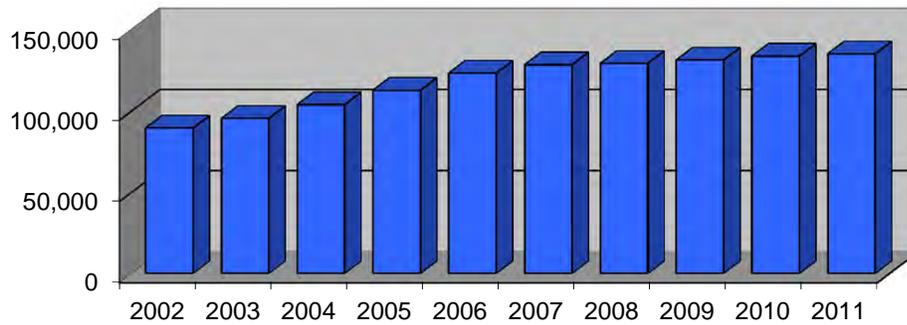
Note: 1. MWD implemented a new two-tiered commodity rate structure effective January 1, 2003.

Source: Metropolitan Water District of Southern California (MWD)

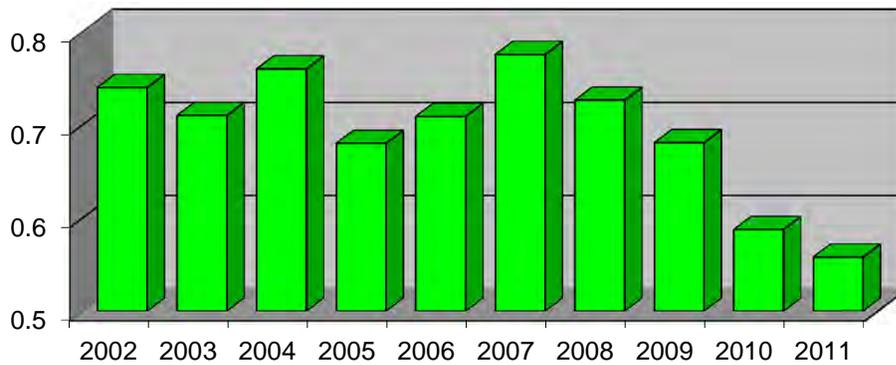
**ANNUAL DOMESTIC CONSUMPTION (AF)
LAST TEN FISCAL YEARS**

Fiscal Year	Usage (AF)	Active Accounts	Average AF per Account
2002	66,293	89,569	0.74
2003	67,345	95,449	0.71
2004	79,006	103,919	0.76
2005	77,066	112,845	0.68
2006	87,488	123,384	0.71
2007	99,658	128,506	0.78
2008	93,956	129,344	0.73
2009	89,448	131,392	0.68
2010	78,621	133,810	0.59
2011	75,461	135,233	0.56

