



Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2017



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

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For the Fiscal Year Ended June 30, 2017



Prepared by the

Eastern Municipal Water District
Finance Department

2270 Trumble Road
Perris, CA 92570

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Eastern Municipal Water District
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2017

Table of Contents

I. INTRODUCTORY SECTION

Letter of Transmittal	1-15
GFOA Certificate of Achievement	16
Service Area Map and Incorporated Cities	17
District Officials	18
Organizational Chart	19

II. FINANCIAL SECTION

Independent Auditor's Report	20-22
Management's Discussion and Analysis	23-32

Basic Financial Statements

Statement of Net Position	33-34
Statement of Revenues, Expenses and Changes in Net Position	35
Statement of Cash Flows	36-37
Notes to the Basic Financial Statements	38-82

Required Supplementary Information

Schedule of Changes in Net Pension Liability and Related Ratios During the Measurement Period	83
Schedule of Pension Plan Contributions	84
OPEB Funding Progress	85

III. STATISTICAL SECTION

Financial Trends

Net Position by Component - Last Ten Fiscal Years	86
Changes in Net Position - Last Ten Fiscal Years	87
Revenues by Source - Last Ten Fiscal Years	88
Expenses by Function - Last Ten Fiscal Years	89

Eastern Municipal Water District
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2017

Table of Contents Continued

Revenue Capacity

Water Produced and Consumed and Wastewater Treated - Last Ten Fiscal Years	90
Water and Sewer Rates - Last Ten Fiscal Years	91
Customers by Water Service Type - Last Ten Fiscal Years	92
Treated and Untreated Water Service Type by Customer Category	92
Largest Domestic Water Customers - As of June 30, 2017	93
Largest Agricultural and Irrigation Water Customers - As of June 30, 2017	94
Largest Recycled Water Customers - As of June 30, 2017	95
Largest Sewer Customers - As of June 30, 2017	96
Summary of Imported Water Rates - Last Ten Fiscal Years	97
Annual Domestic Consumption (AF) - Last Ten Fiscal Years	98

Debt Capacity

Ratios of Outstanding Debt by Type - Last Ten Fiscal Years	99
Ratios of General Bonded Debt Outstanding - Last Ten Fiscal Years	100
Parity Debt Service Coverage - Last Ten Fiscal Years	101

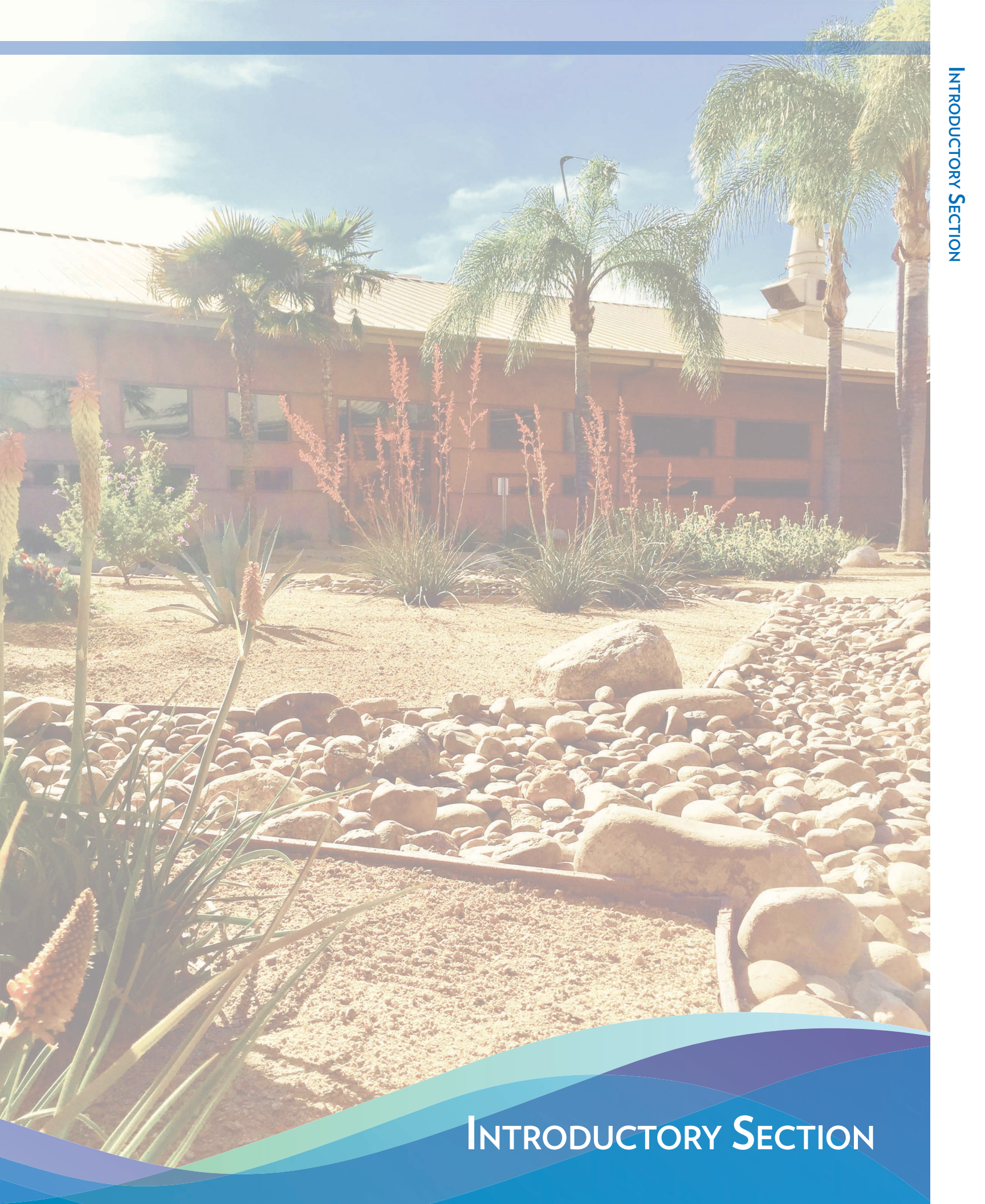
Demographic and Economic Information

Demographic and Economic Statistics - Last Ten Calendar Years	102
Principal Employers - Fiscal Year Ended June 30, 2017	103

Operating Information

Employees by Function - Last Ten Fiscal Years	104
Operating and Capital Indicators - Last Ten Fiscal Years	105
Customer Account Write Offs as a Percentage of Sales - Last Ten Fiscal Years	106
Bad Debt Reserves as a Percentage of Accounts Receivable Balance - Last Ten Fiscal Years	106





INTRODUCTORY SECTION

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November 2, 2017

Board of Directors
Eastern Municipal Water District

We are pleased to present the Eastern Municipal Water District's (District) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2017. State law and debt covenants require that the District publish, within six months and 180 days of the close of each fiscal year, respectively, a complete set of audited financial statements. This report is published to fulfill that requirement and to provide the Board of Directors (Board), the public and other interested parties these basic financial statements.

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

Davis Farr LLP, a firm of licensed certified public accountants, has issued an unmodified opinion on the District's financial statements for the year ended June 30, 2017. The independent auditors' report is presented as the first component of the financial section of this report.

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

Board of Directors

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

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PROFILE OF THE DISTRICT



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

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

The District is located in Southern California and its service area lies within western Riverside County, encompassing approximately 555 square miles. In 1951, the District's service area consisted of 86 square miles. Today, growth has resulted from annexations ranging in area from 1 to 72,000 acres. The assessed valuation has grown from \$72 million when formed to approximately \$70 billion for this past fiscal year. The District is divided into separate regional service areas for water service and sewer service.

Riverside County has a population of 2.4 million people. Of this population, the District serves approximately 816,000 or 34 percent, including the cities of Temecula, Murrieta, Menifee, Hemet, San Jacinto, Moreno Valley, Perris, Wildomar, and unincorporated areas in Riverside County. A map of the service area is shown on page 17 of this report.

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

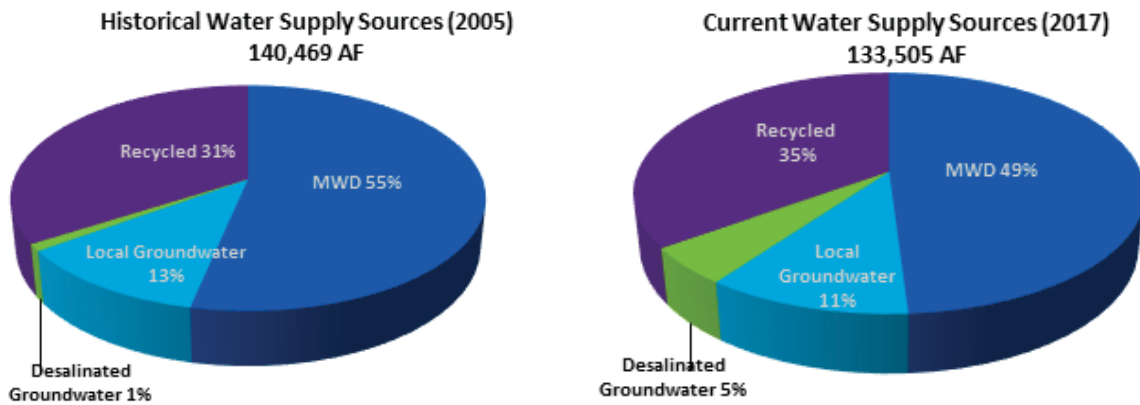
The District's approximately 611 employees are responsible for providing excellent customer service driven by its standards to provide safe, reliable, economical, and environmentally friendly services.

WATER SUPPLY AND RELIABILITY

The District's total water supplies include 16 percent local groundwater, 49 percent imported water, and 35 percent recycled water. The sole source of the District's imported water is MWD.

The District has made significant efforts to provide a safe and reliable supply of water and diversify the sources of water. In 2005, the District received 55 percent of its water through purchases from MWD, which in turn obtains

its water supply from two primary imported sources: the Colorado River via the Colorado River Aqueduct and the State Water Project via the Edmund G. Brown California Aqueduct. In 2017, the District's level of imported water was 49 percent of supply as a result of investments in local groundwater, desalination, and recycled water improvements.



SEWER AND RECYCLED WATER SERVICES

For the purposes of transmission, treatment, and disposal of wastewater, the District is divided into five sewer service areas: Hemet/San Jacinto, Moreno Valley, Sun City, Temecula Valley, and Perris Valley. Each service area is served by a single regional water reclamation facility (RWRF), for which methods of treatment vary. The facilities are capable of treating 69 million gallons per day (MGD) of wastewater and serve approximately 816,000 people. Customers' monthly bills include a daily service charge based on household size, which covers the fixed and variable costs of operating the sewer system and contributions to infrastructure replacement costs. They are linked through a network of 1,790 miles of pipeline and 46 active lift stations.

The District currently generates approximately 43 MGD of effluent at its regional water reclamation facilities. The District's goal is to reuse 100 percent of the water from the treatment plants and offer recycled water for sale to customers within the District's service area. In doing so, the District reduces the need to import water or to use other local groundwater supplies. In 2017, approximately 46,431 acre feet (AF) or 100 percent of the total recycled water produced, was sold to customers.

