



EMWD

Comprehensive Annual Financial Report

For the fiscal year ended June 30, 2005



Eastern Municipal Water District

Comprehensive Annual Financial Report

**FOR THE FISCAL YEAR ENDED
June 30, 2005**

Prepared by the Finance Department

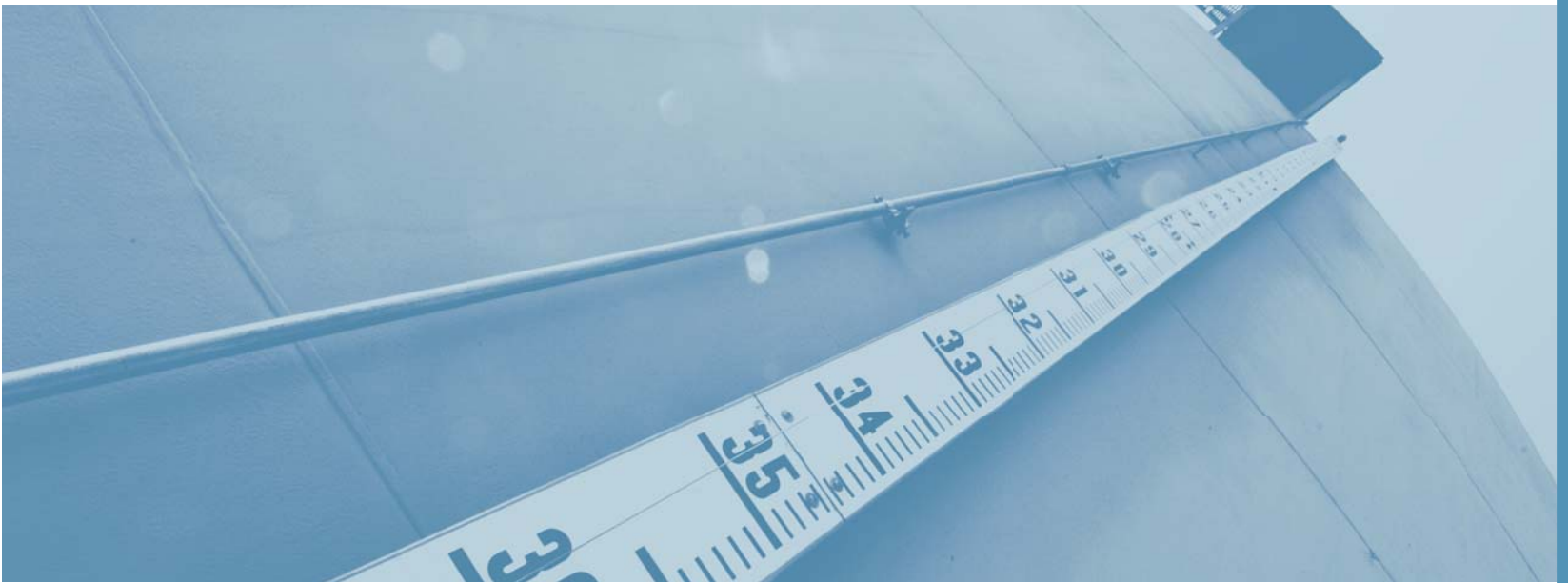
2270 Trumble Road . Box 8300 . Perris, CA 92572-8300

Eastern Municipal Water District

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2005

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Introductory Section





August 31, 2005

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

Board of Directors

President
Randy A. Record

Vice President
David J. Slawson

Richard R. Hall
Rodger D. Siems
Ronald W. Sullivan

Board Secretary
Rosemarie V. Howell

General Manager
Anthony J. Pack

***Director of the
Metropolitan Water
District of So. Calif.***
Randy A. Record

Treasurer
Joseph J. Kuebler,
CPA

Legal Counsel
Redwine & Sherrill

We are pleased to present the Eastern Municipal Water District's Comprehensive Annual Financial Report for the year ended June 30, 2005.

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

The District's financial statements have been audited by Conrad and Associates, L.L.P., 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, 2005, 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, 2005, are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

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

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

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

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

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

IV. Statistical Section – includes a number of unaudited tables and schedules that present historical trends for the past ten years as well as demographic and other information about the District deemed relevant.

Reporting & Entity Profile

District's Service Area

The District's service area lies within the westerly third of Riverside County, encompassing 352,000 acres (555 square miles). The map below indicates the location of the District's service area in Riverside County. When the District was annexed to the Metropolitan Water District of Southern California ("MWD") by the District's voters in 1951, its service area consisted of 86 square miles. Growth has resulted from 70 annexations and 7 detachments of service areas ranging in area from 1 to 72,000 acres. The assessed valuation has grown from \$72 million when formed to over \$36.3 billion in this past fiscal year.

Riverside County's population increased to a total of approximately 1.9 million as of January, 2005. Of this population, the District serves approximately 570,000 (30%).



District's Authority

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

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

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

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

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

Governance

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

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

Water Services

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

Approximately 18% of the District's water supply comes from local groundwater sources which includes approximately 1% from desalination. Such sources are heavily dependent upon rainfall and other

sources of recharge. The remaining 81% of the District's water supply comes through purchases from MWD, which in turn obtains its water supply from two primary sources: the Colorado River via the Colorado River Aqueduct and the State Water Project via the Edmund G. Brown California Aqueduct.

Sewer Services

The District is currently divided into five sewer service areas—Hemet-San Jacinto, Moreno Valley, Sun City, Temecula Valley and Perris Valley—for purposes of transmission, treatment and disposal of wastewater. The Sun City plant has been deactivated as a cost reduction measure and all flows are treated at the larger Perris facility. Each service area is served by a single regional water reclamation facility ("RWRF"), for which costs and methods of treatment vary. The facilities are capable of treating 53 MGD of wastewater and serve approximately 570,000 people. They are linked to a network of nearly 1,500 miles of pipeline and 43 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 43 MGD of effluent at its four active regional water reclamation facilities. The amount of effluent is expected to grow to 52 MGD by the year 2013. Approximately 60%-70% of the effluent currently generated is the goal to be sold to agricultural and irrigation users. However, only 38% of the total recycled production was sold due to a longer winter.

Economic Conditions & Outlook

Riverside County was rated as the second fastest growing county in the nation based on population growth. Median home prices increased by 23.2% from June 2004 to June 2005 and is at \$393,000. Assessed valuations also increased by nearly 23% over 2004.

This past year, the District's service area was a major factor in the county and continued to experience significant growth. System hookups were at 13,989 for sewer and 9,748 for water. This will generate nearly 4 mgd of wastewater and require nearly 5,000 more AF of water. The current year is experiencing the same pace and there is a reasonable expectation that this pace or slightly lower will continue over the next five years. Due to the increase in available recycled water from this growth and the demand on potable water, the District is moving toward developing its recycled water system into a pressurized one. This will allow for an exchange by municipal customers who currently receive potable water for landscape, decorative ponds and other irrigation purposes to substitute recycled water at nearly half the price of potable water. This in turn will make available the potable water for the residential customers.

Major Initiatives

Long Range Financial Plan

The rapid growth over the past three years and the projections for the next five, have placed significant demands on the District's infrastructure, people and financial resources. Our capital expenditures over the past three years have been \$58 million, \$68 million, and \$139 million, respectively. The next five years calls for expenditures to total \$711 million for water, wastewater and recycled water construction projects. In order to meet these future needs, the District developed a comprehensive Capital Improvement Financial Plan for the next five years to determine sources of funding for the various types of projects. This plan was instrumental in achieving the District's "AA" rating from Fitch Ratings. The major sources were identified as Developer Fees (\$246 mill); COP/Loans (\$183 mill); Grants (\$160 mill); Property Taxes (\$57 mill); Rates (\$38 mill); and Interest (\$27 mill). The major project categories include \$353 million for water treatment plants, desalters, wells, pipelines and pumping plants; \$334 million for wastewater treatment plant expansions, transmission lines, and lift stations; and \$18 million for various recycled water projects.

Accomplishments

Operations

During the past year the District achieved three major operational accomplishments:

First, the Water Operations Department reconfigured the distribution to deliver an additional 20 cfs from the Mills Filtration Plant. This was done by installation of two pump station bypass installations and rerouting flow through Moreno I pump station to divert more water east and south.

Second, Water Reclamation, Engineering and Maintenance pressurized the recycled water system to allow live stream discharge and concurrently serve recycled customers.

Lastly, the District received an additional four (4) Capstone 60KW microturbines at no charge from SCAQMD and installed an absorption chiller to recover exhaust heat from the turbines. The exhaust heat powers the absorption which generates 150 tons of air conditioning capacity. The utilization of the exhaust heat creates an additional 200KW of power generating capacity bringing the turbine facility power generation capacity to 740KW. The absorption chiller also increases the power efficiency to greater than 42.5% which precludes departing load penalties from our electrical provider.

Bond Credit Rating

The District was assigned a "AA" credit rating in December 2004 by Fitch Ratings. This is an improvement from the AA- assigned by Standard & Poors and the AA3 assigned by Moody's Investor Service. Fitch cited "sound formal reserve polices and covenants ensure healthy liquidity levels", and "the District has demonstrated the ability to manage growth pressures and achieve sound financial margins."

Technology

The unprecedented growth in the District's service area has resulted in nearly 1,000 water meter hook ups per month. The total number of meters at June 30, 2005 was at 115,000. To mitigate the monthly manual reading of these meters, the District implemented Automated Meter Reading (AMR) on all new development which allowed one person to read five times as many meters in a day as a single meter reading team. This has been utilized for 14,000 of the 115,000 and has eliminated the need to add more manual meter reading teams and reduce operating costs.

The District has nearly 600 employees and one of its strategic goals is to improve information to all employees. In an effort to address this, the District released its own intranet web site in the latter part of this fiscal year. Although in the early development stages, it has been experiencing very positive feedback and utilization and is expected to be the primary media for district wide information.

Financial Policies

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

Accounting System

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

Internal Controls

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

Budgetary Controls

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

Cash Management

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

Awards and Acknowledgments

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Eastern Municipal Water District for its comprehensive annual financial report for the fiscal year ended June 30, 2004. This is the second consecutive year that the District has received this prestigious award. In order to be awarded a Certificate of Achievement, the District must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

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

We would like to thank Carolyn Rynda, Accounting Manager, the Finance Department and the independent accounting firm of Conrad and Associates, L.L.P for the efforts put into the preparation of this report. We would also like to thank the Board of Directors for their continued interest and support towards achieving excellence in financial management.

Respectfully submitted,



Anthony J. Pack
GENERAL MANAGER



Charles E. Rathbone, Jr.
CHIEF FINANCIAL OFFICER

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Eastern Municipal Water
District, California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

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.



Nancy L. Zielke

President

Jeffrey R. Emer

Executive Director

*California Society of
Municipal Finance Officers*

Certificate of Award

Outstanding Financial Reporting 2003-2004

Presented to the

Eastern Municipal Water District



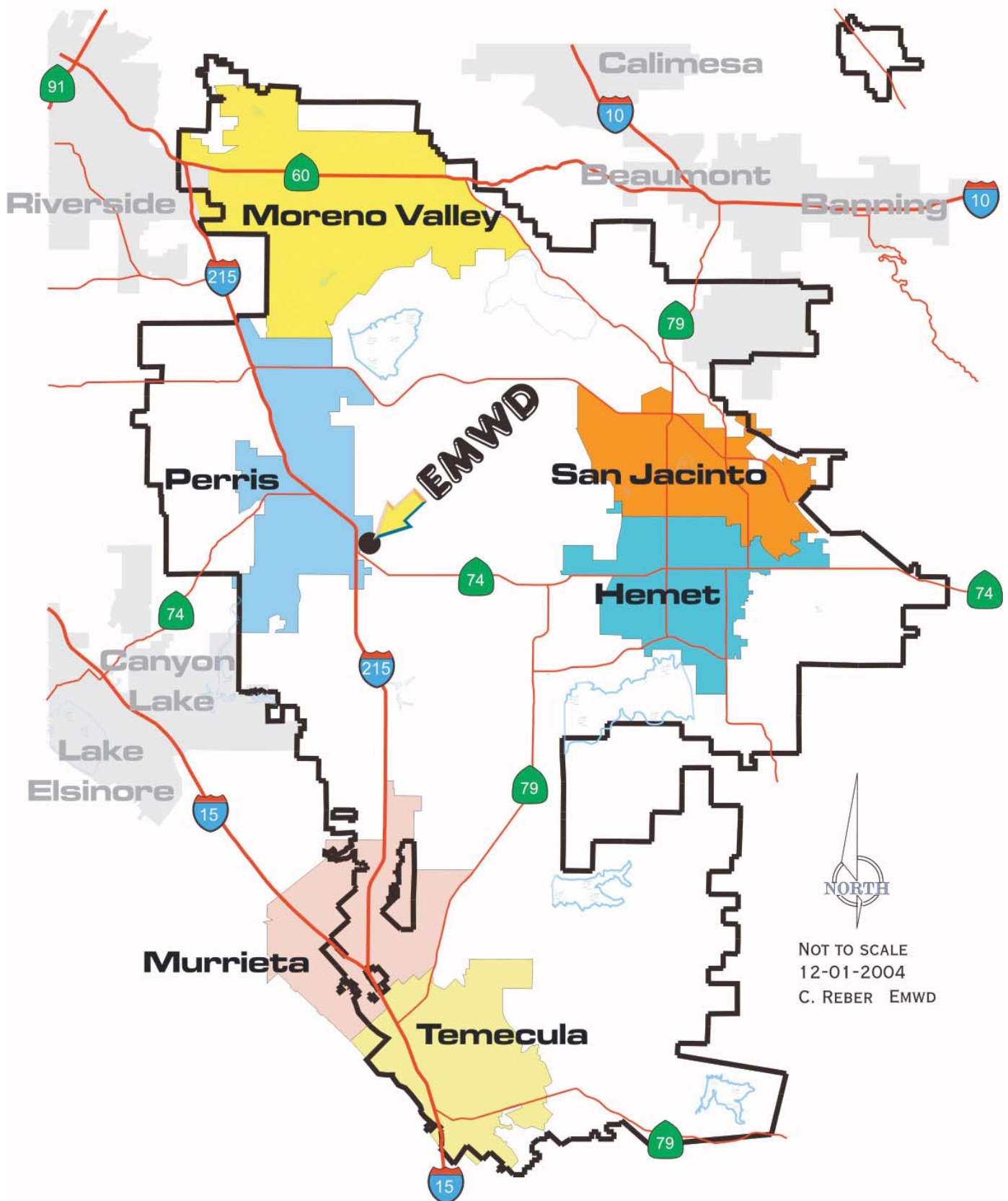
*This certificate is issued in recognition of meeting professional standards and criteria in reporting
which reflect a high level of quality in the annual financial statements
and in the underlying accounting system from which the reports were prepared.*

February 24, 2005

Sandra Schmidt, Chair
Professional & Technical Standards Committee

Dedicated to Excellence in Municipal Financial Management

Eastern Municipal Water District Service Area Map and Incorporated Cities



Eastern Municipal Water District

District Officials

June 30, 2005

ELECTED BOARD OF DIRECTORS

Randy A. Record
PRESIDENT

Rodger D. Siems
DIRECTOR

Ronald W. Sullivan
DIRECTOR

David J. Slawson
VICE PRESIDENT

Richard R. Hall
DIRECTOR

Joseph J. Kuebler
TREASURER (APPOINTED)