Number of Active Accounts



Average AF/Account



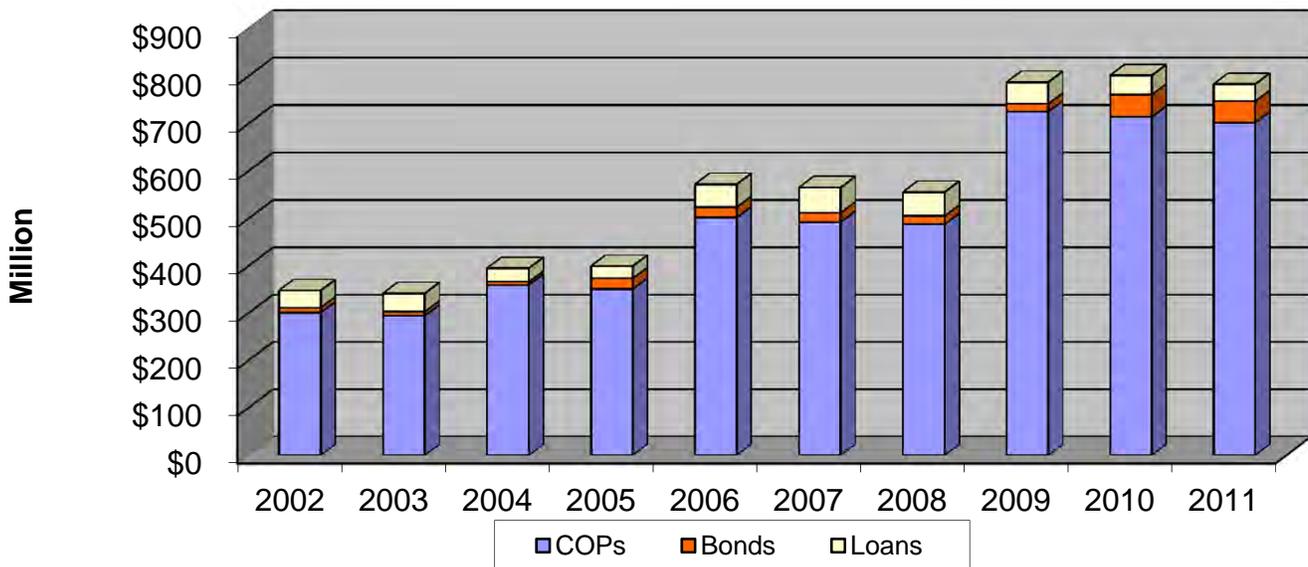
Notes: Amounts exclude wholesale accounts.

Usage per account decreased in 2008 - 2011 due to conservation efforts and the level of bank-owned homes relating to the economic downturn.

Source: Eastern Municipal Water District

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

Fiscal Year	Certificates of Participation ¹	General Obligation Bonds ²	Loans	Total	Percentage of Personal Income ³	Debt per Capita ⁴
2002	\$ 301,880,000	\$ 10,515,000	\$ 36,124,905	\$ 348,519,905	0.91%	\$ 726
2003	295,475,000	8,450,000	38,556,914	342,481,914	0.83%	684
2004	360,370,000	6,455,000	28,603,485	395,428,485	0.91%	760
2005	351,615,000	22,695,000	25,705,169	400,015,169	0.85%	723
2006	502,990,000	21,675,000	48,103,473	572,768,473	1.13%	961
2007	493,190,000	19,945,000	52,874,716	566,009,716	1.03%	900
2008	488,460,000	18,140,000	49,630,496	556,230,496	0.92%	824
2009	726,270,000	16,260,000	45,407,198	787,937,198	1.24%	1,147
2010	714,725,000	47,175,000	40,279,228	802,179,228	1.24%	1,148
2011	702,975,000	45,050,000	35,818,082	783,843,082	1.24%	1,112



Notes:

Details regarding the District's outstanding debt can be found in the Note 5 to the basic financial statements. See the schedule of Demographic and Economic Statistics for personal income and population data.

1. The District issued over \$160 million of new COPs in FYE 2006 and another \$240 million in FYE 2009.

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

3. Based upon Riverside County personal income amounts. The District is located in the County of Riverside.

See the personal income amounts on the Demographic and Economic Statistics schedule.

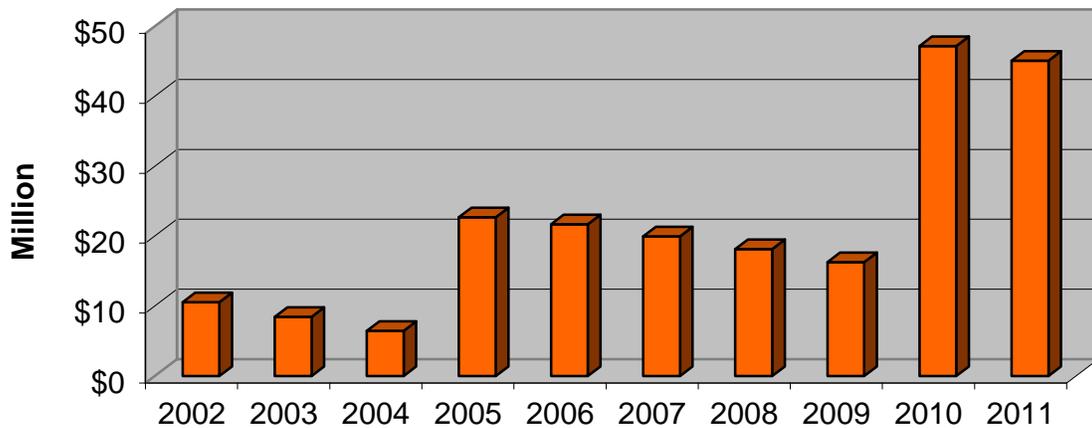
4. Based upon approximate population of District service area. See the Demographic and Economic Statistics schedule for amounts.