THE LOCAL ECONOMY

The District is located within Riverside County which is the fourth largest county in the State. Riverside County and San Bernardino County comprises the Inland Empire, which is one of the fastest growing metropolitan areas in the nation. The Inland Empire covers approximately 27,000 square miles with a population of about 4 million. Job growth in the region exceeded that of the State and other areas in Southern California from 2011 to 2015. In 2016, the Inland Empire's job growth of 47,500 jobs ranked second after Los Angeles' 109,200 jobs and next

above San Francisco's 43,800 jobs. This growth has brought the unemployment rate down and contributed to rising personal income, which has supported growth in consumer-driven industries such as leisure and hospitality. Wages and salaries increased 3.8 percent in 2015 compared to the State's 3 percent job growth, exceeding the pre-recession numbers. The unemployment rate was down from 8.2 percent in 2014 to 6.5 percent in 2015 and down 13.7 percent from its highpoint in 2010. Sectors of employment gain included business and professional services, transportation, warehousing, construction, and manufacturing. Job increases also occurred in wholesale trade and technical services. From the first quarter of 2016 to the first quarter of 2017, average annual wages increased 6.5 percent compared to the nation's 5.7 percent increase. The increase in wages during this period was spread across all industries including administrative support, management, health care, manufacturing, and professional and technical services. The State's inland counties, including Riverside County, are forecast to show above average job growth potential in the next few years.



The Inland Empire is an affordable housing alternative to the higher priced homes in the coastal regions of Southern California. Home sales were up in 2015 as a result of job growth and low interest rates. The area has continued to see a steady increase in real estate prices for the fourth consecutive year due to low inventory of houses for sale and increasing demand resulting from higher income and migration to the region. Home sales in Riverside County increased 9.9 percent in the beginning of January 2017 compared to the prior year. In San Bernardino, home

sales were up 6.7 percent in January 2017 compared to January 2016. Across the Inland Empire, home prices were up 7 percent from January 2016 to January 2017. Most cities in the Inland Empire are forecast to outperform the national average for home price gains in 2017. Nationwide, home prices are predicted to increase 3 percent through February 2018 while the Inland Empire forecasts range from 4.4 percent to 5.2 percent. Non-residential construction which was depressed from 2009 to 2012 bounced back in 2013 with an increase of new investment in the retail and industrial sectors with several large infrastructure projects and notable growth in the warehousing sector. Industrial vacancy rates continued to decline due to increasing demand for space. The vacancy rate for warehouse and distribution properties was 8 percent or 0.6 percent lower than the prior year while rent increased 3.4 percent. Permitting for industrial space grew the most in Riverside County, increasing 365 percent year to date through the second quarter of 2017.

The transportation, warehousing, and wholesaling industries employed over 150,000 workers in the Inland Empire in 2015. Transportation and warehousing jobs increased 7.3 percent and wholesale industry employment increased by 6.1 percent. The area has benefited from an increase in activity at the Ports of Los Angeles and Long Beach, which have experienced increases of 3.8 percent in 2014 and 1.6 percent in 2015 in cargo passing through these two ports. Also in 2015, online retailer Amazon announced the creation of 1,000 jobs at its three Inland Empire fulfillment centers in addition to 4,000 full-time jobs created at its regional fulfillment centers since 2012 (one of which is located in the District's service area of Moreno Valley). The construction sector has been having a strong year in 2017 due to strong demand for residential and commercial properties. For the period July 2016 to July 2017, the leisure and hospitality sector grew 3.4 percent while the transportation, warehouse, and utilities

sectors expanded payroll by 4.4 percent. Continued growth is expected as plans for the World Logistics Center in Moreno Valley continue to move forward.

The District's population has grown by nearly 49 percent since 2001 and experienced modest new connections during the national economic downturn. The recession had a large impact on Riverside County, however, local recovery has increased over recent years. In 2014, Riverside County added 26,000 jobs which is equivalent to 4.4 percent growth, unemployment decreased from 10.3 percent in 2013 to 8.2 percent in 2014 and 7.1 percent in 2015. In 2016, 23,300 jobs were added in Riverside County, an increase of 3.6 percent compared to Southern California's job growth of 2.5 percent. Job growth in the County was strongest in leisure and hospitality, education and healthcare, construction and government. The population increased an average of 1.2 percent each year and is projected to increase by 1.3 percent in 2017. Annual growth is expected at an average of 1.2 percent through 2022. The County's central location and proximity to the ports of Los Angeles and Long Beach in addition to affordable land and large storage facilities makes it an ideal region for transportation and distribution of goods. As the economic recovery continues to increase the value of real estate in the coastal regions of Southern California, residents and businesses turn their attention to affordable land, housing, and rental in Riverside County.

Riverside County's property assessment roll for the fiscal year 2017 has exceeded the record set in fiscal year 2008 with a value of \$255 billion, 5.08 percent over fiscal year 2016. This is the fourth consecutive year of growth, exceeding the County's peak assessment roll of \$242.9 billion in 2008.

The District's property assessment roll for its service areas increased \$3.8 billion or 5.7 percent in fiscal year 2017. Its service areas include the cities of Temecula, Murrieta, Menifee, Hemet, San Jacinto, Moreno Valley, Perris, Wildomar and unincorporated areas in Riverside County. The largest growth among the District's incorporated service areas are in the cities of Menifee, 8.3 percent; Moreno Valley, 8.1 percent; and Perris, 8.2 percent. In 2014, Menifee was the second fastest growing city in Riverside County and the sixth fastest growing city in the State. It has moved forward with a \$100 million capital improvement program encouraging development in the area.



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

The District is conveniently accessible by truck and rail service from several significant national and international cargo facilities including the Port of Los Angeles and Long Beach complex, Los Angeles International Airport (LAX), Ontario International Airport (ONT), and Port of San Diego. Additionally, the March Air Reserve Base (MARB), a 12 square-mile airfield and logistics center, is located within the District.

SOUND FINANCIAL POLICIES AND PRACTICES

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

WATER AND SEWER RATES

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

		<u>Price / CCF</u>
Within Budget	Indoor Usage Budget Persons x 60 GPD	Tier 1: \$1.90
	Outdoor Usage Budget Irrigated Area x ET Factor x Conservation Factor	Tier 2: \$3.44
Over Budget	Excessive Use Up to 50% over budget	Tier 3: \$6.22
	Wasteful Use More than 50% over budget	Tier 4: \$11.39

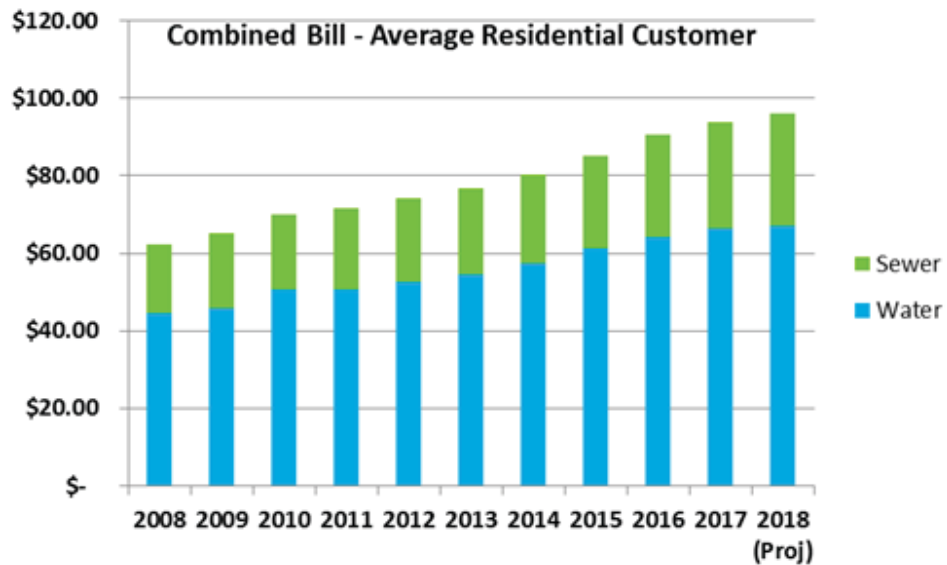
During a water shortage, budgets are adjusted and/or tiers are eliminated to send the strongest pricing signals possible to customers regarding their water use. (See “Drought and Water Shortage Contingency Plan” on page 7).

In 2013, the District implemented a sewer block rate structure based on the number of people occupying a property. Households with fewer than 3 people are charged 25 percent less than homes with 3 or 4 people. Conversely, homes with 5 or 6 people are charged 25 percent more than homes with 3 or 4 people. Block sewer rates are designed to be more fair and equitable to customers and revenue neutral to the District.

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

The District’s allocation-based tiered water rate structure together with its conservation, outreach, and education programs, is designed to meet State mandated reductions in water usage while also meeting the District’s financial goals. In 2016, as a result of conservation efforts during the extended drought conditions, domestic water sales decreased by 13,600 AF or 17 percent from 2015. However, due to the tiered water rate structure and a decrease in water purchases, the corresponding decrease in domestic water dollars sales was only 6 percent. Overall, total revenues exceeded the fiscal year 2016 forecast, expenses were lower than expected, and the resulting net operating margin was well above budget.

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



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

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

DROUGHT AND WATER SHORTAGE CONTINGENCY PLAN



In January 2014, the Governor declared a drought state of emergency encouraging local suppliers to reduce usage by 20 percent and have local suppliers develop or update water contingency plans. The District amended its Water Shortage Contingency Plan (WSCP) in March 2014 to better reflect contemporary needs of the District. The WSCP is designed to regulate the delivery and consumption of water usage during water shortages. It includes five stages, with the first two stages being voluntary measures to encourage conservation. Stages 3 and 4 are mandatory stages with escalating adjustments to outdoor water budget allocations to domestic customers. Stage 5 includes staged adjustments to water budgets for indoor use.

On April 1, 2015, the Governor issued an executive order including a directive to the State Water Resources Control Board (State Board) to impose restrictions to reduce potable urban water use by 25 percent from 2013 levels by February 2016. To implement the Governor’s orders, the State Board passed Emergency Water Conservation Regulations. On May 6, 2015, the State Board adopted regulations that required the District to effect a 28 percent reduction from 2013 water usage. The District’s Board of Directors took multiple actions to move through various stages of the WSCP in response to the drought, using the allocation-based rate structure to send pricing signals to encourage changes in water use when needed:

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

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

In February 2017, the emergency regulation was extended another 270 days with a review scheduled for May 2017. Water suppliers are not required to update supply and demand information and the District continues to have a conservation requirement of zero percent. Despite the extension of the emergency regulations through May 2017, water supply conditions have improved significantly across California and on February 2017, the District moved out of the mandatory conservation stages of its WSCP to the Stage 2. The District requests a voluntary 20 percent reduction in potable water use compared to 2013 usage. District customers reduced potable water usage by a cumulative 18 percent, compared to 2013 potable water usage, for the period July 2015 to January 2017. The District estimates that the implementation of Stage 2 of the WSCP will not have a significant impact on most customers but will continue to send a strong message to eliminate water waste and enable it to maintain reduced potable water usage by up to 15 percent from 2013 usage.

FINANCIAL PLANNING

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

The District prepares a five-year financial plan to anticipate funding needs, reserve levels, and expected impacts to rates. A key component to the plan is the District's Capital Improvement Plan (CIP), which calls for total expenses for water, sewer, and recycled water facilities of approximately \$397.7 million for the period from 2017 through 2021. The CIP is expected to be financed through a combination of property taxes, developer connection fees, rates and charges, publicly financed bond proceeds, reserves, grants and low-interest loans from the California State Revolving Fund. The CIP is modified on an annual basis to reflect updated assumptions regarding future growth within the District's service area.