DISTRICT MANAGEMENT

Anthony J. Pack
GENERAL MANAGER

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

Parameshwaran Ravishanker
DEPUTY GENERAL MANAGER

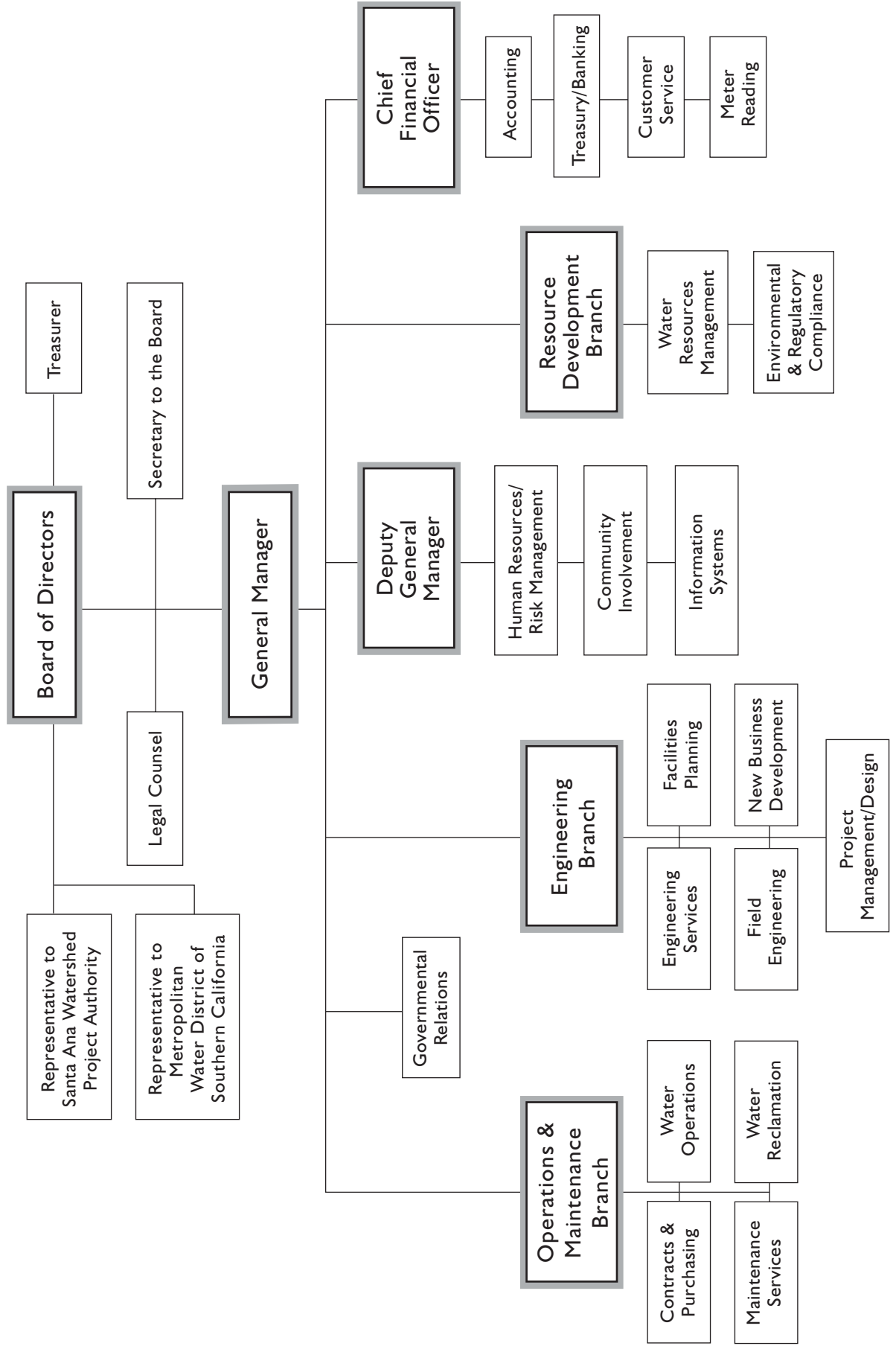
Charles J. Bachmann
**ASSISTANT GENERAL MANAGER
ENGINEERING**

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

Charles E. Rathbone, Jr.
CHIEF FINANCIAL OFFICER

Eastern Municipal Water District

Organizational Chart





Financial Section



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Board of Directors
Eastern Municipal Water District
Perris, California

Independent Auditors' Report

We have audited the accompanying balance sheet of Eastern Municipal Water District ("the District") as of June 30, 2005, and the related statement of revenue, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

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, 2005, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Board of Directors
Eastern Municipal Water District
Page Two

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

In accordance with *Government Auditing Standards*, we have also issued our report as of and for the year ended June 30, 2005 dated August 12, 2005, on our consideration of Eastern Municipal Water District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Conrad and Associates, L.L.P.

AUGUST 12, 2005

MANAGEMENT'S DISCUSSION & ANALYSIS

The intent of the management's discussion and analysis is to provide highlights of the Eastern Municipal Water District's financial activities for the fiscal year ended June 30, 2005. Readers are encouraged to read this section in conjunction with the accompanying financial statements.

The District's Operations — an Overview

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

FINANCIAL HIGHLIGHTS

Revenues

Combined revenues for the fiscal year totaled \$217,083,926 compared to a prior year of \$212,405,916. This is a increase of slightly more than 2.2%. The following table on page 6 presents a comparison of revenues by category for the two fiscal years 2004/05 and 2003/04.

Expenses

Combined expenses for the fiscal year totaled \$164,859,822 compared to a prior year of \$146,446,483. This is an increase of slightly over 12.6%. The following table on page 6 presents a comparison of expenses by category for the two fiscal years 2004/05 and 2003/04.

Water Sales

Sales increased approximately \$1.5 million (2.3%) over the previous year's total to end at \$66.3 million. This is primarily attributed to a volume decrease in retail sales of 2.5% from the previous year and a 4.4% average increase in water rates that was implemented January 1, 2005. (See water purchases.)

Sewer Service

Wastewater service charges increased by \$6.2 million (18.6%) over the previous year's total to end at \$39.7 million. This is primarily attributed to an increase in customer hook ups, approximately 5.8% above the previous year, coupled with a monthly sewer rate increase of approximately 6% on average, effective January 1, 2005.

Connection Fees

These revenues decreased over the prior year due to a decrease in the housing development market. Sewer hookups were at 13,989 compared to a prior year of 18,824 representing a decrease of 25% and water hookups were at 9,748 compared to a prior year of 11,948 representing a decrease of 18%. This resulted in revenue of \$8.4 million (10.3%) lower than the previous year.

Interest Earnings

The prior year's interest earnings were negatively impacted by a book adjustment charge of \$6.3 million per GASB 31. Excluding this adjustment, the current fiscal year's interest earnings was a favorable \$2.1 million (18%) due to improved yields on investments of 3.01% for the year compared to 2.79% last fiscal year, and a higher average portfolio balance.

Property Taxes

Although assessed valuations increased by nearly 20% over the prior year, the District's property tax revenue decreased by \$7.8million (47.3%) due to the states diversion of \$12.6 million to help mitigate its budget deficit. This diversion was a legislative action and will continue for one more year.

Water Purchases

Water sales volume decreased by 2,566 acre feet (af) of water, but purchased water from our wholesale provider, the Metropolitan Water District (MWD), remained at the same level. However, at the previous year's mix, this would have been nearly 6,938 af lower. This additional water purchased plus an increase in the cost of water of \$25/af were the primary factors for the increase.

Water Operations

Although water sales were lower than the previous year, the increase in wages and benefits was \$2.6 million over the prior year along with other material and outside service charges of \$.7 million.

Sewer Operations

The increase in flows that needed to be treated due to growth increased from 38.2 mgd in 2003/04 to nearly 43.3 mgd in 2004/05. This increase coupled with higher wages, benefits, materials, and services resulted in the \$3.4 million increase.

Depreciation Expense

The District capitalized over \$139 million in new assets over the course of the year which will add nearly \$4.0 million per year in additional depreciation expense.

General and Administrative

Due to the significant growth, the District authorized an additional 38 employees. Additionally, higher medical and retirement benefit expense has been absorbed by the District.

Interest Expense – Other

The prior year included a one time credit of \$655,000 that is the major portion of this variance. The balance is the result of more interest paid on existing loans.

Recycled Water

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

Other Non-operating Expenses

The primary increase has been to reports and studies that are prepared and not eligible for capitalization (\$954,000); costs of abandoning facilities (\$150,000); loss on asset disposal (\$274,000); offset by lower expenses in county fees/misc (\$109,000).

Capital Contributions

Facilities built by developers and turned over to the district to operate and maintain decreased to \$30.6 million compared to \$33.5 million in the previous year.

Capital Expenditures

During the year, expenditures in capital projects totaled \$138.3 million. Some of the major projects currently underway and where expenditures in the current fiscal year exceed \$3 million include: the Temecula Valley Regional Water Reclamation Facility Expansion to 18 MGD (\$18.6 mill); Perris Basin Desalination Facility (\$12.6 mill); Hemet Water Filtration Plant (\$9.3mill); Temecula Recycled Water Pipeline (\$8.6 mill); Moreno Valley Regional Water Reclamation Facility Bardenpho Modification (\$6.5 mill); Palomar Recycled Water Booster Station (\$6.0 mill); Perris Valley Regional Water Reclamation Facility Expansion 2005 (\$5.4 mill); Perris Water Filtration Plant Ph. II (\$3.6 mill); Reach 16 Recycled Water Pipeline (\$3.3 mill); Perris Desalter Well Pump Facility Ph. I (\$3.2 mill); Perris Desalter Transmission P/L (\$3.2 mill); fourteen water and sewer projects between \$1,000,000 - \$3,000,000 (\$25.0 mill); sixteen water and sewer projects between \$500,000 - \$1,000,000 (\$11.2 mill); forty-nine water and sewer projects between \$100,000 - \$500,000 (\$11.2 mill). The remaining \$10.6 million was for various water and sewer projects with expenditures less than \$100,000 in the current fiscal year.

**Combined Revenue and Expenses by Category
For Fiscal Years Ended June 30, 2005 and 2004**

	2004/05		2003/04		Increase/(Decrease) from 2003/04	
	Amount	% of total	Amount	% of total	Amount	% Change
Revenues						
Water Sales	\$ 66,258,221	30.5%	\$ 64,796,401	30.5%	\$ 1,461,820	2.3%
Sewer Service	39,739,370	18.3%	33,496,234	15.8%	6,243,136	18.6%
Connection Fees	72,445,434	33.4%	80,804,323	38.0%	(8,358,889)	-10.3%
Interest	13,576,749	6.3%	5,186,086	2.4%	8,390,663	161.8%
Property Taxes – 1%	8,707,881	4.0%	16,531,907	7.8%	(7,824,026)	-47.3%
Standby Charges	4,354,591	2.0%	4,172,104	2.0%	182,487	4.4%
Property Taxes – GO Bonds	2,809,967	1.3%	2,166,474	1.0%	643,493	29.7%
Recycled Water	1,498,687	.7%	2,069,194	1.0%	(570,507)	-27.6%
Other Non-Operating Revenues	7,693,026	3.5%	3,183,193	1.5%	4,509,833	141.7%
Total Revenues	\$ 217,083,926	100.0%	\$ 212,405,916	100.0%	\$ 4,678,010	2.2%
Expenses						
Water Purchases	32,380,524	19.6%	\$ 29,104,840	19.9%	3,275,684	11.3%
Water Operations	25,111,134	15.2%	21,777,484	14.9%	3,333,650	15.3%
Sewer Operations	27,194,672	16.5%	23,789,668	16.2%	3,405,004	14.3%
Depreciation Expense	37,572,961	22.8%	35,574,113	24.3%	1,998,848	5.6%
General and Administrative	18,418,043	11.2%	15,186,601	10.4%	3,231,442	21.3%
Interest Expense – COP	15,358,957	9.3%	15,042,051	10.3%	316,906	2.1%
Interest Expense – Other	993,074	.6%	207,676	.1%	785,398	378.2%
Recycled Water	3,789,915	2.3%	2,992,339	2.0%	797,576	26.7%
Other Non-Operating Expenses	4,040,542	2.5%	2,771,711	1.9%	1,268,831	45.8%
Total Expenses	164,859,822	100.0%	\$ 146,446,483	100.0%	18,413,339	12.6%
Income Before Contributions	\$ 52,224,104		\$ 65,959,433		(13,735,329)	-20.8%
Capital Contributions	30,613,539		33,509,559		(2,896,020)	-8.6%
Change in Net Assets	82,837,643		99,468,992		(16,631,349)	-16.7%
Total Net Assets at Beginning of Year	991,813,116		892,344,124		99,468,992	11.1%
Total Net Assets at End of Year	1,074,650,759		\$991,813,116		82,837,643	8.4%

Net Assets

The financial condition of the District has improved from the previous year. The District's net assets increased by \$82,837,643 to \$1,074,650,759. This is a 8.4% increase over the prior year and can be illustrated from the following table that compares the various categories of assets, liabilities and net assets for the two fiscal years 2004/05 and 2003/04 and changes.

Balance Sheets
June 30, 2005 and 2004

	2004/05	2003/04	Increase/(Decrease) from 2003/04	
			Amount	% Change
Assets				
Current assets	\$ 174,074,440	\$ 150,679,659	\$ 23,394,781	15.5%
Restricted assets	272,628,419	321,233,195	(48,604,776)	-15.1%
Capital assets	1,088,523,463	963,524,122	124,999,341	13.0%
Other assets	13,281,089	8,006,705	5,274,384	65.9%
Total assets	\$ 1,548,507,411	\$ 1,443,443,681	\$ 105,063,730	7.3%
Liabilities				
Current liabilities	\$ 94,248,875	\$ 77,610,385	\$ 16,638,490	21.4%
Other liabilities	15,287,777	17,965,180	(2,677,403)	-14.9%
Long-term debt outstanding	364,320,000	356,055,000	8,265,000	2.3%
Total liabilities	\$ 473,856,652	\$ 451,630,565	\$ 22,226,087	4.9%
Net Assets				
Invested in capital assets, net of related debt	\$ 747,790,921	\$ 670,647,558	\$ 77,143,363	11.5%
Restricted for debt service/covenants	50,932,809	49,428,231	1,504,578	3.0%
Restricted for construction	179,216,380	186,769,808	(7,553,428)	-4.0%
Unrestricted	96,710,649	84,967,519	11,743,130	13.8%
Total net assets	\$ 1,074,650,759	\$ 991,813,116	\$ 82,837,643	8.4%

Changes in Financial Condition of the District

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

- Current assets increased by \$23.4 million primarily due to an increase in cash of \$21.5 million.
- Restricted assets decreased by \$48.6 million primarily due to a decrease in construction cash of \$49.7 million, offset by an increase in debt service cash of \$1.5 million.
- Capital assets increased by \$125.0 million due to an increase of operating assets being added to the system totaling \$80.8 million; an increase to construction in progress of \$80.6 million; and offset by depreciation expense totaling \$36.4 million.
- Other assets increased by \$5.3 million due to an increase in the prepaid PERS liability of \$5.1 million.

- Current liabilities increased by \$16.6 million primarily due to an increase in advances from developers of \$16.4 million.
- Other liabilities decreased by \$2.7 million primarily due to a reduction of advances for construction, notes and assessments payable.
- The District's net assets increased \$82.8 million, or 8.4% over the prior year. This can be attributed to a net non-operating income of \$89.2 million offset by a net operating loss of \$37.0 million plus contributed capital from developers totaling \$30.6 million for the year.

Further information regarding restrictions and commitments associated with net assets can be identified in notes 9 and 11 to the basic financial statements.

Long-Term Debt

Long-term debt outstanding increased by a net of \$8.2 million due to an issuance of \$18.3 of General Obligation Bonds offset by \$10 million of COP and GO Bond payments that are due in the 2005/2006 year. Also see Note 5 to the financial statements regarding debt issuances and outstanding balances.

Capital Assets

Net of accumulated depreciation, the District reported capital assets of \$1,088,523,463 in fiscal year 2004/05 compared to \$963,524,122 in fiscal year 2003/04. A comparison of the change is provided below by major category. Also, see Note 3 to the financial statements regarding further information regarding capital assets.

Capital Assets For the Fiscal Years Ended June 30, 2005 and 2004

	2004/05	2003/04	Change	% Change
Land	\$ 33,412,860	\$ 32,427,200	\$ 985,660	3.0
Water plant, lines & equip	463,192,929	433,227,324	29,965,605	6.9%
Water capacity rights	17,950,601	17,950,601	-	-
Sewer plant, lines & equip	722,353,340	677,754,023	44,599,317	6.6%
Equipment & general facilities	80,722,176	75,470,324	5,251,852	7.0%
Construction in progress	162,119,160	81,499,563	80,619,597	98.9%
Total Capital Assets	\$ 1,479,751,066	\$ 1,318,329,035	\$ 161,422,031	12.2%
Less Accumulated Depreciation	391,227,603	354,804,913	36,422,690	10.3%
Net Capital Assets	\$ 1,088,523,463	\$ 963,524,122	\$ 124,999,341	13.0%

Significant additions to capital assets include \$30.6 million in contributed capital from developers in the area. The bulk of the contributed assets were water and sewer lines needed to keep up with the increased development in the area.

Three of the largest District projects closed as of June 30, 2005 include the Temecula Recycled Water Pipeline, Phases I, II and III (\$15.3 million); Sanderson Lift Station Replacement Project (\$4.5 million) and the North San Jacinto Water Supply Initiative Raw Water Transmission Facilities (\$2.7 million).

The Temecula Recycled Water Pipeline, Phase I, II and III is a 12.3 mile long recycled pipeline connecting the Temecula Valley Regional Water Reclamation Facility effluent pipeline to the existing Reach IV pipeline in Lake Elsinore. These projects were substantially completed at June 30, 2005 with costs of \$7.2 million, \$4.1 million, and \$4.0 million respectively. Final work on these projects will be completed in July and August.

The Sanderson Lift Station Replacement Project was to replace the current 35 year old lift station with a new and deeper submersible type lift station on the existing property. This was to provide for increased pumping capacity as well as relief for the surcharged gravity sewer pipelines. This project was substantially completed at June 30, 2005 at a cost of \$4.5 million. Final work on this project will be completed in July and August.