Source: Eastern Municipal Water District

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

Fiscal Year	General Obligation Bonds¹	Assessed Value²	Percentage of Assessed Value	Debt per Capita³
2002	\$ 10,515,000	\$ 23,662,143,296	0.04%	\$ 22
2003	8,450,000	26,541,419,602	0.03%	17
2004	6,455,000	30,196,349,883	0.02%	12
2005	22,695,000	36,317,993,384	0.06%	41
2006	21,675,000	45,799,534,361	0.05%	36
2007	19,945,000	57,857,155,353	0.03%	32
2008	18,140,000	68,127,605,656	0.03%	27
2009	16,260,000	67,617,348,347	0.02%	24
2010	47,175,000	56,743,387,948	0.08%	67
2011	45,050,000	54,294,174,863	0.08%	64

Total Bonds Outstanding



Notes:

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

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

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

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

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

Source: Eastern Municipal Water District

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

	2002	2003	2004	2005	2006	2007	2008	2009 ¹	2010	2011
OPERATING REVENUES:										
Water sales	\$ 58,355,346	\$ 60,565,819	\$ 64,796,401	\$ 66,258,221	\$ 77,611,474	\$ 92,679,789	\$ 94,135,642	\$ 103,013,429	\$ 102,747,031	\$ 102,479,984
Sewer service sales	27,825,278	29,973,084	33,496,234	39,739,370	45,462,646	50,318,414	54,408,172	58,889,788	61,885,298	62,840,013
Recycled water	1,182,868	1,409,824	2,069,194	1,498,687	1,944,434	2,748,328	2,564,656	3,722,130	4,052,665	4,504,923
Total operating revenues	87,363,492	91,948,727	100,361,829	107,496,278	125,018,554	145,746,531	151,108,470	165,625,347	168,684,994	169,824,920
OPERATING EXPENSES:										
Water purchases	30,632,930	32,307,403	29,104,840	32,380,524	36,817,458	43,866,732	41,653,430	41,318,803	46,936,179	46,489,850
Water operations	17,886,826	19,634,843	21,777,484	25,111,134	29,030,238	35,332,561	38,447,533	40,834,689	39,967,447	41,364,910
Sewer operations	22,528,854	24,562,132	26,782,007	30,984,587	37,351,240	41,783,797	45,047,856	45,909,954	45,123,786	47,351,385
General & administrative	14,395,481	15,317,533	15,186,601	18,418,043	21,520,070	25,292,047	30,138,792	27,471,196	30,256,670	27,408,299
Total operating expenses	85,444,091	91,821,911	92,850,932	106,894,288	124,719,006	146,275,137	155,287,611	155,534,642	162,284,082	162,614,444
OPERATING INCOME (LOSS)	1,919,401	126,816	7,510,897	601,990	299,548	(528,606)	(4,179,141)	10,090,705	6,400,912	7,210,476
NON-OPERATING REVENUES:										
Property taxes - general purpose	12,887,334	14,477,271	16,531,907	8,707,881	11,213,568	31,293,863	34,528,767	33,149,232	29,474,227	25,884,964
Standby charges	3,929,860	4,006,786	4,172,104	4,354,591	4,518,411	4,667,297	4,868,154	5,015,076	5,246,008	5,569,818
Water and sewer connection fees	25,740,750	46,960,911	80,804,323	72,445,434	99,485,272	52,894,363	30,706,687	17,789,045	13,010,929	10,815,294
Interest income ²	15,105,192	10,986,525	4,987,397	13,354,263	13,545,983	28,899,522	20,128,848	18,706,820	16,681,744	7,584,978
Grant revenues	-	-	-	-	-	-	11,261,996	6,466,818	6,063,577	16,137,906
Other income/(expense)	(1,637,861)	(1,564,986)	780,603	3,077,188	7,088,624	4,093,851	8,812,367	1,767,759	487,672	1,727,067
Total non-operating revenues	56,025,275	74,866,507	107,276,334	101,939,357	135,851,858	121,848,896	110,306,819	82,894,750	70,964,157	67,720,027
NON-OPERATING EXPENSES:										
Parity debt service interest payments (DWR/BOF)	-	-	-	-	-	-	-	1,163,677	1,003,731	881,803
Debt service interest payments (COP) ³	15,736,862	15,427,928	15,042,051	15,358,957	18,404,817	22,670,400	21,953,962	23,564,234	21,413,765	20,981,966
Total non-operating expenses	15,736,862	15,427,928	15,042,051	15,358,957	18,404,817	22,670,400	21,953,962	24,727,911	22,417,496	21,863,769
EXCESS OF REVENUE OVER EXPENSES	42,207,814	59,565,395	99,745,180	87,182,390	117,746,589	98,649,890	84,173,716	68,257,544	54,947,573	53,066,734
Add back for parity debt	15,736,862	15,427,928	15,042,051	15,358,957	18,404,817	22,670,400	21,953,962	24,727,911	22,417,496	21,863,769
Net revenues for debt coverage	57,944,676	74,993,323	114,787,231	102,541,347	136,151,406	121,320,290	106,127,678	92,985,455	77,365,069	74,930,503
Parity debt: COP & Loan principal and interest	19,471,862	21,832,928	21,737,051	24,113,957	27,374,817	32,005,400	28,708,962	39,853,513	38,759,515	38,435,569
PARITY DEBT SERVICE COVERAGE RATIO	3.0	3.4	5.3	4.3	5.0	3.8	3.7	2.3	2.0	1.9