RESERVE POLICY

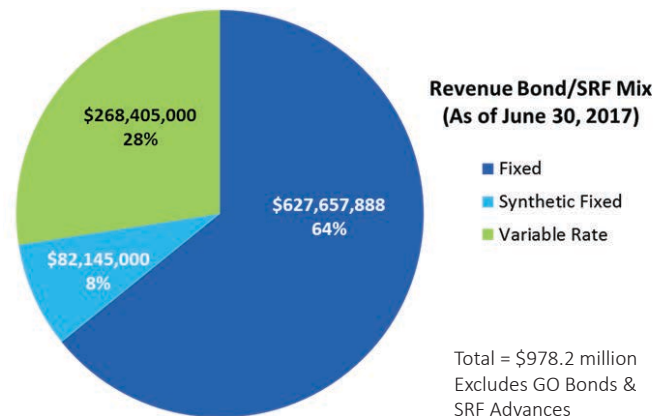
The District adopted a reserve policy, which states the purpose, source, and funding limits for each of its designated reserves within its four main funds: operating, construction, debt service, and trust. The reserves are essential for maintaining liquidity in the marketplace, which enables the District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

ADMINISTRATIVE CODE AND INVESTMENT POLICY

In 2013, the Board adopted an Administrative Code, which incorporates various policies and administrative duties. The District previously adopted an Investment Policy, which was incorporated into the Administrative Code. The District invests its funds in instruments permitted by California Government Code Sections 53601, et seq., and in accordance with its Investment Policy. The investment objectives of the District are to first preserve capital, followed by maintaining liquidity, and finally, maximizing the rate of return without compromising the first two objectives.

DEBT ADMINISTRATION

The District actively manages its debt portfolio, and seeks to minimize its total debt costs. This goal is achieved by issuing both fixed and variable rate debt to fund its capital projects. The District has primarily issued certificates of participation (COPs), revenue bonds (Bonds), and has borrowed from State revolving fund (SRF) loans to fund its CIP. As of June 30, 2017, the District's total revenue bonds and SRF loans outstanding was \$978.2 million, of which 64 percent were fixed interest rate, 28 percent were variable interest rate, and 8 percent were synthetically fixed



through Swap agreements with Wells Fargo Bank, for an overall weighted average cost of funds of 2.03 percent.

During fiscal year 2017, the District issued a new series revenue bond along with six refunding revenue bonds to finance the construction of water and sewer capital improvements and to redeem three outstanding certificates of participation and five outstanding revenue bonds, respectively. Of these, \$125 million in revenue refunding bonds, Series 2016B was issued to advance refund the outstanding 2008H COPs, realizing \$29.7 million in net present value savings and releasing \$14.4 million in restricted reserve funds to finance capital projects. The \$17.5 million Series 2017C revenue refunding bonds refunded the 2007A fixed rate revenue refunding bonds, freeing up \$4 million in restricted Debt Service Reserve Funds to finance CIP projects and realizing \$2.7 million in net present value savings. The issuance of the new Series 2017D fixed rate revenue bond realized \$119 million in net proceeds to fund construction of water and sewer capital improvements. The other revenue refunding bonds issued refunded over \$350 million in variable rate debt, extending and diversifying the bank counterpart and remarketing agreements and shifting a portion of the variable rate portfolio from SIFMA index exposure to the LIBOR index. At the end of fiscal year 2017, the District shifted 98% of the overall debt portfolio to the subordinate lien, improving the overall credit worthiness of the subordinate lien and resulting in a working lien rating upgrade to AA+ by S&P Global Ratings.

The District's parity revenue bond debt has been assigned AAA, Aa2, and AA+ ratings and the subordinate refunding revenue bonds have been assigned ratings of AA+, Aa3, and AA+ from Fitch Ratings, Moody's Investors Service, Inc. and S&P Global Rating's Services, respectively. More information about the District's long-term debt and other noncurrent liabilities is presented in Note 4 to the Basic Financial Statements.

MAJOR INITIATIVES

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

HIGHLY RELIABLE WATER, RECYCLED WATER AND WASTEWATER SERVICE

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

Groundwater Program

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

Perris II Reverse Osmosis Treatment Facility

The Perris II Reverse Osmosis (RO) Treatment Facility Project is a multi-phase project that will produce potable water from the contaminated Perris South Water Groundwater Management Zone. The project consists of construction of RO treatment process facilities, four water supply wells, pipelines and additional treatment trains at the RO treatment facilities. The Perris II Desalter will treat degraded groundwater from the West San Jacinto Basin so that the water can be used for potable purposes within the District's service area. The facility will be constructed adjacent to the two existing desalters, the Menifee and Perris I Desalter. The Perris II Desalter, which would initially produce 3.6 MGD, will be equipped to support expansion to a capacity of 5.4 MGD, meeting the potable water demands of up to 12,000 homes in the Perris and Menifee service areas. Of the total anticipated project cost of \$41 million, the District received \$22.5 million of Proposition 1 Groundwater grant funding from the State Board in August 2017. The District also secured a Local Resources Program (LRP) agreement from MWD which will provide a subsidy of \$305 per acre-foot up to 5,500 AF every year over 25 years. If the maximum amount of groundwater is recovered for beneficial use, MWD will subsidize \$41.9 million for the 137,500 AF. The LRP is an incentive program for MWD member agencies to produce water that would otherwise be supplied by MWD. The project, which started in December 2014, is anticipated to be completed on March 2021.

Accelerated Retrofit Program



In August 2015, the District Board approved and authorized \$2.2 million in funding for the Accelerated Retrofit Program, a conservation program developed by the District to convert facility-adjacent landscape irrigation sites from potable to recycled water. The program, which kicked-off in October 2015, is designed to maintain community benefit during periods of potable water restrictions due to current and future drought cycles. Six governmental and two private organizations participated in the program, including Valley Wide Recreation & Park District, Menifee Union School District, Hemet Unified School District, City of Hemet, City of San Jacinto, Mt. San Jacinto College,

The Oasis Community Homeowners Association and the Menifee Valley Medical Center. These participants were identified for the project based on a previous study partially funded by the State Board that served as a template for targeting parks, schools, streetscapes and other high volume landscape users adjacent to existing recycled water infrastructure that had yet to be retrofitted and connected to the system, sites that could be retrofitted without the need for extended pipelines, additional storage or booster capacity. Most of these organizations, although interested in recycled water, did not have the funds to invest. The District provided upfront financing for the retrofits, with support from MWD, and took the lead in the design and permitting process to expedite the retrofit and ensure compliance with State regulations. In October 2016, within one year of project kickoff, the program was completed with over 400 AF converted from potable to recycled water. The program also resulted in enhanced customer relationships, streamlined business processes and maintenance of recreational areas in the community. Of the \$2.2 million in authorized funding, only \$1.6 million of costs were incurred with \$400,000 in funding received from MWD.

Recycled Water Storage Pond Expansion and Optimization

In March 2016, construction started on the Recycled Water Storage Pond Expansion and Optimization project at Trumble Road and Case Road in Perris. This project will expand existing storage facilities at both the Trumble Road location (adjacent to the District's Main Office) and the Case Road location (at the Perris Valley Regional Water Reclamation Facility or PVRWRF). Construction at the Trumble Road site will add approximately 900 AF of storage, from 900 AF to 1,800 AF. The Case Road Pond Recycled Water Pump Station will have a total capacity of 4,000 gallons per minute. Additional improvements include upgraded piping and mechanical and electrical systems to optimize future operations. The project will expand winter recycled water storage to meet summer peak demands. Total project cost is \$14.1 million, of this, \$11.2 million is funded through the State Board State Revolving Fund (SRF) Loan at a fixed interest rate of one percent per annum. Of the \$11.2 million, contingent on the District's performance of its obligations under the terms of the financing agreement after construction completion, the State may grant the District a \$3.4 million Proposition 1 grant which will reduce the estimated amount of principal due to \$7.8 million. Construction is expected to be completed in October 2017.

Temecula Valley Regional Water Reclamation Facility



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

In July 2017, the District received \$95.3 million in funding from the State Board to fund the District's \$120 million Recycled Water Supply Optimization project. The funding includes a \$15 million Proposition 1 grant and an \$80.3 million SRF loan. The Recycled Water Optimization Project will expand the District's recycled water portfolio and includes the TVRWRF.

SOUND PLANNING AND APPROPRIATE INVESTMENT

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

Santa Ana River Conservation and Conjunctive Use Program

The Santa Ana River Conservation and Conjunctive Use Program (SARCCUP) is a multi-agency watershed wide program that will bank imported water to enhance water supply reliability and increase available dry year supplies in the Santa Ana River Watershed. The program will also integrate water conservation measures, habitat enhancements and recreational use. It will develop dry year yield by banking wet year water with 180,000 AF capacity over a ten-year period. The District will implement the San Jacinto Basin component of the program by storing 19,500+ AF of wet year water per ten-year period. The District will install a one-mile educational hiking

trail and forty acres of open space in the form of a recharge basin in the Santa Ana River Watershed. The five participating agencies include the District, Inland Empire Utilities Agency (IEUA), Orange County Water District (OCWD), San Bernardino Valley Municipal Water District (SBVMWD), and Western Municipal Water District (WMWD). Total project cost to the District is \$22.9 million with \$12.7 million from Proposition 84 Integrated Regional Water Management Program (IRWMP) grant funding from the Santa Ana Watershed Project Authority (SAWPA). The project is estimated to be completed in August 2022.

SUPERIOR CUSTOMER AND COMMUNITY SERVICE

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

Automated Metering Infrastructure

The District's Automated Meter Infrastructure (AMI) project is a multi-year project authorized by the District Board in December 2014. The goal of the project is to install automated (smart) meters to improve customer service options, save on labor costs, and minimize water loss. In 2017, the District started the three-year accelerated AMI Expansion project which includes the installation of 44,000 meters during the year. To-date, approximately 76,000 highly efficient meters have been installed, nearly half of the planned 151,299 meters to be installed by the end of the project in June 2019. AMI technology provides a remote data link between the meters and the District for real time monitoring and allows hands free meter reading resulting in more efficient water reading with fewer District vehicle trips and less employee hours. The smart meters installed, used in conjunction with the District's existing AMI Tower Gateway and Meter Data Management System, will provide daily and up-to-date customer water usage information and analysis that will enable customers to track their water budgets, leading to conservation. The District will also be able to utilize AMI data for leak detection, providing early detection and reducing water loss. Continuous and early leak detection is also a component of water conservation. Projected water savings from the project is 1,945 AF each year with an associated energy savings of 47.1 million kilowatt hours (kWh) per year and water savings of 3,649 AF ongoing per year achieved after five years with an associated 88.4 kWh per year. The expansion project is anticipated to take 36 months to complete. The \$14 million AMI program is funded in part by grants from the California Department of Water Resources for programs that increase water conservation and energy savings and reduce carbon emissions.

County Water Company Consolidation

In April 2017, the District began providing water service to customers previously served by the County Water Company of Riverside in the City of Menifee. In 2013, the District, along with Elsinore Valley Municipal Water District (EVMWD), was engaged by the State and the County of Riverside to provide water service and assume ownership of the County Water Company, a private, for-profit company located in the County of Riverside. The County Water Company served less than 150 residences over a 1,280-acre service area with a single well source that was often unreliable and out of service. The water delivered had nitrate levels well above the Federal and State regulatory agencies drinking standards. In order to provide safe and reliable water service and consolidate the County Water Company into the District and EVMWD (eastern portion to the District and western portion to EVMWD), a new water system in the area was constructed with the County of Riverside acting as intermediary.