The North San Jacinto Water Supply Initiative Raw Water Transmission Facilities were constructed to convey raw water from Metropolitan Water District's Colorado River Aqueduct via EMWD's EM-1 connection to the local property owners to reduce the pumping demand on the area groundwater and slow the movement of high TDS water into the Lakeview Basin. This project was substantially completed at June 30, 2005 with costs of \$2.7 million. Final work on this project will be completed in July and August.

Contacting the District's Financial Management

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

Eastern Municipal Water District
Balance Sheet
June 30, 2005
(with prior year data for comparison purposes only)

	June 30	
	2005	2004
Assets		
Current assets:		
Cash and investments (Note 2)	\$ 145,100,271	\$ 123,561,850
Utility accounts receivable, net of allowances	14,619,767	14,284,519
Property taxes receivable	6,771,528	5,550,683
Accrued interest receivable	2,719,997	2,821,083
Other receivables	948,283	1,207,788
Prepaid expenses	1,856,890	1,515,746
Materials and supplies inventory	2,018,433	2,691,544
Deposits	39,271	46,446
Total current assets	174,074,440	150,679,659
Noncurrent assets:		
Restricted assets:		
Debt service/covenants cash and investments (Note 2)	81,121,600	79,595,042
Property tax receivable	1,120,893	1,406,598
Construction cash and investments (Note 2)	189,796,643	239,465,371
Notes receivable	589,283	766,184
Total restricted assets	272,628,419	321,233,195
Capital assets: (Note 3)		
Land	33,412,860	32,427,200
Structures, improvements and water rights	1,203,496,870	1,128,931,948
Equipment and general facilities	80,722,176	75,470,324
Construction in progress	162,119,160	81,499,563
Total capital assets	1,479,751,066	1,318,329,035
Less accumulated depreciation	(391,227,603)	(354,804,913)
Net capital assets	1,088,523,463	963,524,122
Other assets:		
Prepaid PERS contribution (Note 4)	8,276,763	3,128,649
Unamortized debt issuance costs	3,253,426	3,127,156
Tunnel water seepage agreement (Note 10)	1,750,900	1,750,900
Total other assets	13,281,089	8,006,705
Total noncurrent assets	1,374,432,971	1,292,764,022
Total assets	\$ 1,548,507,411	\$ 1,443,443,681

	June 30	
	2005	2004
Liabilities and net assets		
Liabilities:		
Current liabilities		
Accounts payable	\$ 23,556,849	\$ 23,015,360
Accrued salaries and benefits	1,053,684	1,967,883
Other accrued expenses	1,008,750	791,158
Customer deposits	3,001,868	3,075,076
Current portion of compensated absences (Note 5)	3,904,834	3,691,914
Accrued interest payable	5,833,303	5,636,718
Current portion of certificates of participation (Note 5)	8,970,000	8,755,000
Current portion of bonds payable (Note 5)	1,020,000	2,015,000
Other payables	2,502,072	2,263,268
Advances from developers (Note 14)	41,197,549	24,812,638
Current portion of advances for construction, notes and assessments payable (Note 5)	3,099,436	2,901,068
Less unamortized discount and deferred charges	(899,470)	(1,314,698)
Total current liabilities	94,248,875	77,610,385
Noncurrent liabilities: (Note 5)		
Advances for construction, notes and assessments payable	22,605,733	25,702,417
Certificates of participation payable	342,645,000	351,615,000
General obligation bonds	21,675,000	4,440,000
Reimbursable agreements	1,060,557	1,804,549
Compensated absences	4,246,053	3,870,761
Less unamortized discount and deferred charges	(12,624,566)	(13,412,547)
Net noncurrent liabilities	379,607,777	374,020,180
Total liabilities	473,856,652	451,630,565
Net assets: (Note 9)		
Investment in capital assets, net of related debt	747,790,921	670,647,558
Restricted for debt service/covenants	50,932,809	49,428,231
Restricted for construction	179,216,380	186,769,808
Unrestricted	96,710,649	84,967,519
Total net assets	1,074,650,759	991,813,116
Total liabilities and net assets	\$ 1,548,507,411	\$ 1,443,443,681

See accompanying notes to the basic financial statements.

Eastern Municipal Water District
Statement of Revenues, Expenses and Changes in Net Assets
Year ended June 30, 2005
(with prior year data for comparison purposes only)

	Year ended June 30	
	2005	2004
Operating revenues:		
Water sales – domestic	\$ 64,092,906	\$ 62,824,662
Water sales – irrigation	2,165,315	1,971,739
Sewer service charges	39,739,370	33,496,234
Recycled water	1,498,687	2,069,194
Total operating revenues	107,496,278	100,361,829
Operating expenses:		
Purchased water	32,380,524	29,104,840
Water operations	25,111,134	21,777,484
Sewer operations	27,194,672	23,789,668
Recycled water operations	3,789,915	2,992,339
General and administrative	18,418,043	15,186,601
Depreciation and amortization	37,572,961	35,574,113
Total operating expenses	144,467,249	128,425,045
Loss from operations	(36,970,971)	(28,063,216)
Noperating revenues (expenses):		
Property taxes – general levy	8,707,881	16,531,907
Property taxes – bond levy	2,809,967	2,166,474
Standby charges	4,354,591	4,172,104
Water and sewer connection fees	72,445,434	80,804,323
Interest – operations and restricted funds	13,237,576	11,307,233
Interest – bond funds	222,486	198,689
Other revenues	7,693,026	3,183,193
Net increase/(decrease) in fair value of investments	116,687	(6,319,836)
Interest – certificates of participation	(15,358,957)	(15,042,051)
Interest – bond	(340,068)	(483,991)
Interest – other	(653,006)	276,315
Bond service fees	(77,710)	(92,806)
Loss on disposal of capital assets	(1,049,925)	(775,461)
Other expenses	(2,912,907)	(1,903,444)
Total non-operating revenues (expenses)	89,195,075	94,022,649
Income before contributions	52,224,104	65,959,433
Capital contributions	30,613,539	33,509,559
Change in net assets	82,837,643	99,468,992
Total net assets at beginning of year	991,813,116	892,344,124
Total net assets at end of year	\$ 1,074,650,759	\$ 991,813,116

See accompanying notes to the basic financial statements.

Eastern Municipal Water District
Statement of Cash Flows
Year ended June 30, 2005
(with prior year data for comparison purposes only)

	Year ended June 30	
	2005	2004
Cash flows from operating activities		
Cash received from customers	\$ 107,831,526	\$ 102,134,296
Cash payments for water	(32,380,524)	(29,104,840)
Cash payments to employees for services	(37,589,413)	(32,501,450)
Cash payments to suppliers for goods and services	(36,567,894)	(21,904,697)
Cash payments for energy and utilities	(11,322,225)	(10,598,169)
Proceeds from standby charges and other revenues	12,066,775	7,353,977
Other operating revenues	5,483,656	5,640,714
Net cash provided by (used for) operating activities	7,521,901	21,019,831
Cash flows from non-capital financing activities:		
Proceeds from property taxes, general levy	7,467,878	16,348,873
Net cash provided by non-capital financing activities	7,467,878	16,348,873
Cash flows from capital and related financing activities		
Acquisitions and construction of capital assets	(138,561,658)	(62,261,782)
Repayment of bonds and certificates of participation	(10,770,000)	(33,755,000)
Interest paid	(15,156,217)	(16,971,919)
Proceeds from water and sewer connection fees	72,445,434	80,804,323
Proceeds from long-term debt issuance	18,255,000	96,655,000
Proceeds from notes payable and reimbursements	2,181,028	11,034,490
Repayments of notes payable and reimbursements	(5,823,336)	(20,996,353)
Proceeds from sale of capital assets	2,640,063	284,615
Proceeds from property taxes – bond levy	3,095,672	2,121,432
Receipts of customer deposits and developer advances	16,422,651	9,736,603
Net cash provided by (used for) capital and related financing activities	(55,271,363)	66,651,409
Cash flows from investing activities		
Purchases of investment securities	\$ (88,375,751)	\$ (421,734,614)
Proceeds from sales and maturities of investment securities	53,497,837	335,757,014
Proceeds from earnings on investments	13,677,835	10,583,458
Net cash provided by (used for) investing activities	(21,200,079)	(75,394,142)
Total increase (decrease) in cash and cash equivalents	(61,406,251)	28,625,971
Cash and cash equivalents at beginning of year	102,089,173	73,463,202
Cash and cash equivalents at end of year (Note 2)	\$ 40,682,922	\$ 102,089,173

Eastern Municipal Water District
Statement of Cash Flows
(continued)

	Year ended June 30	
	2005	2004
Reconciliation of loss from operations to net cash provided by operating activities:		
Loss from operations	\$ (36,970,971)	\$ (28,063,216)
Adjustments to reconcile loss from operations to net cash provided by operating activities:		
Operating activities:		
Depreciation and amortization	37,572,961	35,574,113
Standby charges and other revenues	12,066,775	7,353,977
Changes in assets and liabilities:		
Decrease (increase) in utility accounts receivable	(335,248)	(1,772,467)
Decrease (increase) in other receivables	259,505	(423,814)
Decrease (increase) in prepaid expenses	(341,144)	66,036
Decrease (increase) in materials and supplies inventory	(326,889)	590,721
Decrease (increase) in deposits	7,175	3,211
Decrease (increase) in notes receivable	176,901	120,815
Decrease (increase) in other assets	(5,148,114)	246,995
Increase (decrease) in accounts payable and other payables	541,489	6,381,646
Increase (decrease) in accrued expenses	(696,607)	226,368
Increase (decrease) in customer deposit	127,856	170,985
Increase (decrease) in compensated absences	588,212	544,461
Net cash provided by operating activities	<u>\$ 7,521,901</u>	<u>\$ 21,019,831</u>
Reconciliation of cash and cash equivalents to balance sheet:		
Current cash and investments	\$ 145,100,271	\$ 123,561,850
Restricted cash and investments:		
Debt service/covenants	81,121,600	79,595,042
Construction	189,796,643	239,465,371
Total cash and investments	<u>416,018,514</u>	<u>442,622,263</u>
Less investments	<u>375,335,592</u>	<u>340,533,090</u>
Cash and cash equivalents (Note 2)	<u>\$ 40,682,922</u>	<u>\$ 102,089,173</u>
Noncash capital, financing, and investing activities -		
Contributions of capital assets from developers and others	<u>\$ 30,613,539</u>	<u>\$ 33,509,559</u>
Increase (decrease) in fair value of investments	<u>\$ 116,687</u>	<u>\$ (6,319,836)</u>

See accompanying notes to the basic financial statements.

Eastern Municipal Water District
Notes to the Basic Financial Statements
Year ended June 30, 2005

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

Reporting Entity

The Eastern Municipal Water District (the 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 355,000 acres (555 square miles), encompassing the westerly third of Riverside County. The District is operated under the direction of a five-member Board of Directors elected for four-year terms. The District presently imports 81% of its water supply from the Metropolitan Water District of Southern California (MWD) and derives the remaining 19% of its water supply from local groundwater sources. The District is a member agency of MWD and is currently entitled to have one District representative sit on the Board of MWD.

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

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

The District's reporting entity includes the general district, the related improvement districts located within the service area of the general district and the Eastern Municipal Water District Facilities Corporation. Although the District and 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

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

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

Pronouncements of GASB and FASB

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

Cash and Investments

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

Cash Equivalents

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

Classification of Revenues

Operating revenues consists of domestic, irrigation and recycled water sales, as well as sewer service charges. Nonoperating revenues consist of property taxes, standby charges, investment income and special charges that can be used for either operating or capital purposes. Capital contributions consist of contributed capital assets and special charges that are legally restricted for capital expenditures by state law or by the Board action that established those charges.

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

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

Capital Assets

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

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

Property, plant, and equipment of the District is depreciated using the straight line method over the following estimated useful lives:

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

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

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

Allowance for Doubtful Accounts

An allowance for doubtful accounts has been established for utility accounts receivables that are 60+ days delinquent at year-end. This allowance amounts to \$91,578 and \$89,413 at June 30, 2005 and 2004, respectively.

Inventories

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

Restricted Assets

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

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

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

Revenue Recognition

Revenues are recognized when earned. Metered water accounts are read and billed daily on 30-day cycles. Wastewater customers are also billed and included with the water billing. In certain areas of the District, the wastewater billing is handled by another water utility agency, but is accrued as revenues by the District each month. Collections are forwarded monthly, based on actual receipts. Unbilled water and wastewater charges are accrued for the period from the last meter reading through year-end and are included in accounts receivable. Unbilled accounts receivable amounted to \$5,038,304 and \$3,917,192 at June 30, 2005 and 2004, respectively.

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

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

Property Taxes

Property tax in California is levied in accordance with Article XIII A of the State Constitution at 1% of countywide assessed valuations. The property taxes are placed in a pool and are then allocated to the local governmental units based upon complex formulas. Property tax revenue is recognized in the fiscal year in which 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 11 Second installment – April 11

Debt Issuance Costs

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

Compensated Absences

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

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

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

Use of Estimates

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

Comparative Data

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

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

2. Cash and Investments

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

	<u>2005</u>	<u>2004</u>
Current assets	\$ 145,100,271	\$ 123,561,850
Restricted assets:		
Debt service/covenants	81,121,600	79,595,042
Construction	189,796,643	239,465,371
Totals	<u>\$ 416,018,514</u>	<u>\$ 442,622,263</u>

Cash and investments at June 30 consisted of the following:

	<u>2005</u>	<u>2004</u>
Cash on hand	\$ 3,600	\$ 3,600
Deposits with financial institutions	(4,032,053)	(2,081,223)
Investments	420,046,967	444,699,886
Total Cash and investments	<u>\$ 416,018,514</u>	<u>\$ 442,622,263</u>

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

	<u>2005</u>	<u>2004</u>
Demand accounts and on hand	\$ (4,028,453)	\$ (2,077,623)
Money market funds	15,036,638	14,743,382
Sweep account (FHLB security)	2,815,629	1,104,606
California Local Agency Investment Fund	26,859,108	88,318,808
Total cash and cash equivalents	<u>\$ 40,682,922</u>	<u>\$ 102,089,173</u>

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

2. Cash and Investments (continued)

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

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

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

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

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

2. Cash and Investments (continued)

Investments Authorized by Debt Agreements:

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	None	None	None
U.S. Agencies Securities	None	None	None
State Obligations or Political Subdivision of States	None	None	None
Banker's Acceptances	None	None	None
Certificates of Deposit	None	None	None
Commercial Paper	None	None	None
Investment Contracts	None	None	None
Repurchase Agreements	30 Days	None	None

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

2. Cash and Investments (continued)

Disclosures relating to Interest Rate Risk:

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

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

Investment Type		12 Months or Less	13 to 24 Months	25-60 Months	More than 60 Months
U.S. Federal Agencies:					
Federal Farm Credit Bank (FFCB)	\$ 14,723,438	\$ -	\$ -	\$ 14,723,438	\$ -
Federal Home Loan Bank (FHLB)	210,466,492	37,483,911	67,873,125	105,109,456	
Federal Home Loan Mortgage Corp (FHLMC)	47,813,035	8,448,610	24,650,325	14,714,100	
Federal National Mortgage Ass. (FNMA)	75,880,512	14,782,387	31,593,438	29,504,687	
Local Agency Investment Fund (LAIF)	15,714,720	15,714,720			
Held by Bond Trustee:					
Guaranteed Investment Contract	24,773,283				24,773,283
California Municipal Bonds	4,494,462				4,494,462
Money Market Funds	15,036,638	15,036,638			
Local Agency Investment Funds	11,144,387	11,144,387			
Total Investments	\$ 420,046,967	\$ 102,610,653	\$ 124,116,888	\$ 164,051,681	\$ 29,267,745

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations:

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

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

2. Cash and Investments (continued)

Concentration of Credit Risk:

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

Issuer	Investment Type	Reported Amount
Federal Home Loan Bank (FHLB)	Federal agency securities	\$ 210,466,492
Federal Home Loan Mortgage Corp (FHLMC)	Federal agency securities	47,813,035
Federal National Mortgage Assoc. (FNMA)	Federal agency securities	75,880,512
AIG Matched Funding	Guaranteed Investment Contract	12,794,537
AMBAC Capital Funding	Guaranteed Investment Contract	6,880,211
Transamerica DTD	Guaranteed Investment Contract	5,098,335

Custodial Credit Risk:

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

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 accompany 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.