Source: Eastern Municipal Water District

Notes:

1. 2009 amounts were restated for net internal service funds included in other non-operating income rather than general and administrative expense.
2. 2010 and 2011 interest income amounts include \$735,805 and \$110,839 of capitalized construction period interest, respectively. See Note 15 to the basic financial statements.
3. 2010 and 2011 COP interest expense amounts include \$7,433,040 and \$8,713,038 of capitalized construction period interest, respectively. See Note 15 to the basic financial statements.

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

<u>Calendar Year</u>	<u>Population¹</u>	<u>Personal Income² (thousands of \$)</u>	<u>Per Capita Personal Income²</u>	<u>Unemployment Rate²</u>
2001	480,000	\$ 38,238,713	\$ 24,526	5.5%
2002	501,000	41,362,723	25,616	6.5%
2003	520,300	43,619,440	25,922	6.5%
2004	553,000	46,998,865	26,647	6.0%
2005	596,000	50,899,043	27,578	5.4%
2006	629,000	55,177,252	28,777	5.0%
2007	675,000	60,450,090	30,303	6.0%
2008	687,000	63,749,464	31,008	8.5%
2009	699,000	64,496,632	30,890	13.6%
2010	705,000	63,228,086	29,748	14.7%

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

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

**PRINCIPAL EMPLOYERS
FISCAL YEAR ENDED JUNE 30, 2011**

<u>Employer</u>	<u>No. of Employees</u>	<u>Percentage of Total Labor Force</u>
County of Riverside	18,000	2.3%
March Air Reserve Base	8,525	1.1%
Stater Brothers Markets	6,902	0.9%
University of California, Riverside	4,907	0.6%
Corona-Norco Unified School District	4,400	0.6%
Pechanga Resort & Casino	4,000	0.5%
Riverside Unified School District	3,900	0.5%
Kaiser Permanente Riverside Medical Ctr	3,500	0.5%
Riverside Community College	3,141	0.4%
Abbott Vascular	3,000	0.4%
Total	<u>60,275</u>	<u>7.8%</u>
Total Labor Force		<u>769,700</u>

Notes: For compliance with GASB Statement No. 34, data for fiscal year ended June 30, 2002 is not available.
 Data is for the County of Riverside. The District is located within the County.