The project also included annexation into MWD. Total cost to the District was \$3.4 million with funding of \$2.9 million from the California Department of Public Health (CDPH).

EFFICIENCY AND FISCAL RESPONSIBILITY

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

Cost of Service Study

In March 2017, the District Board adopted the Cost of Service Study and Methodology. The Cost of Service Methodology covered multiple rate topics including the source of supply cost allocation and tier structure realignment, household water allocations aligned to State standards, wastewater block factors, fixed revenue recovery increase, and meter ratios aligned to the American Water Works Association (AWWA) standards. This recommendation is a result a two-year Cost of Service Study project which began in July 2015 when the District engaged the services of an outside consultant to assist in the preparation of a cost of service analysis and rate design for the water, sewer, and recycled water systems. During this period leading up to March 2017, several workshops were held with the District Board to receive feedback for future rate design and to review several aspects of the District's rate structure including water budget allocations by tier, meter size and ratios; recycled water rates; phasing of certain improvement area rates; and non-residential customer water budgets. In September 2017, the District Board approved and authorized the delivery of the Proposition 218 Notices for the proposed water, sewer and recycled water rates, setting the time and place for a public hearing on November 15, 2017 to consider changes to the rate structures.

Other Post-Employment Benefits

The District established a funding policy to fund its retiree health program through the California Employers' Retiree Benefit Trust (CERBT) and started funding in fiscal year 2013 with a goal to achieve full funding by fiscal year 2034. The District began funding future costs in July 2012 and July 2013 with initial \$2.5 million and \$2.7 million deposits to CERBT. During FY 2013-2014, the District implemented a new tier of Other Post-Employment Benefits (OPEB) for future hires that will dramatically improve the plan funding and viability over the long term. In addition, the District adopted funding policy principles that direct how the OPEB Trust will be funded over time, in accordance with sound funding principles. Commencing in fiscal year 2015, the District made its full Actuarially Determined Contribution (ARC) and intends to continue to do so until its OPEB obligations are fully funded. In fiscal years 2016 and 2017, the District contributed \$1.2 million and \$7.5 million in excess of the ARC. This was substantially sooner than anticipated when the OPEB funding policy principles were adopted by the District Board.

ACCOUNTING SYSTEMS

The Finance department is responsible for providing the financial services for the District, including financial accounting and reporting, payroll and accounts payable, custody and investment of funds, billing and collection of water and wastewater charges, taxes, and other revenues. The District's books and records are maintained on an

enterprise basis, as it is the intent of the Board to manage the District's operations as a business, thus matching the revenues against the costs of providing the services. Revenues and expenses are recorded on the accrual basis in the period in which the revenue is earned and the expenses are incurred.

INTERNAL CONTROLS

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

AWARDS AND ACKNOWLEDGMENTS

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the District for its comprehensive annual financial report for the fiscal year ended June 30, 2016. This was the thirteenth consecutive year that the District has received this prestigious award. To be awarded a Certificate of Achievement, the District must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

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

Note: Statistical information provided in this letter include the following sources: Eastern Municipal Water District; United States Department of Labor Bureau of Labor Statistics; Dr. John Husing's Quarterly Economic Report; County of Riverside Assessor Annual Report; Economic Forecast and Industry Outlook, Institute For Applied Economics, Los Angeles County Economic Development Corporation; and the California Department of Transportation.

Respectfully submitted,



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



Deborah S. Cherney, CPA
Deputy General Manager



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

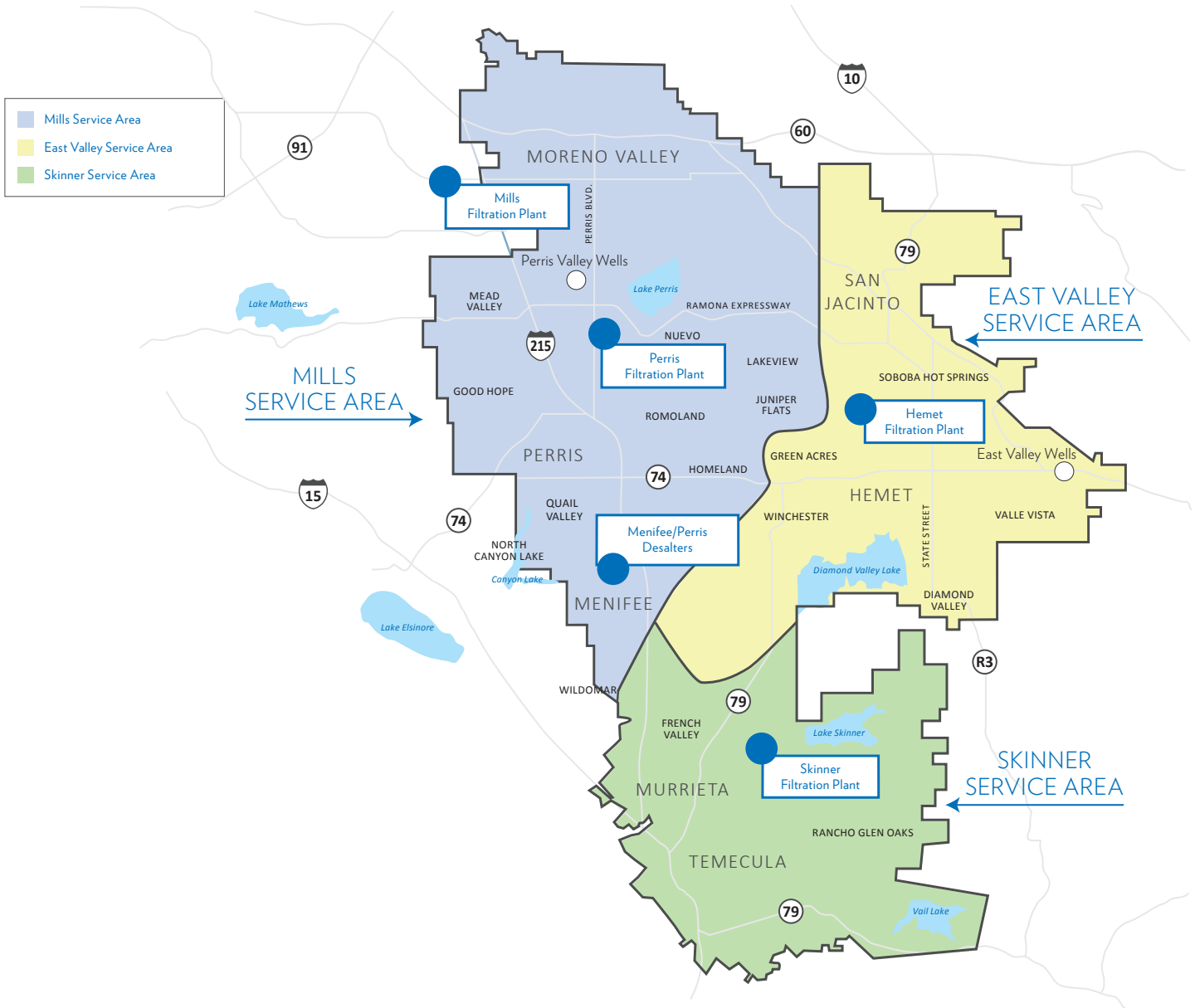
**Eastern Municipal Water District
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

Executive Director/CEO

SERVICE AREA MAP AND INCORPORATED CITIES



**EASTERN MUNICIPAL WATER DISTRICT
LIST OF ELECTED & APPOINTED OFFICIALS
JUNE 30, 2017**

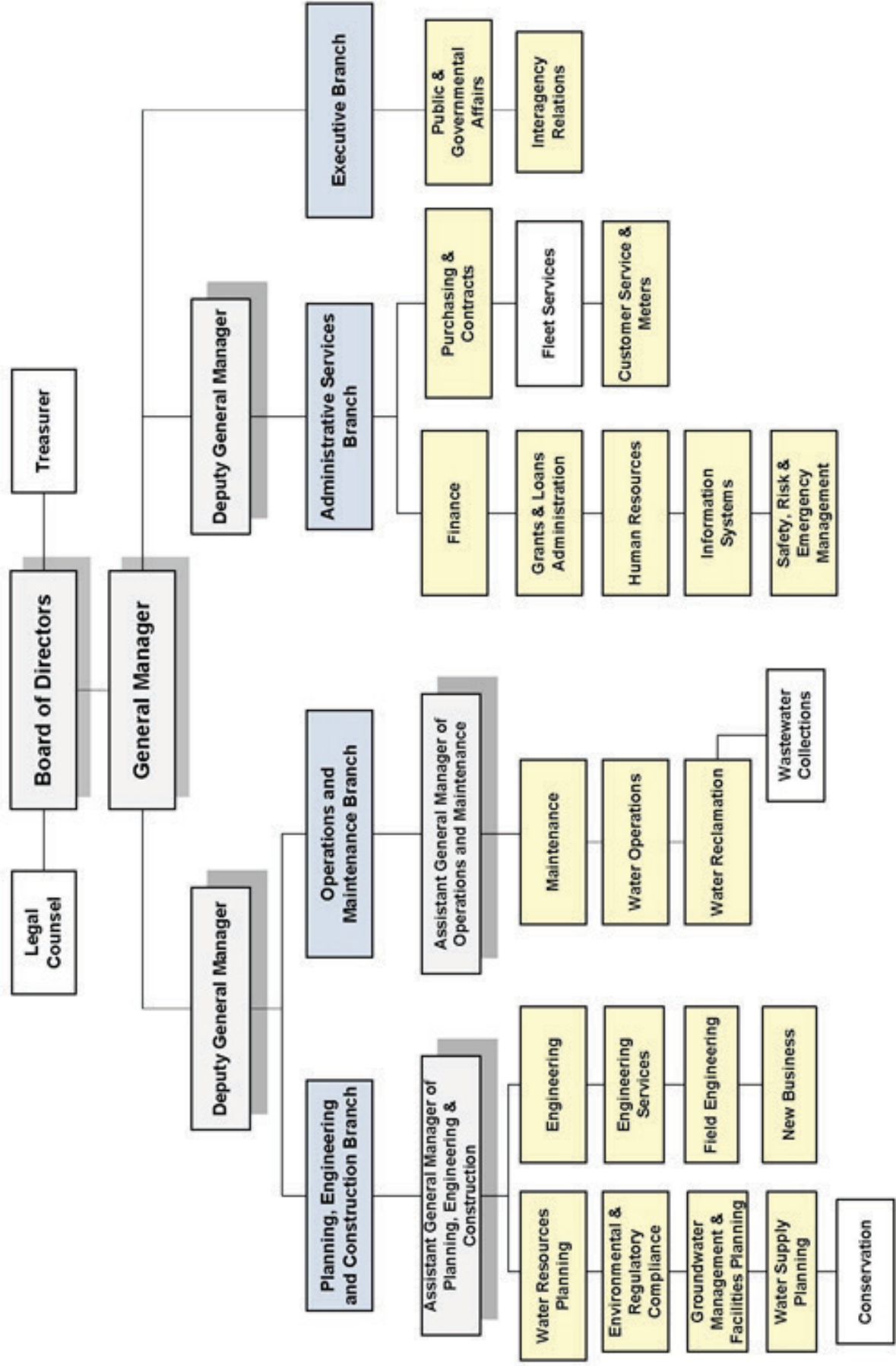
BOARD OF DIRECTORS

Position	Name	Elected	Current Term
President	David J. Slawson	1/1995	2015-2019
Vice President	Ronald W. Sullivan	1/2003	2017-2021
Director/Treasurer	Joseph J. Kuebler, CPA	4/2006	2015-2019
Director	Philip E. Paule	1/2007	2015-2019
Director	Randy A. Record	1/2001	2017-2021