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

3. Capital Assets

A summary of the changes in capital assets for the years ended June 30, 2005 is as follows:

	Beginning Balance 06/30/04	Increases	Decreases	Ending Balance 06/30/05
Capital assets, not being depreciated:				
Land	\$ 32,427,200	\$ 985,660	\$ -	\$ 33,412,860
Construction in Progress	81,499,563	138,262,058	(57,642,461)	162,119,160
Total capital assets, not being depreciated	113,926,763	139,247,718	(57,642,461)	195,532,020
Capital assets, being depreciated:				
Water plant, lines and equipment	433,227,324	31,490,572	(1,524,967)	463,192,929
Water capacity rights	17,950,601	-	-	17,950,601
Sewer plant, lines and equipment	677,754,023	45,629,985	(1,030,668)	722,353,340
Equipment and general facilities	75,470,324	7,536,475	(2,284,623)	80,722,176
Total capital assets, being depreciated	1,204,402,272	84,657,032	(4,840,258)	1,284,219,046
Less accumulated depreciation for:				
Water plant, lines and equipment	133,644,178	13,536,864	(555,989)	146,625,053
Water capacity rights	1,714,049	448,765	-	2,162,814
Sewer plant, lines and equipment	184,665,292	18,369,435	(424,389)	202,610,338
Equipment and general facilities	35,279,543	5,217,897	(668,042)	39,829,398
Total accumulated depreciation	355,303,062	37,572,961	(1,648,420)	391,227,603
Total capital assets, being depreciated, net	849,099,210	47,084,071	(3,191,838)	892,991,443
Capital assets, net	\$ 963,025,973	\$ 186,331,789	\$ (60,834,299)	\$ 1,088,523,463

Depreciation breakdown at June 30, 2005:

Water	\$12,778,677
Sewer	16,892,269
Recycled	2,398,322
Admin/Other	5,503,693
Total	<u>\$37,572,961</u>

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

4. PERS Prepaid Unfunded Liability

The District amended its PERS contract on January 4, 1998 to implement a 2% at 55 retirement program. The actuarial division of PERS determined that the present value impact on the District was an unfunded liability of \$4,939,895. This would result in an employer rate increase of 1.495% of eligible payroll over the next 20 years. However, the District opted to pay this liability in advance and is amortizing this prepaid amount over the next 20 years. The current portion is \$246,995, and future deferred expense is \$2,881,654 at June 30, 2005.

The District amended its PERS contract on August 5, 2005 to implement a 2-1/2% at 55 retirement program. The actuarial division of PERS determined that the present value impact on the District was an unfunded liability of \$5,679,062. This would result in an employer rate increase of 2.145% of eligible payroll over the next 20 years. However, the District opted to pay this liability in advance and is amortizing this prepaid amount over the next 20 years. The current portion is \$283,953, and future deferred expense is \$5,395,109 at June 30, 2005.

5. Long-Term Debt

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

	Beginning Balance 6/30/2004	Additions	Reductions	Ending Balance 6/30/2005	Due Within One Year
Advances for construction, notes assessments payable	\$ 28,603,485	\$ 2,752	\$ (2,901,068)	\$ 25,705,169	\$ 3,099,436
Certificates of participation	360,370,000	-	(8,755,000)	351,615,000	8,970,000
General obligation bonds	6,455,000	18,255,000	(2,015,000)	22,695,000	1,020,000
Reimbursable agreements	1,804,549	2,178,276	(2,922,268)	1,060,557	-
Compensated absences	7,562,675	5,499,435	(4,945,202)	8,116,908	3,904,834
	<u>\$ 404,795,709</u>	<u>\$ 25,935,463</u>	<u>\$ (21,538,538)</u>	<u>\$ 409,192,634</u>	<u>\$ 16,994,270</u>

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

5. Long-Term Debt (continued)

The future maturities of long-term debt excluding reimbursable agreements and compensated absences as of June 30, 2005 are as follows:

Year ending June 30:	Principal	Interest	Total
2006	\$ 13,089,436	\$ 18,022,152	\$ 31,111,588
2007	14,298,403	17,656,005	31,954,408
2008	14,890,848	16,979,164	31,870,012
2009	15,650,778	16,211,780	31,862,558
2010	15,167,775	15,366,940	30,534,715
2011-15	70,953,486	66,142,161	137,095,647
2016-20	82,903,955	48,799,661	131,703,616
2021-25	92,415,488	27,744,485	120,159,973
2026-30	54,240,000	11,978,969	66,218,969
2031-35	25,595,000	2,012,303	27,607,303
2036-40	810,000	20,250	830,250
Total	\$ 400,015,169	\$ 240,933,870	\$ 640,949,039

Advances for Construction, Notes and Assessments Payable

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

Safe, Clean, Reliable Water Supply Act

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 \$65,806. Semiannual payments began October 1, 2003 with the final payment scheduled for April 1, 2023 at an interest rate of 2.8%. The balance outstanding as of June 30, 2005 is \$1,841,027.

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

2. Cash and Investments (continued)

Disclosures Relating to Credit Risk:

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

Investment Type	Minimum Total as of 6/30/2005	Not Legal Rating	Rating at Required to be Rated	End of Year AAA	Unrated
U.S. Federal Agencies:					
Federal Farm Credit Bank (FFCB)	\$ 14,723,438	N/A	\$ -	\$ 14,723,438	\$ -
Federal Home Loan Bank (FHLB)	210,466,492	N/A		210,466,492	
Federal Home Loan Mortgage Corp (FHLMC)	47,813,035	N/A		47,813,035	
Federal National Mortgage Ass. (FNMA)	75,880,512	N/A		75,880,512	
Local Agency Investment Fund (LAIF)	15,714,720	N/A			15,714,720
Held by Bond Trustee:					
Guaranteed Investment Contract	24,773,283	N/A			24,773,283
California Municipal Bonds	4,494,462	N/A			4,494,462
Money Market Funds	15,036,638	N/A			15,036,638
Local Agency Investment Funds	11,144,387	N/A			11,144,387
Total Investments	\$ 420,046,967		\$ -	\$ 348,883,477	\$ 71,163,490

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

5. Long-Term Debt (continued)

Advances for Construction, Notes and Assessments Payable (continued)

Safe, Clean, Reliable Water Supply Act (continued)

Year ending June 30:	Principal	Interest	Total
2006	\$ 79,901	\$ 50,996	\$ 130,897
2007	82,154	48,743	130,897
2008	84,376	46,521	130,897
2009	86,942	43,955	130,897
2010	89,301	41,596	130,897
2011-2015	485,720	168,766	654,486
2016-2020	558,134	96,353	654,487
2021-2023	374,499	18,561	393,060
Total	\$ 1,841,027	\$ 515,491	\$ 2,356,518

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 \$103,851. Semiannual payments began October 1, 2003 with the final payment scheduled for April 1, 2023 at an interest rate of 2.8%. The balance outstanding as of June 30, 2005 is \$2,905,374.

Year ending June 30:	Principal	Interest	Total
2006	\$ 126,095	\$ 80,478	\$ 206,573
2007	129,650	76,923	206,573
2008	133,156	73,416	206,572
2009	137,205	69,367	206,572
2010	140,929	65,644	206,573
2011-2015	766,528	266,334	1,032,862
2016-2020	880,821	152,041	1,032,862
2021-2023	590,990	29,292	620,282
Total	\$ 2,905,374	\$ 813,495	\$ 3,718,869

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

5. Long-Term Debt (continued)

Advances for Construction, Notes and Assessments Payable (continued)

Murrieta County Water District

Murrieta County Water District agreement for the construction costs of Los Alamos connection with principal payments ranging from \$2,396 to \$17,280 starting 2/1/2005 through 2/1/2011. The current balance as of June 30, 2005 is \$103,656.

Year ending June 30:	Principal	Interest	Total
2006	\$ 17,280	\$ -	\$ 17,280
2007	17,280	-	17,280
2008	17,280	-	17,280
2009	17,280	-	17,280
2010	17,280	-	17,280
2011	17,256	-	17,256
Total	\$ 103,656	\$ -	\$ 103,656

Elsinore Valley Municipal Water District

Elsinore Valley Municipal Water District, financial participation agreement note; interest rates ranging from 2.0% to 4.0% with annual principal installments ranging from \$21,314 to \$25,850 through July 15, 2011. Balance outstanding as of June 30, 2005 is \$142,399.

Year ending June 30:	Principal	Interest	Total
2006	\$ 21,768	\$ 4,430	\$ 26,198
2007	23,129	3,913	27,042
2008	23,582	3,334	26,916
2009	23,582	2,627	26,209
2010	24,489	1,860	26,883
2011	25,849	1,034	26,349
Total	\$ 142,399	\$ 17,198	\$ 159,597

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

5. Long-Term Debt (continued)

Advances for Construction, Notes and Assessments Payable (continued)

Santa Ana Watershed Project Authority

Santa Ana Watershed Project Authority (SAWPA) agreement for purchase of capacity rights in the Santa Ana Regional Interceptor (SARI) pipeline; interest rate of 6%; annual payment including principal and interest of \$365,000 through June 30, 2012. Balance outstanding as of June 30, 2005 is \$2,037,569 .

Year ending June 30:	Principal	Interest	Total
2006	\$ 242,746	\$ 122,254	\$ 365,000
2007	257,311	107,689	365,000
2008	272,749	92,251	365,000
2009	289,114	75,886	365,000
2010	306,461	58,539	365,000
2011-2012	669,188	60,812	730,000
Total	\$ 2,037,569	\$ 517,431	\$ 2,555,000

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%. Balance outstanding as of June 30, 2005 is \$7,141,744.

Year ending June 30:	Principal	Interest	Total
2006	\$ 823,647	\$ 221,394	\$ 1,045,041
2007	849,180	195,861	1,045,041
2008	875,504	169,537	1,045,041
2009	902,255	142,786	1,045,041
2010	930,615	114,426	1,045,041
2011-13	2,760,543	161,475	2,922,018
Total	\$ 7,141,744	\$1,005,479	\$ 8,147,223

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

5. Long-Term Debt (continued)

Advances for Construction, Notes and Assessments Payable (continued)

1991 Federal Reclamation Facilities Project Loan

In October 1991, the District entered into a contract with the federal government under the provisions of Public Law 984 to provide funding for a portion of the District's Phase I – Reclamation Facilities Project. The contract is being administered by the United States Department of the Interior Bureau of Reclamation pursuant to the Small Reclamation Projects Act of 1956 (the Act). The total estimated project cost is \$46,046,400 with the District contributing \$13,621,400 and the federal government providing funding up to the balance of \$32,425,000, providing that funds are available under the Act.

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

Total federal funding	\$ 32,425,000
Less nonrepayable grant portion	6,733,300

Maximum loan proceeds including interest	\$ 25,691,700
Components of loan proceeds:	
Water supply	\$ 20,219,400
Fish and wildlife	4,147,300

Net loan proceeds	24,366,700
Interest charged during construction	1,325,000

Maximum loan proceeds	\$ 25,691,700

The net loan proceeds are repayable in 15 annual installments varying from \$552,900 to \$2,650,300 plus interest at rates varying from 0% to 9% (7.875% at June 30, 2003) on the fish and wildlife component and a portion of the water supply component. In the event the total repayment obligation is less than \$24,366,700, the above repayment schedule will still apply until the obligation is paid in full, in effect reducing the length of the repayment period. Repayment of the loan started on May 1, 1999.

As of June 30, 2005, the District had received \$31,095,440 on this contract of which the grant portion amounts to \$6,624,268 and the loan portion amounts to \$24,471,172. On October 6, 2003, the District elected to pay off the Fish and Wildlife component of the loan. This amounted to a principal payment of \$4,180,139. The balance outstanding as of June 30, 2005 is \$11,533,400. This project was completed in 2001.

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

5. Long-Term Debt (continued)

Advances for Construction, Notes and Assessments Payable (continued)

1991 Federal Reclamation Facilities Project Loan (continued)

Year ending June 30:	Principal	Interest	Total
2006	\$ 1,788,000	\$ 778,636	\$ 2,566,636
2007	1,874,700	674,784	2,549,484
2008	1,959,200	542,288	2,501,488
2009	2,114,400	364,228	2,478,628
2010	2,273,700	167,485	1,523,400
2011	1,523,400	- 0 -	2,441,185
Total	\$ 11,533,400	\$ 2,527,421	\$ 14,060,821

Certificates of Participation Payable

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

	2005	2004
1991 certificates of participation	\$ 16,695,000	\$ 16,695,000
1993B refunding certificates of participation	62,785,000	63,070,000
1997A refunding certificates of participation	21,390,000	21,455,000
1998A refunding certificates of participation	30,515,000	33,395,000
2001A refunding certificates of participation	61,400,000	63,950,000
2001B certificates of participation	51,370,000	51,370,000
2001C refunding certificates of participation	13,670,000	13,780,000
2003A refunding certificates of participation	24,760,000	26,350,000
2003B certificates of participation	69,030,000	70,305,000
Total	351,615,000	360,370,000
Less current portion	8,970,000	8,755,000
Total long-term certificates of participation payable	\$ 342,645,000	\$ 351,615,000

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

5. Long-Term Debt (continued)

Certificates of Participation (continued)

2003A Refunding Certificates of Participation

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

	6/30/2004	Additions	Reductions	6/30/2005	Due within 1 year
Certificates of Participation	\$ 26,350,000	\$ -	\$ (1,590,000)	\$ 24,760,000	\$ 120,000
Certificate Costs:	(237,888)	-	12,521	(225,367)	12,521
Deferred Amounts:		-			
Deferred Expenses	1,548,422	-	(84,631)	1,463,791	84,631
COP Discount	104,328	-	(5,491)	98,837	5,491
	<u>\$ 27,764,862</u>	<u>\$ -</u>	<u>\$ (1,667,601)</u>	<u>\$ 26,097,261</u>	<u>\$ 222,643</u>

Year ending June 30:	Principal	Interest	Total
2006	\$ 120,000	\$ 792,398	\$ 912,398
2007	125,000	790,019	915,019
2008	125,000	786,013	911,013
2009	130,000	783,452	913,452
2010	135,000	776,439	911,439
2011-15	2,620,000	3,826,328	6,446,328
2016-20	11,195,000	2,778,809	13,973,809
2021-24	10,310,000	864,706	11,174,706
Total	<u>\$ 24,760,000</u>	<u>\$11,398,164</u>	<u>\$ 36,158,164</u>

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

5. Long-Term Debt (continued)

Certificates of Participation (continued)

2003B Certificates of Participation

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

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

	6/30/2004	Additions	Reductions	6/30/2005	Due within 1 year
Certificates of Participation	\$ 70,305,000	\$ -	\$ (1,275,000)	\$ 69,030,000	\$ 1,485,000
Certificate Costs:	(634,664)	-	21,885	(612,779)	21,885
Deferred Amounts:					
COP Discount	281,282	-	(9,699)	271,583	9,699
	<u>\$ 69,951,618</u>	<u>\$ -</u>	<u>\$ (1,262,814)</u>	<u>\$ 68,688,804</u>	<u>\$ 1,516,584</u>

Year ending June 30:	Principal	Interest	Total
2006	\$ 1,485,000	\$ 2,212,005	\$ 3,697,005
2007	1,530,000	2,168,579	3,698,579
2008	1,575,000	2,119,653	3,694,653
2009	1,625,000	2,073,074	3,698,074
2010	1,680,000	2,013,659	3,693,659
2011-15	9,235,000	9,246,150	18,481,150
2016-20	10,810,000	7,672,535	18,482,535
2021-25	12,645,000	5,832,793	18,477,793
2026-30	14,805,000	3,673,844	18,478,844
2031-34	13,640,000	1,143,928	14,783,928
Total	<u>\$ 69,030,000</u>	<u>\$ 38,156,220</u>	<u>\$ 107,186,220</u>

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

5. Long-Term Debt (continued)

Certificates of Participation (continued)

2001A, 2001C Refunding Certificates of Participation

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

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

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

2001A COP

	6/30/2004	Additions	Reductions	6/30/2005	Due within 1 year
Certificates of Participation	\$ 63,950,000	\$ -	\$ (2,550,000)	\$ 61,400,000	\$ 2,680,000
Certificate Costs:	361,492)	-	22,209	(339,283)	22,209
Deferred Amounts:					
Deferred Expenses	5,763,414	-	(364,005)	5,399,409	364,005
COP Discount	(1,951,512)	-	123,253	(1,828,259)	123,253
	<u>\$ 67,400,410</u>	<u>\$ -</u>	<u>\$ 2,768,543)</u>	<u>\$ 64,631,867</u>	<u>\$ 3,189,467</u>

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

5. Long-Term Debt (continued)

Certificates of Participation (continued)

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

Year ending June 30:	Principal	Interest	Total
2006	\$ 2,680,000	\$ 2,962,010	\$ 5,642,010
2007	2,770,000	2,867,975	5,637,975
2008	2,865,000	2,744,294	5,609,294
2009	3,020,000	2,593,588	5,613,588
2010	3,165,000	2,454,788	5,619,788
2011-15	18,135,000	9,830,244	27,965,244
2016-20	23,350,000	4,463,913	27,813,913
2021	5,415,000	135,375	5,550,375
Total	\$ 61,400,000	\$ 28,052,187	\$ 89,452,187

2001C COP

	6/30/2004	Additions	Reductions	6/30/2005	Due within 1 year
Certificates of Participation	\$ 13,780,000	\$ -	\$ (110,000)	\$ 13,670,000	\$ 1,290,000
Certificate Costs:	(65,648)	-	7,071	(58,577)	7,071
Deferred Amounts:		-			
Deferred Expenses	967,068	-	(109,480)	857,588	109,480
COP Discount	11,657	-	(1,319)	10,338	1,319
	\$ 14,693,077	\$ -	\$ (213,728)	\$ 14,479,349	\$ 1,407,870