Sources: The Business Press' 2011 Book of Lists
 State of California Employment Development Department

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

<u>Water Operations</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Water Resources Development and Management ²	12	13	17	19	19	19
Water Quality	17	18	15	15	14	15
Water Operations and Distribution	60	57	66	63	63	64
<u>Wastewater Operations</u>						
Wastewater Collection	13	15	15	14	15	15
Source Control	12	10	10	10	8	9
Water Reclamation Plant	75	76	82	82	87	90
<u>Maintenance Services</u>						
Maintenance	19	20	20	22	17	17
Auto and Fabrication	14	14	14	13	14	16
Mechanical	26	27	27	27	30	30
Electrical and Controls	20	20	21	22	21	22
Field and Grounds	36	37	37	37	35	37
<u>Engineering Services</u>						
General Engineering ¹	61	52	56	57	55	53
Inspections and Construction Management	36	44	39	40	38	39
New Business Development ¹	20	34	28	25	25	26
<u>Administration</u>						
Environmental and Regulatory Compliance	8	9	7	8	8	9
Executive and Administration	8	8	10	10	10	10
Billing/Customer Service	41	47	49	49	60	62
Meter Reading	24	25	25	25	24	24
Finance and Accounting	18	18	20	21	21	22
Human Resources	12	12	13	13	13	13
Legislative Affairs	3	3	3	2	3	3
Information Systems	37	35	33	33	34	33
Purchasing, Warehouse and Records Management	28	28	28	29	26	27
Community Involvement ²	10	13	9	9	9	8
Total Filled Positions	<u>610</u>	<u>635</u>	<u>644</u>	<u>645</u>	<u>649</u>	<u>663</u>
Number of Vacant Positions as of June 30	Not Available	Not Available	<u>26</u>	<u>22</u>	<u>27</u>	<u>27</u>
Total Authorized Positions for the Year			<u>670</u>	<u>667</u>	<u>676</u>	<u>690</u>
Vacancy Rate as of June 30			3.9%	3.3%	4.0%	3.9%