EXECUTIVE MANAGEMENT

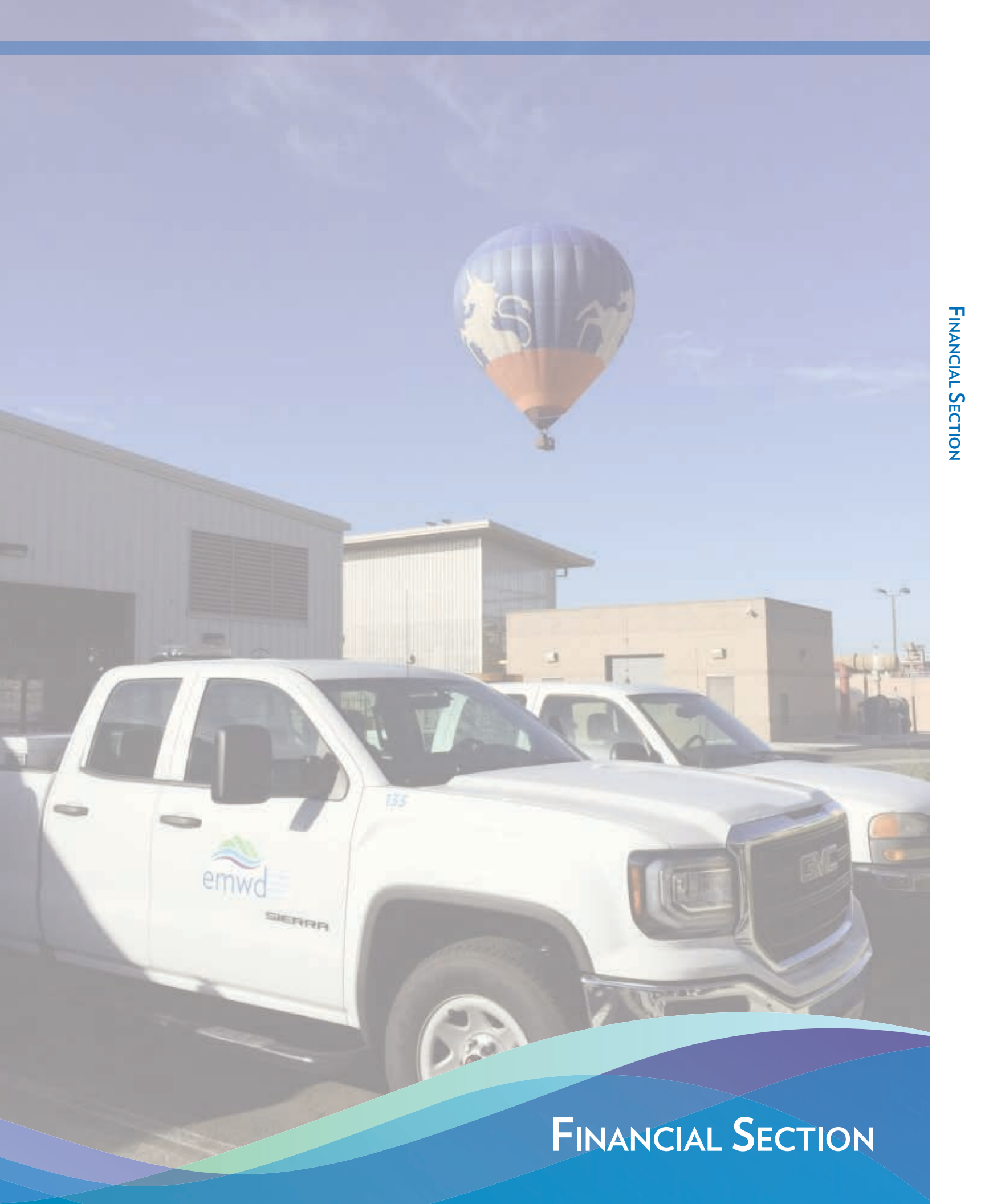
Position	Name
General Manager	Paul D. Jones II, P.E.
Deputy General Manager	Deborah S. Cherney, CPA
Deputy General Manager	Nicolas Kanetis, P.E.
Assistant General Manager	Jeff D. Wall, P.E.
Assistant General Manager	Joe Mouawad, P.E.

EASTERN MUNICIPAL WATER DISTRICT DISTRICT ORGANIZATIONAL CHART



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Board of Directors
Eastern Municipal Water District
Perris, California

Independent Auditors' Report

Report on the Financial Statements

We have audited the accompanying financial statements of the Eastern Municipal Water District (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of June 30, 2017, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior-Year Comparative Information

We have previously audited the District's for the 2016 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated November 3, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis, Schedule of Changes in Net Pension Liability and Related Ratios During the Measurement Period, Schedule of Pension Plan Contributions, and the Schedule of OPEB Funding Progress* be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2017 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Irvine California
November 2, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

On behalf of the Eastern Municipal Water District (the "District"), we are pleased to offer the following narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2017. We encourage all readers of the District's financial statements to consider the financial information presented in this section in conjunction with the accompanying financial statements, notes, analyses, and additional information furnished in our letter of transmittal at the opening of this report.

FINANCIAL HIGHLIGHTS

- Total assets and deferred outflow of resources of the District exceeded its liabilities and deferred inflow of resources at the close of fiscal year 2017 by \$1,532.5 million (net position). The District's net position, which increased \$12.0 million or 0.8 percent from the prior fiscal year, includes net investment in capital assets, \$1,338.3 million, restricted for debt service, \$71.2 million, restricted for construction, \$60.6 million and unrestricted, \$62.4 million.
- Total assets of the District are \$2,873.8 million, an increase of \$122.5 million or 4.5 percent from fiscal year 2016. Cash and investments increased \$119.4 million mostly due to the issuance of Series 2017D revenue bonds to fund water and sewer infrastructure. Increases in utility accounts receivable, \$2.5 million, materials and supply inventory, \$1.0 million, water inventory, \$3.1 million and grants receivable, \$3.6 million and notes receivable, \$1.9 million were offset by a decrease of \$8.7 million in net capital assets due to the write-off of obsolete information systems equipment.
- Total liabilities of the District are \$1,384.0 million, an increase of \$134.8 million from fiscal year 2016. Total debt, \$1,106.9 million, increased by \$110.2 million mainly due to the issuance of the \$102.5 million, Series 2017D revenue bonds (additional information on the District's long-term liabilities, including debt, can be found in Note 4 of the Basic Financial Statements). Increases in accounts payable, \$11.7 million and net pension liability, \$20.9 million, were partially offset by decreases in the fair value of swap contracts, \$5.8 million, compensated absences, \$1.6 million and net other post-employment benefits, \$7.9 million. In fiscal year 2017, the District funded \$7.5 million in excess of its annual required contribution for other post-employment benefits (OPEB) to the California Employers Retirement Benefit Trust, to reduce its unfunded OPEB liability (additional information can be found in Note 8 of the Basic Financial Statements).
- Total revenues of the District are \$327.4 million, an increase of \$9.4 million or 2.9 percent from fiscal year 2016. Operating revenues were \$14.9 million or 7.2 percent higher due to increased water customer demands and rates. Non-operating revenues were \$5.5 million or 4.9 percent lower due to a decrease in sewer connection fees and late fees.
- Total expenses are \$336.8 million, an increase of \$23.9 million or 7.7 percent from fiscal year 2016. Operating expenses were \$15.1 million or 5.5 percent higher due to increases in purchased water cost and general and administrative expenses (additional information can be found in the Overview of the Financial Statements, Financial Analysis Section of the Management Discussion and Analysis).

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FINANCIAL HIGHLIGHTS (CONTINUED)

- Capital contributions are \$21.4 million, a decrease of \$16.2 million or 43.2 percent from the prior year. Increases in capital grants and other capital contributions revenue of \$6.0 million were offset by a decrease of \$22.3 million in developer contributions.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- *Statement of Net Position:* This statement presents information on all of the District's assets and liabilities, and deferred outflows/inflows of resources, with the difference reported as net position. Increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.
- *Statement of Revenue, Expenses and Changes in Net Position:* This statement presents information on the District's current fiscal year's revenue and expense. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal years.
- *Statement of Cash Flows:* This statement provides relevant information about the District's cash receipts and cash payments segregated among operating, capital and related financing, and investing activities.
- *Notes to the Basic Financial Statements:* These notes provide a description of the accounting policies used to prepare the financial statements and present material disclosures required by generally accepted accounting principles that are not otherwise present in the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FINANCIAL ANALYSIS

Our analysis focuses on the Net Position (Table 1) and Changes in Net Position (Table 2) of the District's total activity.

Table 1 - Net Position

STATEMENT OF NET POSITION FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2017

	2017	2016	Increase (Decrease)	
			Amount	% Change
ASSETS				
Current assets	\$ 299,206,465	\$ 233,954,903	\$ 65,251,562	27.9%
Restricted assets	344,409,976	278,497,660	65,912,316	23.7%
Net capital assets	<u>2,230,149,271</u>	<u>2,238,812,592</u>	<u>(8,663,321)</u>	<u>-0.4%</u>
Total Assets	\$ 2,873,765,712	\$ 2,751,265,155	\$ 122,500,557	4.5%
Total Deferred Outflows of Resources	\$ 47,611,651	\$ 26,496,525	\$ 21,115,126	79.7%
LIABILITIES				
Current liabilities	\$ 91,415,435	\$ 78,319,621	\$ 13,095,814	16.7%
Other liabilities	185,684,224	193,009,941	(7,325,717)	-3.8%
Long-term debt outstanding	<u>1,106,905,634</u>	<u>977,834,435</u>	<u>129,071,199</u>	<u>13.2%</u>
Total Liabilities	\$ 1,384,005,293	\$ 1,249,163,997	\$ 134,841,296	10.8%
Total Deferred Inflows of Resources	\$ 4,840,427	\$ 8,082,538	\$ (3,242,111)	-40.1%
NET POSITION				
Net investment in capital assets	\$ 1,338,331,638	\$ 1,403,875,420	\$ (65,543,782)	-4.7%
Restricted	131,839,931	118,614,586	13,225,345	11.1%
Unrestricted	<u>62,360,074</u>	<u>(1,974,861)</u>	<u>64,334,935</u>	<u>-3257.7%</u>
Total Net Position	\$ 1,532,531,643	\$ 1,520,515,145	\$ 12,016,498	0.8%
Ratio of Liabilities and Deferred Inflows to Assets and Deferred Outflows of Resources				
	<u>48%</u>	<u>45%</u>		

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Comparing net position over time may serve as a useful indicator of a district's financial position. As shown on Table 1, the District's statement of net position includes assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$1,532.5 million (net position) at the close of fiscal year 2017 representing an increase of \$12 million or 0.8 percent from fiscal year 2016.

The ratio of liabilities and deferred inflows of resources to assets and deferred outflows of resources increased 3 percent in fiscal year 2017. This ratio indicates the degree to which the District's assets are financed through borrowing and other obligations.