Year ending June 30:	Principal	Interest	Total
2006	\$ 1,290,000	\$ 529,675	\$ 1,819,675
2007	1,340,000	477,075	1,817,075
2008	1,395,000	422,375	1,817,375
2009	1,455,000	365,375	1,820,375
2010	1,515,000	305,975	1,820,975
2011-14	6,675,000	573,413	7,248,413
Total	\$ 13,670,000	\$ 2,673,888	\$ 16,343,888

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

5. Long-Term Debt (continued)

Certificates of Participation (continued)

2001B Certificates of Participation

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

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

	6/30/2004	Additions	Reductions	6/30/2005	Due within 1 year
Certificates of Participation	\$ 51,370,000	\$ -	\$ -	\$ 51,370,000	\$ -
Certificate Costs:	(285,316)	-	10,876	(274,440)	10,876
Deferred Amounts:		-			
COP Discount	848,522	-	(32,846)	815,676	32,846
	<u>\$ 51,933,206</u>	<u>\$ -</u>	<u>\$ (21,970)</u>	<u>\$ 51,911,236</u>	<u>\$ 43,722</u>

Year ending June 30:	Principal	Interest	Total
2006	\$ -	\$ 2,568,500	\$ 2,568,500
2007	-	2,568,500	2,568,500
2008	-	2,568,500	2,568,500
2009	-	2,568,500	2,568,500
2010	-	2,568,500	2,568,500
2011-15	-	12,842,500	12,842,500
2016-20	-	12,842,500	12,842,500
2021-25	6,310,000	12,684,750	18,994,750
2026-30	36,605,000	6,867,625	43,472,625
2031	8,455,000	211,375	8,666,375
Total	<u>\$ 51,370,000</u>	<u>\$ 58,291,250</u>	<u>\$ 109,661,250</u>

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

5. Long-Term Debt (continued)

Certificates of Participation (continued)

1998A Refunding Certificates of Participation

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

	6/30/2004	Additions	Reductions	6/30/2005	Due within 1 year
Certificates of Participation	\$ 33,395,000	\$ -	\$ (2,880,000)	\$ 30,515,000	\$ 3,025,000
Certificate Costs:	(257,635)	-	13,046	(244,589)	13,046
Deferred Amounts:					
Deferred Expenses	1,694,500		(86,161)	1,608,339	86,161
COP Discount	634,048		(32,239)	601,809	32,239
	<u>\$ 35,465,913</u>	<u>\$ -</u>	<u>\$ (2,985,354)</u>	<u>\$ 32,480,559</u>	<u>\$ 3,156,446</u>

Year ending June 30:	Principal	Interest	Total
2006	\$ 3,025,000	\$ 1,401,076	\$ 4,426,076
2007	70,000	1,323,981	1,393,981
2008	75,000	1,320,936	1,395,936
2009	80,000	1,317,661	1,397,661
2010	80,000	1,314,241	1,394,241
2011-15	465,000	6,511,589	6,976,589
2016-20	585,000	6,387,134	6,972,134
2021-24	26,135,000	3,161,019	29,296,019
Total	<u>\$ 30,515,000</u>	<u>\$ 22,737,637</u>	<u>\$ 53,252,637</u>

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

5. Long-Term Debt (continued)

Certificates of Participation (continued)

1993B Refunding Certificates of Participation

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

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

	6/30/2004	Additions	Reductions	6/30/2005	Due within 1 year
Certificates of Participation	\$ 63,070,000	\$ -	\$ (285,000)	\$ 62,785,000	\$ 300,000
Certificate Costs:	(926,775)	-	51,899	(874,876)	51,899
Deferred Amounts:		-			
COP Discount	3,100,968	-	(164,025)	2,936,943	164,025
	<u>\$ 65,244,193</u>	<u>\$ -</u>	<u>\$ (397,126)</u>	<u>\$ 64,847,067</u>	<u>\$ 515,924</u>

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

5. Long-Term Debt (continued)

Certificates of Participation (continued)

1993 Refunding Certificates of Participation (continued)

Year ending June 30:	Principal	Interest	Total
2006	\$ 300,000	\$ 3,216,307	\$ 3,516,307
2007	3,430,000	3,120,540	6,550,540
2008	3,610,000	2,939,788	6,549,788
2009	3,810,000	2,749,279	6,559,279
2010	240,000	2,645,295	2,885,295
2011-15	11,500,000	12,510,914	24,010,914
2016-20	32,325,000	6,271,247	38,596,247
2021	7,570,000	194,360	7,764,360
Total	\$ 62,785,000	\$ 33,647,730	\$ 96,432,730

1991 Certificates of Participation

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

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

	6/30/2004	Additions	Reductions	6/30/2005	Due within 1 year
Certificates of Participation	\$ 16,695,000	\$ -	\$ -	\$ 16,695,000	\$ -

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

5. Long-Term Debt (continued)

Certificates of Participation (continued)

1991 Certificates of Participation (continued)

Year ending June 30:	Principal	Interest	Total
2006	\$ -	\$ 1,126,913	\$ 1,126,913
2007	-	1,126,913	1,126,913
2008	-	1,126,913	1,126,913
2009	-	1,126,913	1,126,913
2010	3,775,000	999,506	4,774,506
2011-13	12,920,000	1,345,950	14,265,950
Total	\$ 16,695,000	\$ 6,853,108	\$ 23,548,108

Bonds Payable

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

Bonds payable consist of the following at June 30:

	2005	2004
1984 General Obligation Bonds:		
Interest rates range from 8 1/2% to 11 3/8%. Bonds mature annually in varying amounts through 2004. (non-callable)	\$ -	\$ 375,000
1991 General Obligation Refunding Bonds:		
Interest rates of the various bond issues outstanding range from 4.6% to 6.4%. Bonds mature annually in varying amounts through 2004.	-	\$ 665,000
1995 General Obligation Refunding Bonds:		
Interest rates of the various bond issues outstanding range from 3.9% to 5.5%. Bonds mature annually in varying amounts through 2009.	4,440,444	5,415,000
2005 General Obligation Bonds		
Interest rates of the various bond issues outstanding range from 3.0% to 5.0%. Bonds mature annually in varying amounts through 2035.	18,255,000	-
Total	22,695,000	6,455,000
Less current portion	1,020,000	2,015,000
Total long-term bonds payable	\$ 21,675,000	\$ 4,440,000

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

5. Long-Term Debt (continued)

Certificates of Participation (continued)

1997A Refunding Certificates of Participation

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

	6/30/2004	Additions	Reductions	6/30/2005	Due within 1 year
Certificates of Participation	\$ 21,455,000	\$ -	\$ (65,000)	\$ 21,390,000	\$ 70,000
Certificate Costs:	(218,413)	-	11,391	(207,022)	11,391
Deferred Amounts:					
Deferred Expenses	768,833	-	(40,465)	728,368	40,465
COP Discount	618,080	-	(32,531)	585,549	32,531
	<u>\$ 22,623,500</u>	<u>\$ -</u>	<u>\$ (126,605)</u>	<u>\$ 22,496,895</u>	<u>\$ 154,387</u>

Year ending June 30:	Principal	Interest	Total
2006	\$ 70,000	\$ 1,118,954	\$ 1,188,954
2007	70,000	1,115,716	1,185,716
2008	75,000	1,112,326	1,187,326
2009	80,000	1,108,644	1,188,644
2010	85,000	1,104,641	1,189,641
2011-15	475,000	5,454,801	5,929,801
2016-20	620,000	5,312,213	5,932,213
2021-24	19,915,000	2,634,056	22,549,056
Total	<u>\$ 21,390,000</u>	<u>\$ 18,961,351</u>	<u>\$ 40,351,351</u>

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

5. Long-Term Debt (continued)

Debt Service Reserve Funds

The District is required to maintain a Debt Service Reserve Fund to be used for the payment of principal and interest of its Certificates of Participation Bonds in the event that the District has not provided the Trustee with sufficient funds by the Installment Payment date to make the required Installment Sale Payments. The current required reserve amount as determined by the bond documents and the reserve balance at June 30, 2005 for each outstanding bond issue is

	Required	Actual	Excess
1991/1998A COP	\$ 5,500,000	\$ 5,500,000	\$ -
1997A/2001A COP	\$ 7,294,538	\$ 7,924,700	\$ 630,162
2001C/2001A COP	\$ 3,140,605	\$ 3,140,605	\$ -
1993B COP	\$ 6,579,500	\$ 6,579,500	\$ -
2001B COP	\$ 5,098,535	\$ 5,098,535	\$ -
2003B COP	\$ 4,399,066	\$ 4,757,328	\$ 358,262

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, 2005, the District's debt coverage ratio was 4.1 times.

2) Operating Reserve Fund

The District has covenanted that it will maintain a minimum of 1/4 of its annual maintenance and operating costs as set forth in its operating budget in a separate reserve fund. This reserve was \$24,615,975 at June 30, 2005 and \$21,184,150 at June 30, 2004.

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

5. Long-Term Debt (continued)

Defeasance of Debt

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

	2005	2004
1988 Certificates of Participation	\$ 13,380,000	\$ 16,130,000
1989 Certificates of Participation	29,510,000	32,685,000
1991 Certificates of Participation	85,180,000	88,090,000
1991A Refunding Certificates of Participation	79,965,000	82,110,000
1993A Certificates of Participation	13,165,000	13,165,000
1989 General Obligation Bonds	4,930,000	5,950,000
Total	\$ 226,130,000	\$ 238,130,000

6. Defined Benefit Pension Plan

Plan Description

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

All full-time District employees are eligible to participate in PERS with benefits vesting after five years of service. District employees who retire at age 50 with five years of credited service are entitled to an annual retirement benefit, payable monthly for life, in increasing percentage increments up to 2% of their average salary during their last year of employment, for each year of credited service.

Effective August, 2005, the plan was amended to 2.5% at 55

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

6. Defined Benefit Pension Plan (continued)

Funding Policy

District employees are required to contribute 7% of their annual salary to PERS. 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, 2005, the amount contributed by the District on behalf of the employees is \$1,925,362. The required employer contribution rate for fiscal year ended June 30, 2005 is 0%.

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, 2004 to June 30, 2005 has been determined by an actuarial valuation of the plan as of June 30, 2002. The contribution rate for the indicated period is 0.000% 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, 2005, this contribution rate, as modified by any amendments for the year, would be multiplied by the payroll of covered employees that was actually paid during the period July 1, 2004 to June 30, 2005.

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

Valuation Date	June 30, 2002
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	22 Years as of the Valuation Date
Asset Valuation Method	3 Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	8.25% (net of administrative expenses)
Projected Salary Increases	3.75% to 14.20% depending on Age, Service, and type of employment
Inflation	3.50%
Payroll Growth	3.75%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.50% and an annual production growth of 0.25%

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

6. Defined Benefit Pension Plan (continued)

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

The total contribution paid to the PERS for 2005 and 2004 was \$2,265,758 and \$2,026,919, respectively. In 2005, the District paid \$2,265,758 and the employees paid \$0. In 2004, the District paid \$2,026,919 and the employees paid \$0. The contributions were made in accordance with actuarially determined requirements computed through an actuarial valuation performed prior to the beginning of each fiscal year by the PERS Actuarial Division. The combined employer and employee contribution consisted of 7.0% of current covered payroll and no amount to amortize unfunded actuarial accrued liability, since the District has an overfunded actuarial liability position as a result of actuarial gains. In order to maintain a level pattern of contributions, the District has chosen to amortize the overfunded actuarial liability for a period of 20 years.

Trend Information

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

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

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06/30/02	\$ 1.79	100%	\$ -
06/30/03	1.93	100%	-
06/30/04	2.03	100%	-
06/30/05	2.27	100%	-

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

6. Defined Benefit Pension Plan (continued)

Schedule of funding progress for PERS (dollar amounts in millions):

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Entry Age Actuarial Accrued Liability (AAL)	Overfunded AAL (OAL) (1)-(2)	(4) Funded Ratio (1)/(2)	(5) Covered Payroll	OAL as a Percentage of Covered Payroll (3)/(5)
06/30/00	122.64	86.11	36.53	142.4%	22.91	159.5%
06/30/01	126.81	93.80	33.01	135.2%	23.91	138.1%
06/30/02	117.63	104.55	13.08	112.5%	26.91	48.6%

7. Defined Contribution Plan

The District has a 401(a) money purchase defined contribution plan (Plan) covering all employees of the District who have completed one year of service. The Plan was adopted in January 1978 and may be amended by the District provided the trustee joins in such amendment. The District is required to contribute 7.15% of each eligible employee's compensation up to a maximum annual compensation of \$16,500. The District's contributions to the Plan were \$671,534 and \$624,961 in 2005 and 2004, respectively.

8. Post-Employment Benefits

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

The District finances the plan on a pay-as-you-go basis. In 2005 and 2004, the District paid \$1,107,044 and \$1,009,373 respectively, in post-employment health care benefits, net of retiree contributions, and had 182 and 236 retired eligible employees, respectively.

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

9. Restricted and Unrestricted Net Assets

Unrestricted Net Assets

As required by GASB No. 34, net assets have been classified according to guidelines established for restricted assets. However, the unrestricted assets, although not legally restricted, have been established pursuant to Board Resolution No. 3359 and are primarily composed of reserves for various purposes. The unrestricted net assets at June 30, 2005 consists of:

Replacement and System Betterment Reserve	\$ 86,173,455
Operational Debt Service Reserve	6,617,085
General Liability and Workers Comp Reserve	2,874,900
Other Reserves and General Fund	1,045,209
Total Unrestricted Net Assets	\$ 96,710,649

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.

10. Tunnel Water Seepage Agreement

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

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

11. Commitments

Construction Contracts

The District is committed to approximately \$73,985,811 of open construction contracts as of June 30, 2005. The ten largest contracts outstanding include:

	Contract Amount	Balance To Complete
Hemet Water Filtration Plant	\$ 35,689,461	\$ 29,175,975
Perris Water Filtration Plant Ph.2	\$ 16,667,249	\$ 14,914,539
N. San Jacinto Regional Sewer Phs 1	\$ 10,882,456	\$ 9,649,144
TVRWRF Expansion to 16 MGD	\$ 23,427,706	\$ 6,553,088
Elsworth Street Phase II	\$ 2,371,224	\$ 2,337,474
PV RWRF Secondary Clarifier	\$ 2,974,481	\$ 2,144,772
SJV, MV & TV RWRF Digester Heat	\$ 4,040,634	\$ 1,745,653
La Piedra Water Transmission P/L Phs IA	\$ 1,728,902	\$ 1,595,276
Indian Ave Well #59 Equip, & Site	\$ 1,200,000	\$ 1,165,000
N. San Jacinto Raw Water Pump Station	\$ 1,166,000	\$ 1,102,000

Claims and Judgments

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

The District retains risk per occurrence of \$300,000 for loss sustained by the employer (District), because of liability imposed on the employer (District) by the Workers' Compensation Act, with unlimited excess insurance above the self-insured retention (SIR) of \$300,000. For general liability, the District maintains excess insurance coverage of \$10 million per occurrence with a \$2,000,000 SIR.

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

	2005	2004
Unpaid claims, beginning	\$ 765,833	\$ 788,700
Incurred claims and changes in estimates	1,108,139	1,093,869
Claim payments	(891,872)	(1,116,736)
Unpaid claims, ending	\$ 982,100	\$ 765,833

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

5. Long-Term Debt (continued)

Bonds Payable (continued)

At June 30, 2005, general obligation bonds authorized but not issued total \$579,275,000.

	6/30/2004	Additions	Reductions	6/30/2005	Due within 1 year
General Obligation Bonds	\$ 6,455,000	\$ 18,255,000	\$ (2,015,000)	\$ 22,695,000	\$ 1,020,000
Bond Insurance costs	(56,319)		13,230	(43,089)	11,488
Bond Issuance Costs	(83,006)	(310,000)	19,601	(373,405)	32,816
Deferred Amounts:					
Bond Discounts	196,750	(289,311)	(44,599)	(137,160)	30,171
Deferred Expense	140,885		(29,660)	111,225	29,660
Total Bond Payable	\$ 6,653,310	\$ 17,655,689	(\$2,056,428)	\$ 22,252,571	\$ 1,124,135

Year ending June 30:	Principal	Interest	Total
2006	\$ 1,020,000	\$ 836,126	\$ 1,856,126
2007	1,730,000	988,795	2,718,795
2008	1,805,000	911,020	2,716,020
2009	1,880,000	826,445	2,706,445
2010	710,000	734,345	1,444,345
2011-15	2,680,000	3,341,851	6,021,851
2016-20	2,580,000	2,822,918	5,402,918
2021-25	3,150,000	2,189,575	5,339,575
2026-30	2,830,000	1,437,500	4,267,500
2031-2035	3,500,000	657,000	4,157,000
2036	810,000	20,250	830,250
Total	\$ 22,695,000	\$ 14,765,825	\$ 37,460,825

Reimbursable Agreements

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

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

11. Commitments (continued)

There was no significant reduction in insurance coverage by major categories of risk from fiscal year 2002/03 to fiscal year 2003/04. However, effective July 1, 2003 the District no longer purchase excess coverage for workers compensation claims and will fund 100% of all expenses. Furthermore, there has been no settlement which exceeded insurance coverage for the past three fiscal years.