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

Source: Eastern Municipal Water District

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

	Fiscal Year Ended								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
<u>POTABLE WATER SYSTEM</u>									
Miles of pipeline:									
transmission and distribution: ³	1,528	1,867	2,051	2,345	2,442	2,437	2,444	2,421	2,421
as built	Not Available	1,681	1,747	1,817	1,944	2,038	2,157	2,254	2,254
construction in progress	Not Available	186	304	528	498	399	287	167	167
Number of storage tanks ¹	76	78	77	78	79	78	77	77	77
Maximum storage capacity (million gallons)	178	188	188	193	193	193	193	193	193
Number of active pumping plants	79	80	80	82	83	81	84	84	84
Number of active wells:									
domestic	17	18	18	18	18	18	18	18	18
desalter	2	2	2	9	7	5	5	7	7
Domestic well production capacity:									
gallons per minute	18,179	17,953	19,000	19,747	22,076	21,597	21,806	20,361	22,951
million gallons per day	26.2	25.9	27.4	28.4	31.8	31.1	31.4	29.3	33.0
acre feet per year	29,310	28,959	30,407	31,852	35,609	34,836	35,173	32,843	37,021
Number of water treatment plants:									
desalter	1	1	1	2	2	2	2	2	2
filtration	1	1	1	1	2	2	2	2	2
Treatment plant capacity (million gallons per day):									
desalter plants	3.0	3.0	3.0	8.0	8.0	8.0	8.0	8.0	8.0
filtration plants	11.4	11.4	11.4	11.4	21.4	32.0	32.0	32.0	32.0
Number of service connections:									
active domestic accounts	95,449	103,919	112,845	123,384	128,506	129,344	131,392	133,810	135,233
active agriculture and irrigation accounts	167	153	139	130	129	140	143	146	146
<u>SEWER SYSTEM</u>									
Miles of sewer lines: ^{2,3}									
as built	1,200	1,400	1,500	1,750	1,857	1,721	1,729	1,727	1,727
construction in progress	1,045	1,097	1,156	1,218	1,335	1,407	1,539	1,604	1,604
Number of treatment plants	155	303	344	532	522	314	190	123	123
Number of treatment plants	5	5	5	5	5	5	5	5	5
Treatment plant capacity (million gallons per day)	53	53	53	59	59	59	63	63	63
Average million gallons per day treated	34.0	38.2	43.3	44.8	46.0	46.2	45.2	45.0	46.0
Percentage of capacity utilized	64%	72%	82%	76%	78%	78%	72%	71%	73%
Number of active lift stations	35	40	43	46	46	46	46	46	46
<u>RECYCLED WATER SYSTEM</u>									
Miles of pipeline:									
transmission and distribution: ³	123	139	159	174	192	201	202	199	199
as built	Not Available	131	135	149	156	165	172	178	178
construction in progress	Not Available	8	24	25	36	36	30	21	21
Number of active pumping facilities	14	14	15	17	17	17	18	18	19
Maximum storage capacity (acre feet) ⁴	6,669	6,653	6,670	6,571	6,694	6,764	5,776	5,714	5,714
<u>GENERAL INFORMATION</u>									
Service area (annexed property):									
acres	345,903	346,125	346,148	346,337	346,425	346,449	346,691	346,732	346,732
square miles	540.5	540.8	540.9	541.2	541.3	541.3	541.7	541.8	541.8
Gross service area (square miles)	555	555	555	555	555	555	555	555	555
Average years of service of employees	10.86	10.90	10.63	9.80	9.98	10.05	10.20	10.47	10.86

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

- Potable water storage tanks and capacity decreased in 2008 and 2009 due to conversion to recycled water.
- Miles of sewer lines decreased in 2008 because the District transferred sewer lines to the City of San Jacinto. Decrease is reflected in each as-built amount.
- Miles of pipelines as-built excludes open construction in progress (CIP). CIP reflects what was recorded as open projects as of the year end date.
- Recycled storage decreased in 2009 due to a change in the reporting method to show only tertiary-treated water dedicated to distribution. Prior years included capacity for secondary-treated storage. Decrease in 2010 relates to lower capacity for Winchester ponds due to operational assessments.

Source: Eastern Municipal Water District

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

Fiscal Year	Retail Sales	Write Offs	% of Sales
2002	\$ 68,291,381	\$ 236,168	0.3%
2003	70,041,876	301,164	0.4%
2004	83,551,697	255,260	0.3%
2005	88,297,280	259,410	0.3%
2006	103,371,554	384,329	0.4%
2007	121,769,923	724,045	0.6%
2008	126,144,814	1,155,769	0.9%
2009	139,863,262	1,386,075	1.0%
2010	142,354,003	1,035,076	0.7%
2011	143,427,078	734,381	0.5%
Total	\$ 1,087,112,868	\$ 6,471,677	0.6%

Note: Excludes sales collected by other agencies.

Source: Eastern Municipal Water District

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

Fiscal Year	Year End A/R Balance	Reserves	% of A/R
2002	\$ 5,477,258	\$ 69,363	1.3%
2003	5,499,953	56,569	1.0%
2004	5,707,462	89,413	1.6%
2005	5,973,588	91,578	1.5%
2006	7,350,203	187,390	2.5%
2007	9,278,477	368,961	4.0%
2008	9,375,405	690,461	7.4%
2009	10,377,183	838,543	8.1%
2010	9,603,615	678,848	7.1%
2011	11,170,339	610,537	5.5%

Note: Reserves equal accounts over 60 days.

Source: Eastern Municipal Water District