Total assets increased by \$122.5 million or 4.5 percent primarily due to a \$119.4 million increase in cash and investments. This increase in cash and investments includes \$94 million in unspent proceeds from the Series 2017D revenue bonds issued in May 2017. These bonds were issued to finance the acquisition and construction of water and sewer capital improvements. Other significant increases in the District's assets include a \$3.1 million increase in water inventory, \$3.6 million in grants receivable and \$1.9 million in notes receivable related to the Temecula Wine Country special benefit area capital outlays.

Total deferred outflows of resources increased by \$21.1 million or 79.7 percent in fiscal year 2017. Of this increase, \$14.5 million reflects the difference in projected and actual earnings on pension plan investments and \$7.2 million represents an increase in deferred charges on debt issuance and refundings (additional information can be found in Note 4 of the Basic Financial Statements and in the narrative below).

Total liabilities increased by \$134.8 million or 10.8 percent reflecting increases of \$110.2 million in long-term debt, \$11.8 million in accounts payable and \$20.9 million in net pension liability offset by decreases in net other post-employment benefits, \$7.5 million, fair value of swap contracts, \$5.8 million and compensated absences, \$1.6 million. The \$110.2 million increase in long-term debt is due to the issuance of six refunding revenue bonds (Series 2016B, 2017A, 2017B, 2017C, 2017E and 2017F) and a new revenue bond (Series 2017D). The net proceeds from these refunding bonds were used to redeem three outstanding certificates of participation and five refunding revenue bonds which resulted in the migration of 98 percent of debt to the Working Lien resulting in S&P upgrading the Working Lien rating to AA+, realized debt service savings, freed up \$4.4 million in restricted debt service reserve funds to use for financing capital projects, diversification of variable rate index bank counterparty exposure and a balanced mix of credit exposure. The 2017D revenue bond was issued to finance the construction of water and sewer capital improvements. The \$11.8 million increase in Accounts Payable relate to payments due to capital projects vendors and the District's wholesale water provider, Metropolitan Water District. The \$20.9 million increase in net pension liability represents the increase of total pension liability over the decrease in pension plan fiduciary net position at the end of fiscal year 2017.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Table 2 - Changes In Net Position

CHANGES IN NET POSITION FOR THE FISCAL YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016	Increase (Decrease)	
			Amount	% Change
REVENUES				
Operating revenues	\$ 221,199,222	\$ 206,291,091	\$ 14,908,131	7.2%
Non-operating revenues	<u>106,216,467</u>	<u>111,747,507</u>	<u>(5,531,040)</u>	<u>-4.9%</u>
Total Revenues	<u>327,415,689</u>	<u>318,038,598</u>	<u>9,377,091</u>	<u>2.9%</u>
EXPENSES				
Operating expenses	291,883,640	276,768,470	15,115,170	5.5%
Non-operating expenses	<u>44,909,099</u>	<u>36,071,890</u>	<u>8,837,209</u>	<u>24.5%</u>
Total Expenses	<u>336,792,739</u>	<u>312,840,360</u>	<u>23,952,379</u>	<u>7.7%</u>
Increase (Decrease) in Net Position before Transfers	(9,377,050)	5,198,238	(14,575,288)	-280.4%
Capital contributions	<u>21,393,548</u>	<u>37,646,039</u>	<u>(16,252,491)</u>	<u>-43.2%</u>
Change in Net Position	12,016,498	42,844,277	(30,827,779)	-72.0%
Net Position - Beginning of Year	<u>1,520,515,145</u>	<u>1,477,670,868</u>	<u>42,844,277</u>	<u>2.9%</u>
Net Position - End of Year	<u>\$ 1,532,531,643</u>	<u>\$ 1,520,515,145</u>	<u>\$ 12,016,498</u>	<u>0.8%</u>

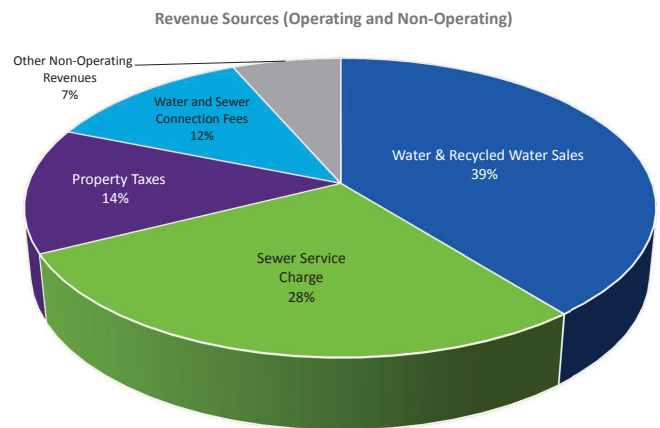
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Changes in Financial Performance of the District

The District's statement of revenue, expenses, and changes in net position reports the results of its operations for the fiscal year ended June 30, 2017. A summary of the changes in net position for the fiscal years ended June 30, 2017 and June 30, 2016 is reported on Table 2 of the previous page.

Revenues

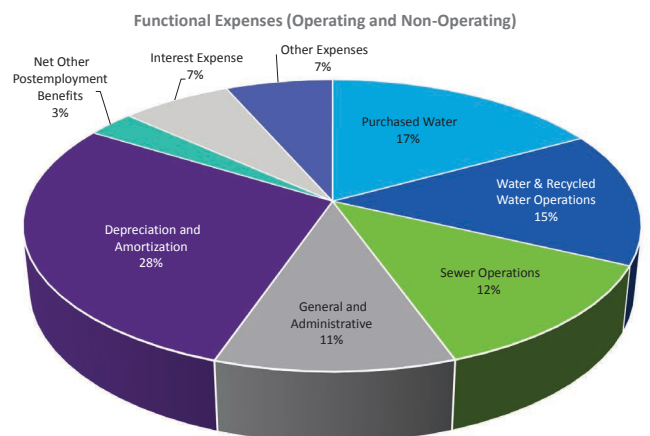
The District's operating revenues, which include water sales, sewer service charge and recycled water sales, increased \$14.9 million or 7.2 percent in fiscal year 2017. This increase reflects higher water sales of \$8.4 million, higher sewer service charges of \$5.5 million, and higher recycled water revenue of \$1.1 million. The \$8.4 million increase in water sales revenue reflect an increase of 6,166 in acre feet sales volumes and an increase in water rates effective January 1, 2017. Sales volumes were higher due to increased customer demand and higher temperatures. The District's water contingency plan was lowered, from Stage 4C to Stage 2, in February 2017 and the State drought emergency ended in April 2017. Sewer revenue increased by \$5.5 million due to an increase in sewer rates effective July 1, 2016 and an increase in new sewer connections from fiscal year 2016.



Non-operating revenues, which include property taxes, water and sewer connection fees and other revenues were \$5.5 million or 4.9 percent lower in fiscal year 2017 as a result of a \$5.2 million decrease in water and sewer connection fees due to a 17 percent reduction in sewer connections.

Expenses

The District's operating expenses include the cost of purchased water, water service operating cost, sewer service operating cost, recycled water operating cost, general and administrative cost, depreciation cost and other employment benefit cost. Total operating expenses were \$15.1 million or 5.5 percent higher in fiscal year 2017 due to increases of \$7.2 million in purchased water cost and \$6.6 million in general and administrative cost. Purchased water cost, which is 19.7 percent of total operating expenses and 47.6 percent of total water sales, was higher due to increased customer usage and increased wholesale demand. The increase in general and administrative costs include a \$4.6 million increase in unallocated pension expense.



MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Non-operating expenses, which include the loss on disposal of capital assets, interest expense on debt obligations and other expenses, were \$8.8 million or 24.5 percent higher in fiscal year 2017. This change reflects increases of \$5.2 million in research and development costs related to various projects and initiatives and \$3.8 million decrease in fair value of investments.

Capital Contributions

Capital contributions were \$16.2 million or 43.2 percent lower in fiscal year 2017 due to a decrease of \$22.3 million or 64.1 percent in developer contributions.

Capital Assets

The District reported a decrease of \$8.7 million in net capital assets in fiscal year 2017. A comparison of changes in capital assets is provided in Table 3 below.

Table 3 - Capital Assets

**CAPITAL ASSETS
FOR THE FISCAL YEARS ENDED JUNE 30, 2017 AND 2016**

	2017	2016	Increase/(Decrease)	
			Amount	% Change
Land	\$ 58,311,851	\$ 56,160,972	\$ 2,150,879	3.8%
Tunnel Water Seepage Agreement	1,750,900	1,750,900	-	0.0%
Water capacity rights	30,074,350	30,074,350	-	0.0%
Water plant, lines and equipment	1,167,341,886	1,148,804,466	18,537,420	1.6%
Sewer plant, lines and equipment	1,892,138,078	1,872,527,632	19,610,446	1.0%
Equipment and general facilities	119,494,824	134,118,749	(14,623,925)	-10.9%
Construction in progress	131,631,533	93,124,927	38,506,606	41.3%
Total capital assets	3,400,743,422	3,336,561,996	64,181,426	1.9%
Less accumulated depreciation	(1,170,594,151)	(1,097,749,404)	(72,844,747)	6.6%
Net capital assets	\$ 2,230,149,271	\$ 2,238,812,592	\$ (8,663,321)	-0.4%

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Total increase in capital assets of \$64.2 million include increases in land, water and sewer plant, lines and equipment and construction in progress of \$78.7 million offset by a \$14.6 million decrease in equipment and general facilities. The \$14.6 million decrease in equipment is primarily due to the write-off of obsolete information system assets also resulting in a decrease in net capital assets of \$8.7 million.

Significant additions resulted from the completion and capitalization of \$39.2 million in construction in progress. Other additions to capital assets include \$12.5 million in contributed capital from developers. Most of the contributed assets were water and sewer line additions related to development in the area.

The three largest District projects that were capitalized in fiscal year 2017 include \$4.2 million of the Automated Metering Infrastructure (AMI) Meter Replacement, \$3.8 million of the Loma Ventosa Lift Station and \$3.6 million of the Sun City Lift Station Odor Control Improvements.

The AMI Meter Replacement project will be replacing approximately 77,000 meters, registers, and MXU's throughout all service areas of the District. The benefits of the AMI deployment include improvements such as leak detection, analytics for conservation, as well as labor, fuel and equipment savings. Additionally, implementation of AMI provides a platform for planned customer service enhancements such as the implementation of a usage and payment portal with customer based self-service features, analytics and capabilities. This project was partially complete as of June 30, 2017, with final work to be completed by June 2019.

The Loma Ventosa Lift Station project includes the design and construction of a sewer lift station in the Wine Country, which is located within the District's Temecula Valley service area, to the east of Butterfield Stage Road in an unincorporated area of Riverside County. This project will help to connect new services to the District's sewer collection system. This project was substantially complete as of February 28, 2017, with final completion June 30, 2017.

The Sun City Lift Station Odor Control Improvements project includes the design and construction of a foul air conveyance and treatment system at the Sun City Lift Station. The foul air conveyance system includes a bio-trickling filter (BTF) and activated carbon treatment vessel. The BTF is comprised of a vessel of approximately 12-feet in diameter and 28-feet in height. The activated carbon vessel has a diameter of approximately 12-feet and a height of 10-feet. This project will significantly improve the capability and capacity to capture and control foul air emanating from the lift station wet well. This project was substantially complete as of May 25, 2017, with final work to be completed July 2017.

The District had \$59.0 million in construction contract commitments as of June 30, 2017 (additional information can be found in Note 10 of the Basic Financial Statements).