Special Funding District Bonds

These bonds are not direct liabilities of the District, and their payment is secured by valid assessment 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 and the bond holders. The Special Funding District Bonds outstanding at June 30, 2005 and 2004, were \$112,134,657 and \$64,291,270 respectively, and are not included in the District's financial statements.

12. Contingencies

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

13. Santa Ana Watershed Project Authority

The Santa Ana Watershed Project Authority was formed in 1975, pursuant to the provisions of Article 1, Chapter 5, Division 7, Title 1 of the Government Code of the State of California relating to the joint exercise powers common to public agencies, for the purpose of undertaking projects for water quality control and protection and pollution abatement in the Santa Ana Watershed. The authority is governed by a 10-member Board of Commissioners, constituting of two members from each of the five-member agencies. Eastern Municipal Water District became a member in September 1984. An independent audit report is prepared annually and is available for public inspection at the offices of the Authority.

14. Advances from Developers

The District receives deposits from developers in advance to cover various costs for both sewer and water related projects. At June 30, 2005 and 2004, the amount of refundable deposits was \$41,197,549 and \$24,812,638, respectively.



Supplementary Information



Eastern Municipal Water District

Schedule of Revenues, Expenses and Changes in Net Assets - Actual and Budget

District Actual vs Budget

The table below compares revenues and expenses of the District compared to budgeted and/or projected figures used by the District to monitor performance during the year. Overall change to net assets was budgeted at a positive \$73.2 million vs. an actual of \$82.8 million. The favorable variance of \$9.6 million is attributed to a favorable income before capital contributions of \$8.9 million plus favorable capital contributions of \$.6 million.

	Actual 2004/05	Budget 2004/05	Variance with Budget Positive (Negative)	%
REVENUES				
Water Sales	\$ 66,258,221	\$ 68,140,592	\$ (1,882,371)	-2.8
Sewer Service	39,739,370	37,125,636	2,613,734	7.0
Connection Fees	72,445,434	56,850,000	15,595,434	27.4
Interest	13,576,749	10,977,200	2,599,549	23.7
Property Taxes – 1% Share	8,707,881	18,244,714	(9,536,833)	-52.3
Standby Charges	4,354,591	4,188,500	166,091	4.0
Property Taxes – GO Bonds	2,809,967	1,584,035	1,225,932	77.4
Recycled Water	1,498,687	2,350,000	(851,313)	-36.2
Other Non-Operating Revenues	7,693,026	2,640,000	5,053,026	191.4
Total Revenues	\$ 217,083,926	\$ 202,100,677	\$ 14,983,249	7.4
EXPENSES				
Water Purchases	32,380,524	31,738,306	(642,218)	-2.0
Water Operations	25,111,134	24,163,308	(947,826)	-3.9
Sewer Operations	27,194,672	26,161,001	(1,033,671)	-4.0
Depreciation Expense	37,572,961	36,500,000	(1,072,961)	-2.9
General and Administrative	18,418,043	18,321,619	(96,424)	-.5
Interest Expense – COP	15,358,957	14,731,997	(626,960)	-4.3
Interest Expense – Other	993,074	1,132,462	139,388	12.3
Recycled Water	3,789,915	2,989,805	(800,110)	-26.8
Other Non-Operating Expenses	4,040,542	3,083,444	(957,098)	-31.0
Total Expenses	164,859,822	158,821,942	(6,037,880)	3.8
Income before contributions	52,224,104	43,278,735	8,945,369	20.7
Capital Contributions	30,613,539	30,000,000	613,539	2.0
Changes in Net Assets	\$ 82,837,643	\$ 73,278,735	\$ 9,558,908	13.0

Eastern Municipal Water District
Notes to the Supplementary Schedule
Year ended June 30, 2005

Major Budget Variances

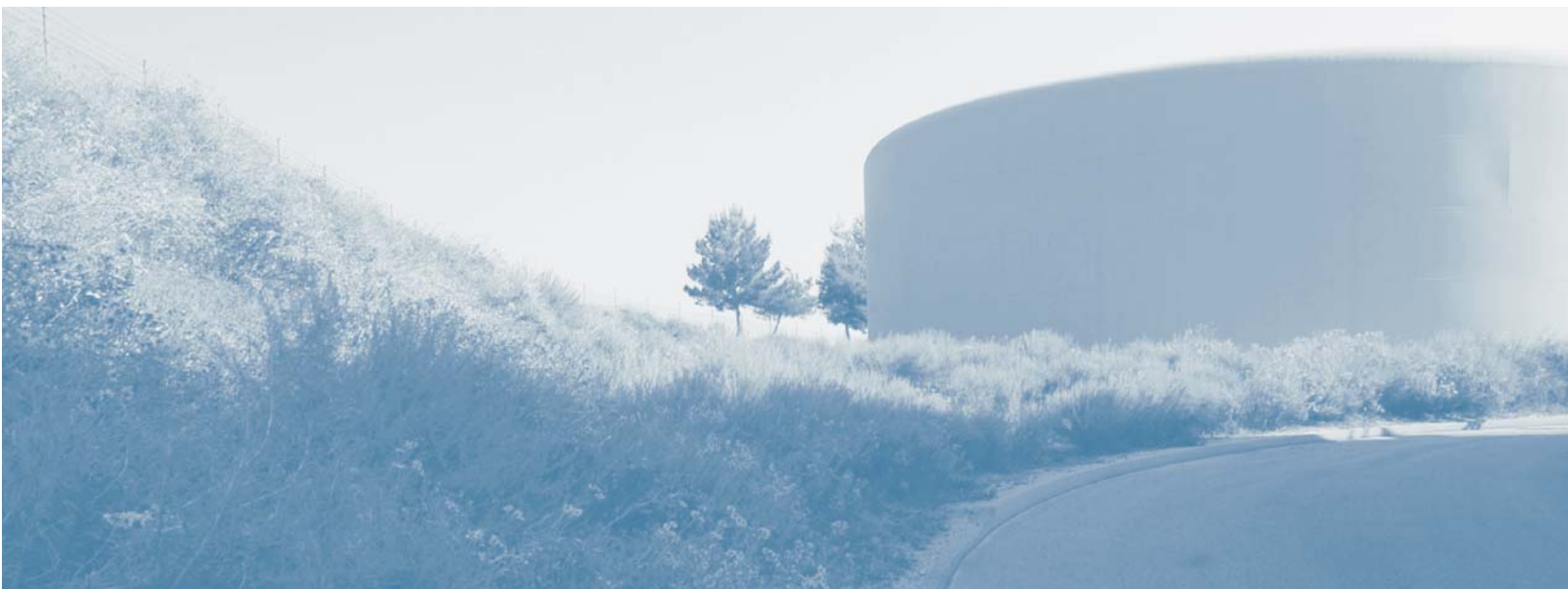
The following denotes explanations for some of the major variances between actual and budget for the table above:

- Retail water sales were down by 6% (4,949 AF) compared to budget due to the inclement weather experienced this year.
- Sewer service charges were primarily higher due to revenue from higher than expected growth in the District's service area and a rate increase implemented in January 2005.
- Connection fees were budgeted at 11,400 sewer hook ups and 7,800 water hook ups. The actual was at 13,989 and 9,748, respectively.
- Interest income was modestly higher due to a higher portfolio balance and a nominal change to the market value.
- Property taxes were reduced due to the state diversion of \$12.6 million. This was partially offset by an assessed valuation increase of 20%.
- General obligation bond revenues increased due to the additional tax rates that were submitted to the county due to the issuance of \$18.3 million of general obligation bonds.
- Recycled water sales were down by 7,599 AF (29%) due to inclement weather.
- Other non-operating revenue variances were primarily generated from the new Water Supply Development Fee (\$3.6 mill) which started this year along with customer fees and charges (\$375,000); annexation fees (\$280,000); property tax delinquency collections (\$300,000); construction meter rentals (\$100,000); rental land income (\$78,000); and offset by lower revenues for sales of securities (\$68,000) and lower revenues from selling excess dirt (\$100,000)
- Water purchases were slightly higher by 2.0%, due to more imported water being purchased and less well production.
- Water operating costs were higher due to higher costs of operations including higher labor and material costs.

Eastern Municipal Water District
Notes to the Supplementary Schedule
Year ended June 30, 2005

- Sewer operating costs were higher due to additional flows being treated. Average daily flow being treated was 43.24 MG compared to a budget of 39.83 MG.
- COP interest expense was higher this year by \$0.6 million primarily due to higher interest rates on the variable rate debt.
- Recycled water expenses were higher due to the increased pumping costs associated with the discharge of the recycled water that could not be sold due to the inclement weather.

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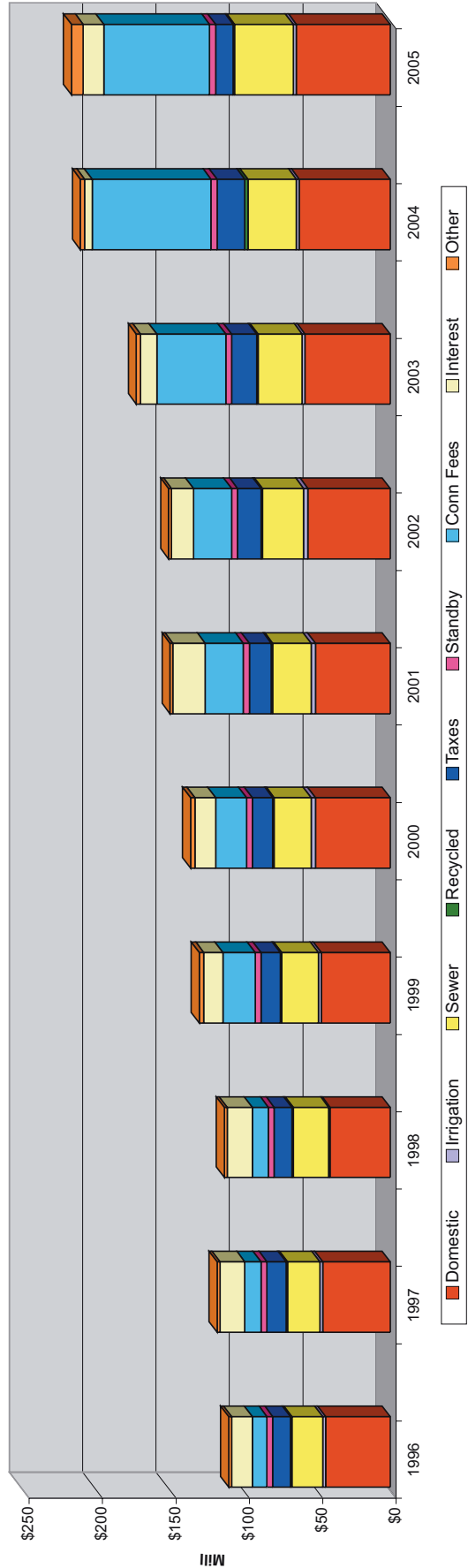


Statistical Section



**REVENUES BY SOURCE
LAST 10 FISCAL YEARS**

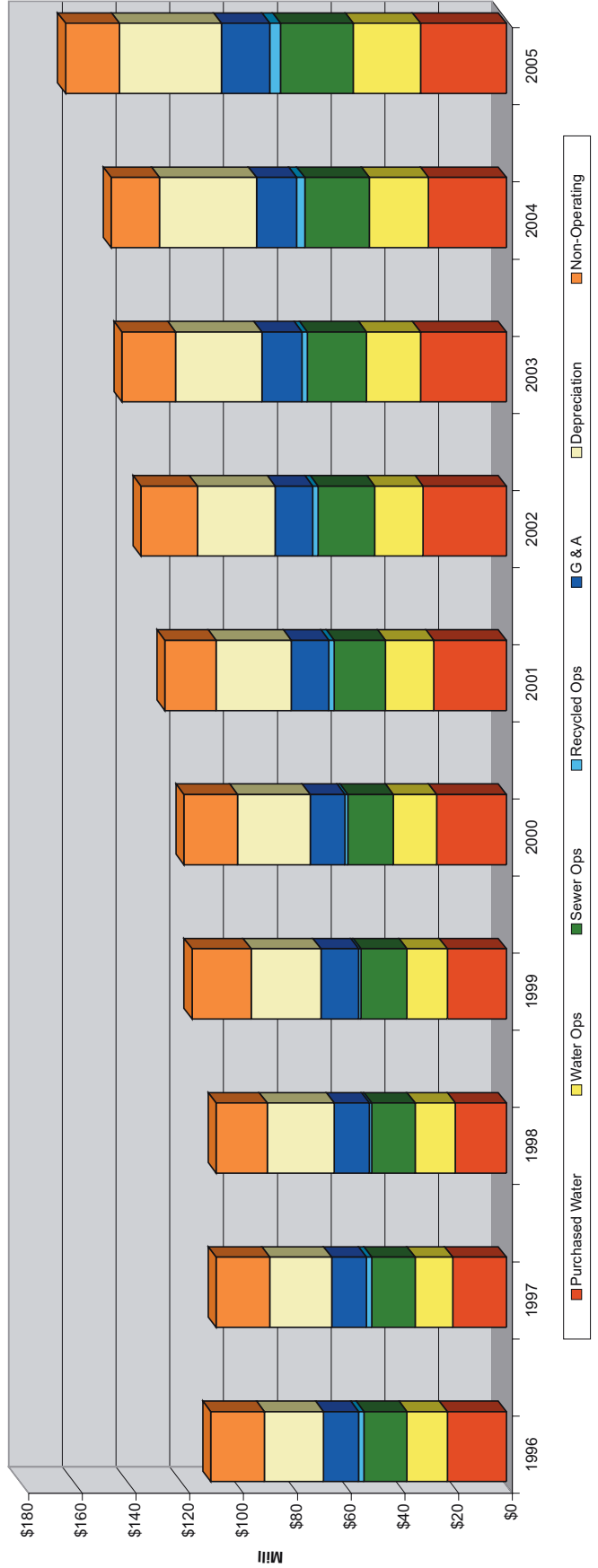
FISCAL YEAR	Domestic Sales	% of Total	Irrigation Sales	% of Total	Sewer Service Charges	% of Total	Recycled Water	% of Total	Taxes & Assessments	% of Total	Standby Charges	% of Total	Connection Fees	% of Total	Interest Income	% of Total	Other	% of Total	Total Revenues
1996	44,037,214	40.3%	1,512,680	1.4%	21,393,178	19.6%	779,660	0.7%	13,012,392	11.9%	3,750,190	3.4%	9,508,077	8.7%	13,634,803	12.5%	1,683,646	1.5%	\$ 109,311,840
1997	45,841,247	39.2%	1,838,789	1.6%	22,615,071	19.4%	764,848	0.6%	12,745,561	10.9%	3,758,737	3.2%	10,705,384	9.2%	16,578,272	14.2%	1,953,572	1.7%	\$ 116,801,481
1998	40,862,625	36.6%	1,359,320	1.2%	23,665,927	21.2%	645,259	0.6%	12,241,405	10.9%	3,787,564	3.4%	10,760,006	9.6%	16,640,821	14.9%	1,793,344	1.6%	\$ 111,766,271
1999	46,822,291	36.6%	1,767,339	1.4%	25,020,585	19.5%	1,078,322	0.9%	12,827,333	10.0%	3,771,928	2.9%	21,572,990	16.9%	12,575,306	9.8%	2,592,730	2.0%	\$ 128,028,824
2000	51,382,241	37.8%	2,636,349	2.0%	25,361,589	18.7%	1,102,441	0.8%	13,882,413	10.2%	3,816,486	2.8%	20,767,021	15.3%	14,289,528	10.5%	2,580,252	1.9%	\$ 135,798,300
2001	51,360,308	34.1%	2,859,387	1.9%	26,123,677	17.3%	1,364,456	0.9%	15,164,499	10.0%	3,858,132	2.6%	25,949,508	17.2%	22,194,517	14.7%	1,901,955	1.3%	\$ 150,776,439
2002	55,736,727	37.1%	2,618,619	1.7%	27,825,278	18.5%	1,182,868	0.8%	15,744,074	10.5%	3,929,860	2.6%	25,740,750	17.1%	15,407,309	10.2%	2,283,437	1.5%	\$ 150,468,922
2003	58,351,059	33.6%	2,214,760	1.3%	29,973,084	17.2%	1,409,824	0.8%	16,914,346	9.7%	4,006,786	2.3%	46,960,911	27.1%	11,219,083	6.5%	2,712,153	1.6%	\$ 173,762,006
2004	62,824,662	28.6%	1,971,739	0.9%	33,496,234	15.8%	2,069,194	1.0%	18,698,381	8.8%	4,172,104	2.0%	80,804,323	38.0%	5,186,086	2.4%	3,183,193	1.5%	\$ 212,405,916
2005	64,092,906	29.5%	2,165,315	1.0%	39,739,370	18.3%	1,498,687	0.7%	11,517,848	5.3%	4,354,591	2.0%	72,445,434	33.4%	13,576,749	6.2%	7,693,026	3.5%	\$ 217,083,926