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

During the year, additions to construction in progress totaled approximately \$88.1 million. Some of the major projects currently underway and where expenditures in fiscal year 2017 exceeded \$2.0 million include:

	<u>Millions</u>
• Temecula Valley RWRF 23 MGD Expansion	\$29.5
• Fifty-seven water and sewer projects between \$100,000- \$500,000	10.9
• Remaining water and sewer projects with expenses less than \$100,000	11.5
• Eight water and sewer projects between \$1,000,000- \$2,000,000	10.0
• Ten water and sewer projects between \$500,000- \$1,000,000	6.5
• Automated Metering Infrastructure (AMI) Meter Replacement	4.2
• North Trumble Road and Perris Valley RWRF Case Road Recycled Storage Ponds, No. 1	4.2
• Paradise Meadows 5.0 MG Tank- Rebid	3.5
• Sun City Lift Station Odor Control Improvements	3.0
• Redlands and Hemlock Booster Pumping Station Replacement	2.7
• Redlands and Oleander Pipeline Replacement	<u>2.1</u>
	<u>\$88.1</u>

Long-Term Liabilities

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

The District had a total of \$1,292.5 million of outstanding debt and other noncurrent liabilities at June 30, 2017, a net increase of \$121.7 million or 10.4 percent from the prior year. Total debt increased \$110.2 million to \$1,106.9 million due to the issuance of the 2017D Revenue Bonds (additional information can be found in Note 4 of the Basic Financial Statements). Other long-term liabilities increased \$15.3 million mainly due to the \$20.9 million increase in net pension liability. Net pension liability, \$117.2 million, reflects the difference between total pension liability of \$386.3 million and the plan fiduciary net position at the end of fiscal year 2017, \$269.2 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

Contacting the District's Financial Management

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

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BASIC FINANCIAL STATEMENTS

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EASTERN MUNICIPAL WATER DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2017

(with prior year data for comparison purposes only)

	JUNE 30	
	2017	2016
Assets:		
Current assets:		
Cash and investments	\$ 231,267,863	\$ 175,841,205
Utility accounts receivable, net of allowance	28,997,998	26,457,291
Property taxes receivable	12,316,870	12,161,501
Accrued interest receivable	1,460,599	996,089
Other receivables	5,591,835	5,980,706
Prepaid expenses	3,777,535	4,446,067
Materials and supplies inventory	4,678,802	3,631,231
Water inventory	5,663,910	2,602,072
Grants receivable	5,451,053	1,838,741
Total current assets	299,206,465	233,954,903
Noncurrent assets:		
Restricted assets:		
Debt service covenants cash and investments	71,575,859	99,120,043
Property taxes receivable	1,557,253	1,530,827
Soboba reimbursement receivable	12,998,778	12,998,778
Construction cash and investments	256,083,590	164,582,603
Notes receivable	2,194,496	265,409
Total restricted assets	344,409,976	278,497,660
Capital assets:		
Land	58,311,851	56,160,972
Tunnel water seepage agreement	1,750,900	1,750,900
Structures, improvements and water rights	3,089,554,314	3,051,406,448
Equipment and general facilities	119,494,824	134,118,749
Construction in progress	131,631,533	93,124,927
Total capital assets	3,400,743,422	3,336,561,996
Less accumulated depreciation	(1,170,594,151)	(1,097,749,404)
Total net capital assets	2,230,149,271	2,238,812,592
Total noncurrent assets	2,574,559,247	2,517,310,252
Total assets	2,873,765,712	2,751,265,155
Deferred outflows of resources:		
Accumulated decrease in fair value of swap contracts	-	1,471,875
Deferred outflows- pension contributions	9,699,290	8,782,080
Deferred outflows- actuarial	14,456,901	-
Deferred charges on debt refundings	23,455,460	16,242,570
Total deferred outflow of resources	47,611,651	26,496,525

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

EASTERN MUNICIPAL WATER DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2017

(with prior year data for comparison purposes only)

	JUNE 30	
	2017	2016
Liabilities:		
Current liabilities:		
Accounts payable	\$ 35,905,829	\$ 24,118,347
Accrued salaries and benefits	2,120,487	2,329,084
Customer deposits	9,321,715	8,852,801
Compensated absences	7,634,381	8,039,211
Accrued interest payable	10,911,236	9,451,267
Other payables	2,774,956	2,763,161
Advances for construction, notes and assessments	2,965,225	2,937,873
Revenue bonds	15,452,009	14,764,632
Certificates of participation	-	140,399
General obligation bonds	1,060,393	1,015,393
Advances from developers	851,627	1,831,406
Capital lease payable	11,764	10,970
Unearned revenue	455,814	175,800
Other accrued expenses payable	1,949,999	1,889,277
Total Current Liabilities	91,415,435	78,319,621
Noncurrent liabilities:		
Compensated absences	5,168,182	6,393,301
Advances for construction, notes and assessments	82,262,663	87,849,361
Revenue bonds	972,307,446	648,817,910
Certificates of participation	-	207,248,872
General obligation bonds	32,845,116	33,905,509
State revolving fund construction advances	4,790,073	1,360,338
Advances from developers	18,765,667	16,087,549
Capital lease payable	1,018	12,782
Other accrued expenses payable	5,603,228	5,645,832
Net other postemployment benefits obligation	43,807,182	51,636,947
Net pension liability	117,160,370	96,207,666
Fair value of swap contracts	9,878,913	15,678,309
Total Noncurrent liabilities	1,292,589,858	1,170,844,376
Total liabilities	1,384,005,293	1,249,163,997
Deferred inflows of resources:		
Accumulated decrease in fair value of swap contracts	442,643	-
Deferred inflows- actuarial	4,397,784	8,082,538
Total deferred inflows of resources	4,840,427	8,082,538
Net position:		
Net investment in capital assets	1,338,331,638	1,403,875,420
Restricted for debt service covenants	71,207,358	80,348,698
Restricted for construction	60,632,573	38,265,888
Unrestricted	62,360,074	(1,974,861)
Total Net Position	\$ 1,532,531,643	\$ 1,520,515,145

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

EASTERN MUNICIPAL WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(with prior year data for comparison purposes only)

	JUNE 30	
	2017	2016
Operating revenues:		
Water sales- domestic	\$ 115,796,435	\$ 107,319,708
Water sales- irrigation	5,074,502	5,137,718
Sewer service charge	92,536,116	87,184,856
Recycled water sales	7,792,169	6,648,809
Total operating revenues	<u>221,199,222</u>	<u>206,291,091</u>
Operating expenses:		
Purchased water	57,512,425	50,334,462
Water operations	44,089,564	43,582,087
Sewer operations	42,232,322	42,095,206
Recycled water operations	6,064,944	6,287,916
General and administrative	36,283,686	29,687,364
Depreciation and amortization	95,968,255	95,302,858
Net other postemployment benefits	9,732,444	9,478,577
Total operating expenses	<u>291,883,640</u>	<u>276,768,470</u>
Operating income (loss)	<u>(70,684,418)</u>	<u>(70,477,379)</u>
Nonoperating revenues (expenses):		
Property taxes- general levy	33,971,127	32,271,305
Property taxes- general bond levy	4,606,897	4,605,485
Availability (standby) assessments	5,831,357	5,784,242
Water and sewer connection fees	40,565,197	45,715,784
Interest- operations and restricted funds	4,733,897	3,405,039
Net increase (decrease) in fair value of investments	(2,151,319)	1,607,359
Interest- general obligation bond funds	68,172	44,559
Other revenues	16,439,820	18,313,734
Gain (loss) on disposal of capital assets	(2,825,645)	(5,675,444)
Interest- certificates of participation and revenue bonds	(20,071,329)	(17,416,679)
Interest- general obligation bonds	(1,705,906)	(1,750,298)
Interest- other	(1,046,127)	(1,383,723)
General obligation fund service fees	(33,351)	(47,422)
Research and development costs	(8,815,131)	(3,572,614)
Other expenses	(8,260,291)	(6,225,710)
Total nonoperating revenues (expenses)	<u>61,307,368</u>	<u>75,675,617</u>
Income (loss) before contributions	<u>(9,377,050)</u>	<u>5,198,238</u>
Capital contributions:		
Developer contributions	12,498,450	34,802,124
Capital grants	6,164,479	2,823,624
Other capital contributions	2,730,619	20,291
Total capital contributions	<u>21,393,548</u>	<u>37,646,039</u>
Change in net position	12,016,498	42,844,277
Total net position- Beginning of year	<u>1,520,515,145</u>	<u>1,477,670,868</u>
Total net position- End of Year	<u>\$ 1,532,531,643</u>	<u>\$ 1,520,515,145</u>

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

EASTERN MUNICIPAL WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(with prior year data for comparison purposes only)

	JUNE 30	
	2017	2016
Cash flows from operating activities		
Receipts from customers	\$ 221,494,261	\$ 205,000,210
Receipts from availability (standby) assessments	5,770,496	5,846,619
Other receipts	16,719,835	18,313,734
Payments for water	(60,745,250)	(50,428,849)
Payments to employee for services	(95,735,999)	(86,519,225)
Payments to suppliers for goods and services	(44,784,457)	(49,322,014)
Payments for energy and utilities	(12,299,485)	(13,793,022)
Net cash (used for) provided by operating activities	30,419,401	29,097,453
Cash flows from noncapital financing activities		
Proceeds from property taxes, general levy	33,876,619	32,120,225
Net cash (used for) provided by noncapital financing activities	33,876,619	32,120,225
Cash flows from capital and related financing activities		
Acquisitions and construction of capital assets	(76,149,064)	(81,757,041)
Proceeds from sale of capital assets	117,897	384,123
Proceeds from long-term debt issuance	592,889,786	250,119,230
Proceeds from SRF construction advances	3,429,735	6,613,954
Repayment of notes, bonds and certificates of participations	(492,668,427)	(280,450,169)
Interest paid	(24,114,900)	(21,715,206)
Proceeds from property taxes, GO bond levy	4,580,471	4,358,792
Proceeds from water and sewer connection fees	40,565,197	45,715,784
Proceeds from developer advances	9,414,453	5,911,966
Repayments of developer advances	(7,716,114)	(6,453,147)
Proceeds from capital grants	2,552,167	1,712,200
Net cash (used for) capital and related financing activities	52,901,201	(75,559,514)
Cash flows from investing activities		
Purchases of investments	(131,467,098)	(87,103,948)
Proceeds from sales and maturities of investments	64,921,852	132,069,303
Proceeds from earnings on investments	4,337,559	3,455,561
Net cash provided by investing activities	(62,207,687)	48,420,916
Total (decrease) increase in cash and cash equivalents	54,989,534	34,079,081
Cash and cash equivalents at beginning of year	258,574,858	224,495,777
Cash and cash equivalents at end of year	\$ 313,564,392	\$ 258,574,858

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

EASTERN MUNICIPAL WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(with prior year data for comparison purposes only)