Source: Eastern Municipal Water District

EXPENSES BY FUNCTION LAST 10 FISCAL YEARS

FISCAL YEAR	Purchased Water	% of Total	Water Operations	% of Total	Sewer Operations	% of Total	Recycled Water Operations	% of Total	General & Administrative	% of Total	Depreciation & Amortization	% of Total	Total Non-Operating Expenses	% of Total	Total Expenses
1996	21,652,549	19.7%	15,162,037	13.8%	16,007,059	14.6%	1,702,318	1.6%	13,057,328	11.9%	22,357,898	20.4%	19,692,541	18.0%	\$ 109,631,730
1997	20,274,732	18.7%	14,460,206	13.3%	15,950,706	14.7%	1,514,578	1.4%	12,602,706	11.7%	23,325,105	21.5%	20,219,982	18.7%	\$ 108,348,015
1998	18,577,818	17.3%	14,556,360	13.6%	15,662,378	14.6%	1,337,147	1.2%	13,459,580	12.6%	24,555,656	22.9%	19,030,418	17.8%	\$ 107,179,357
1999	21,788,173	18.7%	14,845,543	12.7%	17,219,223	14.7%	1,439,250	1.2%	13,909,581	11.9%	25,976,208	22.2%	21,741,837	18.6%	\$ 116,919,815
2000	26,331,029	21.6%	16,348,960	13.4%	17,453,978	14.3%	1,313,145	1.1%	13,429,893	11.0%	27,279,095	22.4%	19,790,677	16.2%	\$ 121,946,777
2001	26,985,006	21.2%	17,606,824	13.8%	19,313,651	15.2%	1,922,568	1.5%	14,463,535	11.4%	27,887,507	21.9%	19,062,414	15.0%	\$ 127,241,505
2002	30,632,930	22.6%	17,886,826	13.2%	20,540,533	15.2%	1,988,321	1.5%	14,395,481	10.6%	29,435,014	21.7%	20,530,179	15.2%	\$ 135,409,284
2003	32,307,403	22.4%	19,534,843	13.6%	22,151,919	15.4%	2,410,213	1.7%	15,317,533	10.9%	31,911,657	22.2%	20,385,823	14.1%	\$ 144,019,391
2004	29,104,840	19.9%	21,777,484	14.9%	23,789,668	16.2%	2,992,339	2.0%	15,186,601	10.4%	35,574,113	24.3%	18,021,438	12.3%	\$ 146,446,483
2005	32,380,524	19.6%	25,111,134	15.2%	27,194,672	16.5%	3,789,915	2.3%	18,418,043	11.2%	37,572,961	22.8%	20,392,573	12.4%	\$ 164,859,822



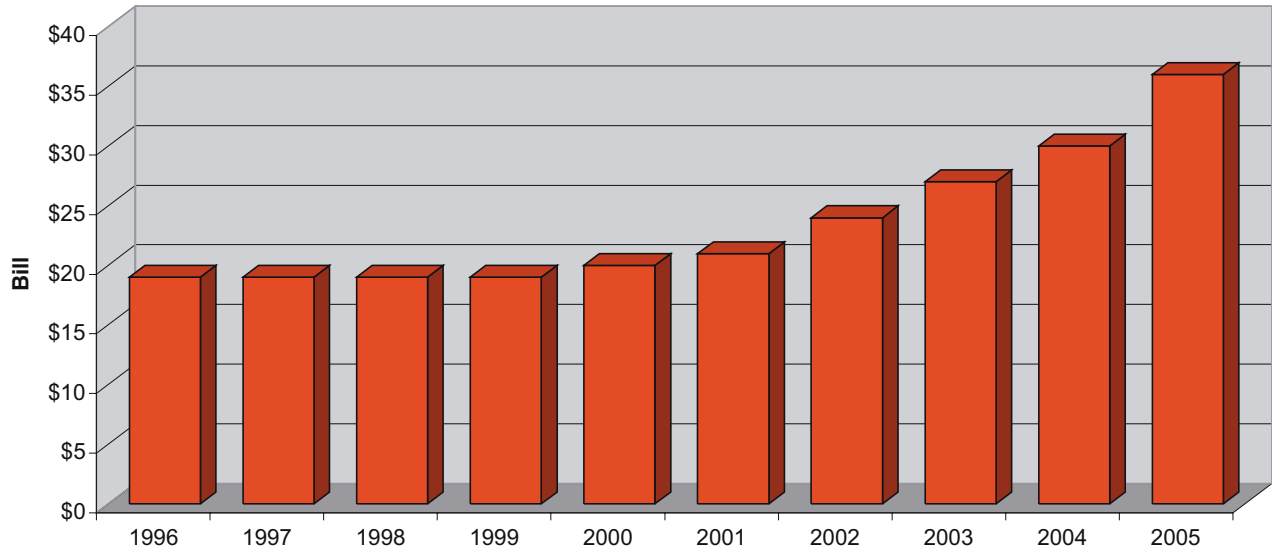
**REVENUE BOND COVERAGE
LAST 10 FISCAL YEARS**

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
OPERATING REVENUES:										
Water Sales	45,549,894	47,680,036	42,221,945	48,589,630	54,018,590	54,219,695	58,355,346	60,565,819	64,796,401	66,258,221
Sewer Service Sales	21,393,178	22,615,071	23,665,927	25,020,585	25,361,569	26,123,677	27,825,278	29,973,084	33,496,234	39,739,370
Recycled Water	779,660	764,848	645,259	1,078,322	1,102,441	1,364,456	1,182,868	1,409,824	2,069,194	1,498,687
Total Operating Revenues	67,722,732	71,059,955	66,533,131	74,688,537	80,482,600	81,707,828	87,363,492	91,948,727	100,361,829	107,496,278
OPERATING EXPENSES:										
Water Purchases	21,652,549	20,274,732	18,577,818	21,788,173	26,331,029	26,985,006	30,632,930	32,307,403	29,104,840	32,380,524
Water Operations	15,162,037	14,460,206	14,556,360	14,845,543	16,348,960	17,606,824	17,886,826	19,634,843	21,777,484	25,111,134
Sewer Operations	17,709,377	17,465,284	16,999,525	18,658,473	18,767,123	21,236,219	22,528,854	24,562,132	26,782,007	30,984,587
General & Administrative	13,057,328	12,602,706	13,459,580	13,909,581	13,429,893	14,463,535	14,395,481	15,317,533	15,186,601	18,418,043
Total Operating Expenses	67,581,291	64,802,928	63,593,283	69,201,770	74,877,005	80,291,584	85,444,091	91,821,911	92,850,932	106,894,288
OPERATING INCOME (LOSS)	141,441	6,257,027	2,939,848	5,486,767	5,605,595	1,416,244	1,919,401	126,816	7,510,897	601,990
NON-OPERATING REVENUES:										
Property taxes - General Purpose	9,561,703	9,336,708	9,236,496	9,804,684	10,778,537	11,753,408	12,887,334	14,477,271	16,531,907	8,707,881
Standby charges	3,750,190	3,758,737	3,797,564	3,771,928	3,816,486	3,858,132	3,929,860	4,006,786	4,172,104	4,354,591
Water and Sewer Connection Fees	9,508,077	10,705,384	10,760,006	21,572,990	20,767,021	25,949,508	25,740,750	46,960,911	80,804,323	72,445,434
Interest income	13,317,134	14,952,009	16,314,378	12,262,116	13,948,178	21,827,134	15,105,192	10,986,525	4,987,397	13,354,263
Other income/(expense)	(359,122)	(33,398)	(374,807)	(2,539,326)	(978,297)	(2,107,544)	(1,637,861)	(1,564,986)	780,603	3,077,188
Total Non-Operating Expenses	35,777,982	38,719,440	39,733,637	44,872,392	48,331,925	61,280,638	56,025,275	74,866,507	107,276,334	101,939,357
NON-OPERATING EXPENSES:										
Debt Service Interest Payments	15,768,809	16,222,421	15,312,712	15,260,659	15,069,255	14,033,057	15,736,862	15,427,928	15,042,051	15,358,957
Total non-operating expenses	15,768,809	16,222,421	15,312,712	15,260,659	15,069,255	14,033,057	15,736,862	15,427,928	15,042,051	15,358,957
EXCESS OF REVENUE OVER EXPENSES BEFORE EXTRAORDINARY ITEM	20,150,614	28,754,046	27,360,773	35,098,500	38,868,265	48,663,825	42,207,814	59,565,395	99,745,180	87,182,390
Add back for COP debt	15,768,809	16,222,421	15,312,712	15,260,659	16,069,255	14,033,057	15,736,862	15,427,928	15,042,051	15,358,957
Net Revenues for Debt Coverage	35,919,423	44,976,467	42,673,485	50,359,159	54,937,520	62,696,882	57,944,676	74,993,323	114,787,231	102,541,347
COP Principal and Interest	19,891,288	19,891,371	19,842,949	19,537,107	19,534,967	17,166,135	21,679,783	21,703,892	24,271,161	25,054,135
Debt Coverage	1.8	2.3	2.2	2.6	2.8	3.7	2.7	3.5	4.7	4.1

Source: Eastern Municipal Water District

**ASSESSED VALUATION OF TAXABLE PROPERTY
LAST 10 FISCAL YEARS**

FISCAL YEAR	SECURED & UNSECURED PROPERTY ASSESSED VALUATION	% INCREASE/DECREASE
2005	\$ 36,317,993,384	20.3%
2004	\$ 30,196,349,883	13.8%
2003	\$ 26,541,419,602	12.2%
2002	\$ 23,662,143,296	10.6%
2001	\$ 21,395,783,158	9.7%
2000	\$ 19,510,315,549	4.7%
1999	\$ 18,637,258,055	0.0%
1998	\$ 18,638,045,699	-0.1%
1997	\$ 18,653,612,666	-1.5%
1996	\$ 18,933,087,821	-1.6%



Source: Riverside County Auditor-Controller

**PROPERTY TAX LEVIES AND COLLECTIONS
LAST 10 FISCAL YEARS**

FISCAL YEAR	TOTAL TAX LEVY (1)	TAXES COLLECTED	AMOUNT COLLECTED DELINQUENT FROM PRIOR YEAR	DELINQUENCIES AS A PERCENT OF TOTAL COLLECTED
1996	8,570,180	8,389,869	919,772	2.10%
1997	8,367,964	8,054,109	728,078	3.75%
1998	8,396,174	8,172,074	733,424	2.67%
1999	8,923,231	8,808,554	704,654	1.29%
2000	9,353,742	9,318,682	734,607	0.37%
2001	9,979,035	9,690,050	479,319	2.90%
2002	10,944,108	10,662,794	695,996	2.57%
2003	12,332,103	11,988,770	572,041	2.78%
2004	13,986,085	13,848,439	729,742	0.98%
2005 (2)	5,494,027	4,207,086	1,437,167	23.40%

(1) Includes secured and unsecured

(2) Levy reduced by \$12.6 mill by State diversion

Source: Eastern Municipal Water District; Riverside County Auditor-Controller

**SPECIAL ASSESSMENT BILLINGS AND COLLECTIONS
LAST 10 FISCAL YEARS**

FISCAL YEAR	STANDBY LEVY	STANDBY COLLECTED	COLLECTED FROM PRIOR YEAR	DELINQUENCIES AS A PERCENT OF TOTAL COLLECTED
1996	3,754,480	3,309,613	347,059	11.85%
1997	3,761,621	3,316,768	383,550	11.83%
1998	3,757,799	3,370,824	389,370	10.30%
1999	3,771,938	3,429,249	456,132	9.09%
2000	3,804,065	3,474,061	369,735	8.68%
2001	3,845,466	3,580,609	272,849	6.89%
2002	3,929,872	3,596,604	343,446	8.48%
2003	4,006,803	3,773,171	285,389	5.83%
2004	4,172,104	3,947,540	223,243	5.38%
2005	4,354,591	4,088,099	285,651	6.12%

Source: Eastern Municipal Water District; Riverside County Auditor-Controller

GENERAL OBLIGATION BOND TAX RATE HISTORY
LAST 10 FISCAL YEARS
(\$/\$100 AV)

ID	Area Name	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
12	W. Moreno Valley (W)	\$ 0.040	\$ 0.020	\$ 0.010	0.000	-	-	-	-	-	-
13	Perris Valley (W)	0.005	0.005	0.005	0.005	0.003	0.003	0.000	-	-	-
14	Diamond Valley (W)	0.037	0.020	0.020	0.020	0.000	-	-	-	-	-
15	Bautista Canyon (W)	0.030	0.013	0.010	0.010	0.000	-	-	-	-	0.050
16	Mead Valley (W)	0.070	0.070	0.050	0.035	0.025	0.000	-	-	-	0.008
17	Hemet/San Jacinto (S)	0.005	0.005	0.003	0.003	0.003	0.003	0.003	0.000	-	-
18	Juniper Flats (W)	0.045	0.000	-	-	-	-	-	-	-	0.050
19	Moreno Valley (S)	0.015	0.015	0.010	0.010	0.008	0.008	0.007	0.000	-	-
20	Hemet/San Jacinto (S)	0.023	0.023	0.000	-	-	-	-	-	-	0.017
21	Menifee Valley (W)	0.025	0.000	-	-	-	-	-	-	-	-
22	Murrieta Hot Springs (S)	0.030	0.030	0.025	0.025	0.025	0.020	0.018	0.015	0.012	0.012
23	Murrieta Hot Springs (W)	0.005	0.005	0.005	0.005	0.005	0.005	0.000	-	-	-
25	Temecula (S)	-	-	-	-	-	-	-	-	-	-
U-1	Sun City (S)	0.019	0.019	0.017	0.017	0.017	0.017	0.014	0.012	0.005	-
U-2	Sun City (S)	-	-	-	-	-	-	-	-	-	0.012
U-3	Pigeon Pass (W)	0.025	0.025	0.020	0.017	0.017	0.017	0.016	0.014	0.007	-
U-4	Sun City (S)	-	-	-	-	-	-	-	-	-	0.021
U-5	Dairyland (W)	0.040	0.040	0.040	0.040	0.040	0.000	-	-	-	0.050
U-7	Soboba Springs (W&S)	0.140	0.140	0.070	0.050	0.050	0.000	-	-	-	0.050
U-8	Temecula (S)	0.036	0.036	0.033	0.031	0.031	0.031	0.019	0.017	0.012	0.012
U-10	Canyon Lake (W&S)	0.055	0.055	0.055	0.055	0.055	0.055	0.053	0.000	-	0.043
U-12	Hemet/San Jacinto (S)	-	-	-	-	-	-	-	-	-	0.049
U-13	W. Moreno Valley (S)	0.026	0.026	0.026	0.026	0.026	0.026	0.024	0.024	0.022	0.023
U-14	Hemet/San Jacinto (S)	-	-	-	-	-	-	-	-	-	0.050
U-16	Hemet/San Jacinto (S)	0.010	0.010	0.015	0.013	0.000	-	-	-	-	0.006
U-17	Ryan Airport (W)	0.022	0.022	0.025	0.025	0.000	-	-	-	-	-
U-18	Hemet/San Jacinto (S)	-	-	-	-	-	-	-	-	-	0.050
U-19	Hemet/San Jacinto (S)	0.015	0.015	0.020	0.020	0.020	0.000	-	-	-	0.024
U-20	N. San Jacinto (W)	0.016	0.016	0.020	0.020	0.020	0.000	-	-	-	-
U-21	Hemet/San Jacinto (S)	-	-	-	-	-	-	-	-	-	0.038
U-22	E. Moreno Valley	-	-	-	-	-	-	-	-	-	0.023

Source: Eastern Municipal Water District

**CUSTOMER ACCOUNT WRITE OFFS
AS A PERCENTAGE OF SALES
LAST 10 FISCAL YEARS**

	Retail Sales	Write Offs	% Sales
1996	\$ 54,987,627	\$ 526,028	1.0%
1997	\$ 56,536,859	\$ 496,766	0.9%
1998	\$ 53,116,341	\$ 462,803	0.9%
1999	\$ 58,067,579	\$ 376,289	0.6%
2000	\$ 63,682,193	\$ 259,197	0.4%
2001	\$ 63,691,389	\$ 244,161	0.4%
2002	\$ 68,291,381	\$ 236,168	0.3%
2003	\$ 70,041,876	\$ 301,164	0.4%
2004	\$ 83,551,697	\$ 255,260	0.3%
2005	\$ 88,297,280	\$ 259,410	0.3%
Total	\$ 660,264,222	\$ 3,417,246	0.5%

Note: Excludes sales collected by other agencies

Source: Eastern Municipal Water District

**BAD DEBT RESERVES AS A PERCENTAGE
OF ACCOUNTS RECEIVABLE BALANCE
LAST 10 FISCAL YEARS**

	Year End A/R Balance	Reserve	% of A/R
1996	\$ 5,477,063	\$ 292,119	5.3%
1997	\$ 5,139,131	\$ 286,495	5.6%
1998	\$ 3,543,152	\$ 227,463	6.4%
1999	\$ 4,525,491	\$ 222,503	4.9%
2000	\$ 5,501,355	\$ 116,267	2.1%
2001	\$ 5,070,308	\$ 56,097	1.1%
2002	\$ 5,477,258	\$ 69,363	1.3%
2003	\$ 5,499,953	\$ 56,569	1.0%
2004	\$ 5,707,462	\$ 89,413	1.6%
2005	\$ 5,973,588	\$ 91,578	1.5%

Note: Reserve equals accounts over 60 days

Source: Eastern Municipal Water District

**FIFTEEN LARGEST TAXPAYERS OF RIVERSIDE COUNTY
SECURED AND UNSECURED ASSESSMENTS
2004-2005 FISCAL YEAR**

Company Name	Total Amount of Taxes	% of Total Tax Charge
1 Verizon	\$ 7,460,597.10	0.43
2 Southern California Edison	\$ 7,276,217.18	0.42
3 Centex Homes	\$ 5,251,602.23	0.30
4 KB Home Costal Inc.	\$ 3,924,479.86	0.22
5 Southern California Gas Company	\$ 3,621,273.36	0.21
6 Pulte Home Corporation	\$ 3,221,463.54	0.18
7 Blythe Energy	\$ 3,099,533.04	0.18
8 Pardee Grossman Cottonwood Canyon	\$ 2,906,538.78	0.17
9 KSL Desert Resorts Inc	\$ 2,448,692.25	0.14
10 Norco Ridge Ranch	\$ 2,390,894.50	0.16
11 Murdy S.P.	\$ 2,338,759.34	0.13
12 DS Hotel	\$ 2,303,353.44	0.13
13 Tyler Mall Ltd Partnership	\$ 2,220,734.58	0.13
14 Western Pacific Housing Inc.	\$ 2,173,540.02	0.12
15 Starfield Sycamore Inv.	\$ 2,134,864.48	0.14
Total Amount of Taxes for 15 Largest Taxpayers	\$ 52,772,543.70	3.02
Total Tax Charge for 2004 - 2005	\$ 1,747,034,222.44	

Source: Riverside County Treasurer - Tax Collector

**TOP 10 AGRICULTURAL CUSTOMERS
AS OF JUNE 30, 2005**

CUSTOMER	USAGE ACRE FEET
1 C & R Farms	486
2 Sunnydale Farms	154
3 McAnally Egg Enterprises	152
4 Sam Boersma	150
5 Mt San Jacinto Comm College	133
6 I Chang Liang	128
7 Abacherli Dairy	116
8 Kevin & Pauline Doan	106
9 Unified Aircraft Services	104
10 Agr Empire	98
TOTAL ACRE FEET	1,627
TOTAL ALL CUSTOMERS	

Source: Eastern Municipal Water District

**TOP 10 RECYCLED CUSTOMERS
AS OF JUNE 30, 2005**

CUSTOMER	USAGE ACRE FEET
1 Record Farms	1,876
2 Department of Fish and Game	1,706
3 A G Sod	1,527
4 Rancho California Water	1,393
5 Pedro Indacochea	1,208
6 Clyde Smith	984
7 West Coast Turf	982
8 Ralph Daily/Quality Turf	927
9 Agri Empire	901
10 Don Bean	616
TOTAL ACRE FEET	12,120
TOTAL ALL CUSTOMERS	

Source: Eastern Municipal Water District

SUMMARY OF IMPORTED WATER RATES
(dollars per acre - foot)

Rates Effective	FULL SERVICE (1)						RECYCLED	LONG TERM	
	Domestic		INTERIM		SHIFT (2)			SEASONAL	
	Groundwater Replenishment and Reservoir		AGRICULTURAL PROGRAM		SEASONAL STORAGE			STORAGE	
Beginning Untreated	Treated	Untreated	Treated	Untreated	Treated	Untreated		Treated	
January 1, 1998	431	349	294	236	301	244	113	290	233
January 1, 1999	431	349	294	236	312	255	113	290	233
January 1, 2000	431	349	294	236	323	266	113	290	233
January 1, 2001	431	349	294	236	334	277	113	290	233
January 1, 2002	431	349	294	236	345	288	113	290	233
January 1, 2003 Tier 1 (3)	408	326	294	236	-	-	-	290	233
January 1, 2003 Tier 2	489	407	n/a	n/a	-	-	-	n/a	n/a
January 1, 2004 Tier 1	418	326	304	236	-	-	-	300	233
January 1, 2004 Tier 2	499	407	n/a	n/a	-	-	-	n/a	n/a
January 1, 2005 Tier 1	443	331	329	241	-	-	-	325	238
January 1, 2005 Tier 2	524	412	n/a	n/a	-	-	-	n/a	n/a

(1) Discontinued effective 1/1/03

(2) MWD implemented a new rate structure effective 1/1/03

EMWD WATER AND SEWER RATES
Effective January 1, 2005

Service Area	Water			Sewer	
	Commodity Charge per 100 Cubic Feet	Daily Charge	Average Monthly (1)	Daily Charge	Average Monthly (2)
Perris Valley	\$1.581	\$0.253	\$36.04	\$0.802	\$24.06
Sun City	1.581	0.253	36.04	0.540	16.20
Fruitvale	0.902	0.253	23.82	0.516	15.48
Diamond Valley	1.581	0.253	26.04	0.516	15.48
Moreno Valley	1.581	0.253	36.04	0.534	16.02
Temecula Valley	1.624	0.253	36.83	0.709	21.27

(1) By example, a water billing for 1,800 cubic feet (18 units) of water for a period of 30 days in the Perris Valley would be calculated as follows: (18 X \$1.581) + (30 X \$.253) = \$36.04.

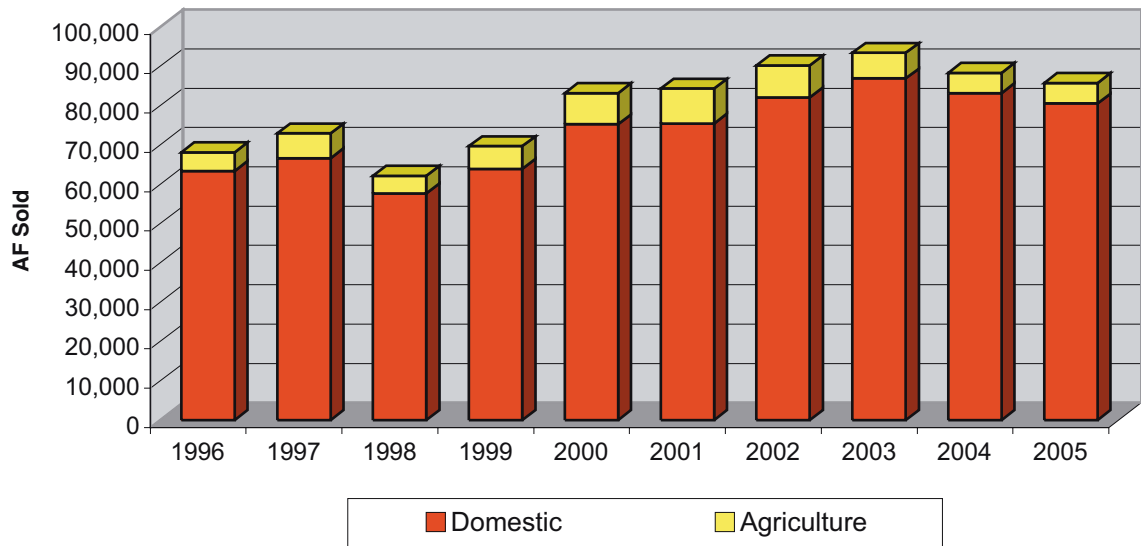
(2) By example, a sewer billing for 30 days of sewer service in the Perris Valley would be calculated as follows:
X \$.802 = \$24.06

Source: Eastern Municipal Water District

WATER DELIVERIES (Acre Feet)

Fiscal Year Ended June 30	Domestic	Agriculture	Total Deliveries
1996	63,408	4,749	68,157
1997	66,595	6,341	72,936
1998	57,693	4,451	62,144
1999	63,939	5,753	69,692
2000	75,243	7,910	83,153
2001	75,464	8,878	84,342
2002	82,088	8,151	90,239
2003	86,896	6,552	93,448
2004	83,141	5,184	88,325
2005	80,549	5,210	85,759

Source: Eastern Municipal Water District



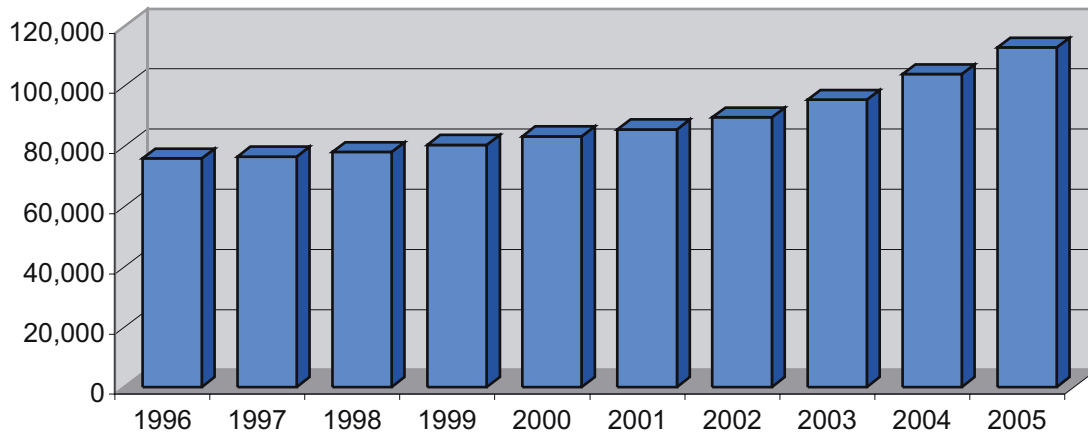
WATER USE WITHIN DISTRICT'S SERVICE AREA

Annual Domestic Consumption

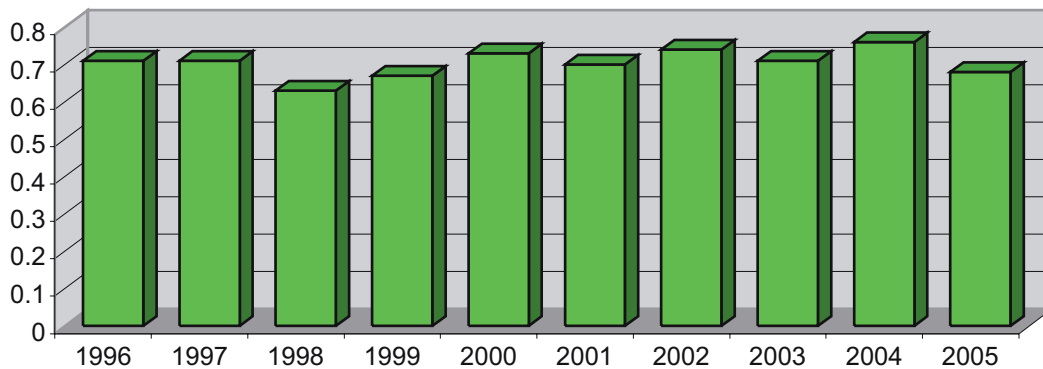
Fiscal Year Ended June 30	Usage (af)	Active Accounts	Average AF Per Account
1996	54,072	75,914	0.71
1997	54,633	76,599	0.71
1998	48,825	78,078	0.63
1999	54,212	80,517	0.67
2000	61,007	83,293	0.73
2001	60,231	85,638	0.70
2002	66,293	89,569	0.74
2003	67,345	95,449	0.71
2004	79,006	103,919	0.76
2005	77,066	112,845	0.68

Source: Eastern Municipal Water District

Number of Accounts



AF/Account



COMPUTATION OF DIRECT AND OVERLAPPING BONDED DEBT

2004-05 Assessed Valuation:	\$36,610,276,516
Redevelopment Incremental Valuation:	4,081,742,589
Adjusted Assessed Valuation:	\$32,528,533,927

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 6/30/05
Riverside County Flood Control District, Zone 6 & 3,4		
Benefit Assessment Districts	0.003-100.0%	\$796,040
Metropolitan Water District	2.439	10,199,654
Riverside City Community College District	18.458	13,226,285
Banning and Beaumont Unified School District	0.101 & 0.237	46,347
Hemet Unified School District	76.278	40,255,715
Moreno Valley Unified School District	97.972	48,985,947
Murrieta Valley Joint Unified School District	42.669	30,176,247
San Jacinto Unified School District	98.037	3,902,192
Temecula Unified School District	97.259	48,303,682
Perris Union High School District	94.689	50,970,558
Menifee Union School District	97.602	14,038,996
City of Riverside	1.597	319,400
Eastern Municipal Water District	100	0
Eastern Municipal Water District Improvement Districts	100	23,185,000
Eastern Municipal Water District 1915 Act Bonds	100	12,905,000
Rancho California Water District, Rancho Division	100	5,120,000
Rancho California Water District, Santa Rosa Division	3.651	235,124
Idyllwild County Water District, I.D. No. 1	9.373	18,277
Community Facilities Districts	12.907-100.	795,745,951
Riverside County 1915 Act Bonds	86.755-100.	60,947,189
City and Other Special District 1915 Act Bonds (Estimated)	100	17,770,000
TOTAL GROSS DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$1,177,147,604
Less: Eastern Municipal Water District Improvement District's Self-supporting bonds		133,000
Moreno Valley Community Facilities District No. 87-1 (100% self-supporting from tax increment revenues)		14,645,000
TOTAL NET DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$1,162,369,604

OVERLAPPING GENERAL FUND OBLIGATION DEBT:	% Applicable	Debt 6/30/05
Riverside County General Fund Obligations	31.341%	\$194,737,160
Riverside County Board of Education Certificates of Participation	31.341	3,828,303
Mt. San Jacinto Community College District General Fund Obligations	63.467	4,855,226
Hemet Unified School District Certificates of Participation	76.278	21,445,560
Moreno Valley Unified School District Certificates of Participation	97.972	28,054,282
San Jacinto Unified School District Certificates of Participation	98.037	19,577,989
Val Verde Unified School District Certificates of Participation	92.243	65,986,030
Perris Union High School District Certificates of Participation	94.689	31,683,680
Other School District Certificates of Participation	Various	25,563,270
City General Fund Obligations	Various	36,054,042
Rancho California Water District Certificates of Participation	74.353	89,773,284
Other Special District General Fund Obligations	Various	1,031,352
TOTAL GROSS OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$522,590,178

**COMPUTATION OF DIRECT AND OVERLAPPING BONDED DEBT
(continued)**

Less: Riverside County self-supporting obligations	6,435,018
Perris Union High School District self-supporting obligations (self-supporting from QZAB Escrow Fund Account Deposits)	4,734,450
Rancho California Water District Obligations (77.78% self-supporting)	69,825,660
TOTAL NET OVERLAPPING GENERAL FUND OBLIGATION DEBT	\$441,595,050

GROSS COMBINED TOTAL DEBT	\$1,699,737,782
NET COMBINED TOTAL DEBT	\$1,603,964,654

(1) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2004-05 Assessed Valuation:

Direct Debt.....	0.00%
Total Gross Direct and Overlapping Tax and Assessment Debt...	3.22%
Total Net Direct and Overlapping Tax and Assessment Debt.....	3.17%

Ratios to Adjusted Assessed Valuation:

Gross Combined Total Debt.....	5.23%
Net Combined Total Debt.....	4.93%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/05: \$0

Source: California Municipal Statistics

DEMOGRAPHIC STATISTICS

WATER SYSTEM

Service Area	352,000 acres 555 square miles
Miles of Water Main	2,051 total miles 1,626 miles of distribution lines 425 miles of transmission lines
Number of Storage Tanks	81
Maximum Storage Capacity	190 Million Gallon of Storage
Number of Pumping Plants	85
Number of Wells	22 active
Well Production Capacity	19,000 gallons per minute = 30,407 acre ft per year
Number of Service Connections	112,845 domestic active billing accounts 139 active agriculture and irrigation accounts

SEWER SYSTEM

Miles of sewer line	1,500 miles
Number of Treatment Plants	5
Treatment Capacity	53 MGD
Average Flows as of 06/30/05	43.3
Average % of Daily Flows	82%
Number of Lift Stations	43

RECYCLED SYSTEM

Miles of pipeline	159 miles of transmission & distribution lines
Number of Pumping Facilities	18
Number of Acre feet storage & Percolation ponds	6,669 acre feet

GENERAL INFORMATION

Number of Employees	585
Average Years of Service of Employees	10.63 years

Source: Eastern Municipal Water District

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