	JUNE 30	
	2017	2016
Reconciliation of loss from operations to net cash provided by (used for) operating activities:		
Loss from operations	\$ (70,684,418)	\$ (70,477,379)
Adjustments to reconcile loss from operations to net cash provided by (used for) operating activities:		
Depreciation and amortization expense	95,968,255	95,302,858
Other revenues	8,206,388	14,319,943
(Increase) decrease in utility accounts receivable	(2,540,707)	(3,110,972)
(Increase) decrease in other receivables	328,010	(926,196)
(Increase) decrease in prepaid expenses	668,532	(1,258,168)
(Increase) decrease in materials and supplies inventory	(1,047,571)	(366,750)
(Increase) decrease in water inventory	(3,061,838)	(69,251)
(Increase) decrease in notes receivable	(1,929,087)	(84,492)
(Increase) decrease in accounts payable	11,787,482	(1,332,701)
(Increase) decrease in accrued expenses	(178,684)	(1,749,010)
(Increase) decrease in customer deposits	468,914	841,191
(Increase) decrease in settlement payable	-	-
(Increase) decrease in compensated absences	(1,629,949)	421,186
(Increase) decrease in net other postemployment benefits obligation	(7,829,765)	(290,558)
(Increase) decrease in net pension liability	20,952,704	8,998,526
(Increase) decrease in deferred inflows	(3,684,754)	820,112
(Increase) decrease in deferred outflows	(15,374,111)	(11,940,886)
Net cash (used for) provided by operating activities	\$ 30,419,401	\$ 29,097,453
Reconciliation of cash and cash equivalent to statement of net position:		
Current cash and investments	\$ 231,267,863	\$ 175,841,205
Restricted cash and investments:		
Debt service/covenants	71,575,859	99,120,043
Construction	256,083,590	164,582,603
Total cash and investments	558,927,312	439,543,851
Less investments	245,362,920	180,968,993
Cash and cash equivalents	\$ 313,564,392	\$ 258,574,858
Noncash capital, financing, and investing activities		
Capital asset contributions from developers	\$ 12,498,450	\$ 34,802,124
Net increase (decrease) in fair value of investments	(2,151,319)	1,607,359
Termination of interest rate swap hedge effectiveness	-	-
Amortization of bond premiums, discounts, and loss on debt refundings	(1,117,194)	286,127

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

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

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

Reporting Entity

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

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

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

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

EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 — Description of Reporting Entity and Summary of Significant Accounting Policies (Continued)

Basis of Accounting and Measurement Focus

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

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

Cash and Investments

Investments are stated at their fair value, which represents the quoted or stated market value. Investments that are not traded on a market, such as investments in external pools, are valued based on the stated fair value as represented by the external pool.

Cash Equivalents

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

Classification of Revenues and Expenses

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

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 — Description of Reporting Entity and Summary of Significant Accounting Policies (Continued)

Classification of Revenues and Expenses (continued)

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

Capital Assets

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

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

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

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

EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 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 or more days delinquent at year-end. This allowance is netted against the receivable on the Statement of Net Position and amounts to \$215,340 at June 30, 2017.

Inventories

Material and supplies inventory consists primarily of materials used in the construction and maintenance of utility plant and is valued at weighted average cost. Water inventory consists of native groundwater and purchased water holdings in the Hemet-San Jacinto Basin. It is valued based upon purchase cost and weighted average cost of consumption (refer to Note 10 to the basic financial statements for more information regarding water inventory).

Restricted Assets

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

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

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

Revenue Recognition

Revenues are recognized when earned. Metered water accounts are read and billed daily on thirty-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, however, revenues are accrued 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 \$9,338,103 at June 30, 2017.

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 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 one percent of countywide assessed valuations. The property taxes are placed in a pool and are then allocated to the local governmental units based upon complex formulas. Property tax revenue is recognized in the fiscal year in which the taxes are levied.

The property tax calendar is as follows:

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

Debt Discounts, Premiums, and Deferred Amounts on Refunding

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

Compensated Absences

The District has a policy whereby an employee can accumulate unused paid time off up to a maximum of 675 hours. Hours in excess of the maximum are paid out to employees each November. All employees who separate from the District are entitled to receive 100 percent of their accumulated unused paid time off. The District provides for these future costs by accruing 100 percent of all earned and unused paid time off.

Pensions

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

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 — Description of Reporting Entity and Summary of Significant Accounting Policies (Continued)

Pensions (continued)

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

Valuation Date (VD)	June 30, 2015
Measurement Date (MD)	June 30, 2016
Measurement Period (MP)	June 30, 2015 to June 30, 2016

Deferred Outflows/Inflows of Resources

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

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

Fair Value Measurements

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

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

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 — Description of Reporting Entity and Summary of Significant Accounting Policies (Continued)

Fair Value Measurements (continued)

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

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

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

Use of Estimates

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

Prior Year Data

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

Interest Rate Swap Contracts

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

Fair values of these interest rate swap contracts are reported as liabilities, and its changes in the fair value are reported as deferred outflows of resources in the statement of net position. As of June 30, 2017, all potential hedging instruments of the District are considered effective hedges.

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 — Cash and Investments

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

	<u>2017</u>	<u>2016</u>
Current assets	\$ 231,267,863	\$ 175,841,205
Restricted assets:		
Debt service covenants	71,575,859	99,120,043
Construction	256,083,590	164,582,603
Totals	<u>\$ 558,927,312</u>	<u>\$ 439,543,851</u>

Cash and investments consisted of the following:

	<u>2017</u>	<u>2016</u>
Cash on hand	\$ 6,500	\$ 4,900
Deposits with financial institutions	273,775	21,068,145
Investments	558,647,037	418,470,806
Total cash and investments	<u>\$ 558,927,312</u>	<u>\$ 439,543,851</u>

Cash and cash equivalents consisted of the following:

	<u>2017</u>	<u>2016</u>
Demand accounts and on hand	\$ 280,275	\$ 21,058,060
Local Agency Investment Fund (LAIF)	264,069,578	149,052,916
Investment Trust of California (CalTRUST)	25,675,164	56,566,480
Money Market Mutual Funds	23,539,375	31,897,402
Total cash and investments	<u>\$ 313,564,392</u>	<u>\$ 258,574,858</u>

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 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	Maximum	Maximum	Maximum
Authorized by State Law	Investment	Maturity*	Percentage	Investment
	Policy		of Portfolio*	in One Issuer*
U.S. treasury obligations	Yes	5 Years	None	None
U.S. agency securities	Yes	5 Years	None	None
Bankers' acceptances	Yes	180 Days	40%	30%
Negotiable certificates of deposit	Yes	1 Year	30%	25%
Commercial paper	Yes	270 Days	25%	10%
Repurchase agreement	No ¹	1 Year	None	None
Reverse repurchase agreements	No	92 Days	20%	None
Medium-term notes	Yes	5 Years	30%	25%
Mortgage pass-through securities	No	5 Years	None	None
LAIF	Yes	None	None	\$65,000,000
CA local agency securities	Yes	5 Years ²	30% ³	25% ³
Mutual funds	No	N/A	None	None
Money market mutual funds	Yes	N/A	15%	10%
County pooled investment funds	No	N/A	None	None
Joint powers authority (CalTRUST)	Yes	N/A	15%	15%
Investment contracts	Yes	None	None	None

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

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

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

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

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 — Cash and Investments (Continued)

Investments Authorized by Debt Agreements

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

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

Interest Rate Risk

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

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 — Cash and Investments (Continued)

Interest Rate Risk (continued)

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

Investment Type	Months				
	Total	12 or Less	13 to 24	25 to 60	More than 60
U.S. Agency Securities:					
Federal Farm Credit Bank (FFCB)	\$ 39,914,700	\$ 14,969,400	\$ 19,954,900	\$ 4,990,400	\$ -
Federal Farm Credit Bank (FFCB)- Floating	10,020,200	-	-	10,020,200	-
Federal Home Loan Bank (FHLB)	9,967,300	9,967,300	-	-	-
Federal Home Loan Mortgage Corp. (FHLMC)	20,429,845	-	15,438,095	4,991,750	-
Federal National Mortgage Assn. (FNMA)	40,536,170	14,968,350	4,966,200	20,601,620	-
Corporate- Fixed	57,883,925	34,758,040	19,349,860	3,776,025	-
Corporate- Floating	14,887,206	8,015,620	6,871,586	-	-
Municipal	51,723,574	10,688,963	9,478,995	31,555,616	-
LAIF	264,069,578	264,069,578	-	-	-
Investment Trust of California (CalTRUST)	25,675,164	25,675,164	-	-	-
Money Market Mutual Funds	4,567,525	4,567,525	-	-	-
Held by Trustee:					
Money Market Mutual Funds	18,971,850	18,971,850	-	-	-
Total Investments	<u>\$ 558,647,037</u>	<u>\$ 406,651,790</u>	<u>\$ 76,059,636</u>	<u>\$ 75,935,611</u>	<u>\$ -</u>

Investments with Fair Value Highly Sensitive to Interest Rate Risk

Highly sensitive investments are investments whose sensitivity to market interest rate fluctuations are not fully addressed by use of one of the five methods for reporting interest rate risk as specified by the GASB No.40. As of June 30, 2017 the District had \$14,887,206 invested in corporate floating notes and \$10,020,200 in federal agency securities floating notes.

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 — Cash and Investments (Continued)

Credit Risk

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

Category	Total	Minimum Legal Rating	Rating at June 30, 2017			
			AAA	AA	A	Not Rated
U.S. Agency						
FFCB	\$ 39,914,700	N/A	\$ -	\$ 39,914,700	\$ -	-
FFCB- Floating	10,020,200	N/A	-	10,020,200	-	-
FHLB	9,967,300	N/A	-	9,967,300	-	-
FHLMC	20,429,845	N/A	-	20,429,845	-	-
FNMA	40,536,170	N/A	-	40,536,170	-	-
Corporate- Fixed	57,883,925	A	3,196,793	40,830,336	13,856,796	-
Corporate- Floating	14,887,206	A	-	14,887,206	-	-
Municipal	51,723,574	N/A	4,010,680	44,874,604	2,838,290	-
LAIF	264,069,578	N/A	-	-	-	264,069,578
CalTRUST	25,675,164	N/A	-	25,675,164	-	-
Money Market Mutual Funds	4,567,525	AAA*	4,567,525	-	-	-
Held by Trustee:						
Money Market Mutual Funds	18,971,850	N/A	18,971,850	-	-	-
Total Investments	\$ 558,647,037		\$ 30,746,848	\$ 247,135,525	\$ 16,695,086	\$ 264,069,578

*Money market mutual funds are rated AAAM by S&P and Aaa-mf by Moody's at June 30, 2017. These ratings meet minimum rating requirements.

Concentration of Credit Risk

This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Investments in any one issuer other than U.S. Treasury securities, mutual funds and external investment pools that represent five percent or more of the District's total investments are shown below as of June 30, 2017.

Issuer	Investment Type	Reported Amount
Federal Farm Credit Bank	U.S. Agency Securities	\$49,934,900
FNMA	U.S. Agency Securities	40,536,170

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 — Cash and Investments (Continued)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of a failure of the counter party (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits. As of June 30, 2017, 100 percent of the District's investments were held in collateralized accounts in the District's name.

Investment in State Investment Pool

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

Investment in Investment Trust of California (CalTRUST)

The District is a voluntary participant in CalTRUST, a Joint Powers Authority established by public agencies in California for the purpose of pooling and investing local agency funds. A Board of Trustees supervises and administers the investment program of the Trust. CalTRUST invests in fixed income securities eligible for investment pursuant to California Government Code Sections 53601, et seq. and 53635, et seq. Investment guidelines adopted by the Board of Trustees may further restrict the types of investments held by the Trust. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by CalTRUST for the entire CalTRUST portfolio. The balance available for withdrawal is based on the accounting records maintained by CalTRUST. For purposes of determining fair market

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 — Cash and Investments (Continued)

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

value, securities are normally priced on a daily basis on specified days if banks are open for business and the New York Stock Exchange is open for trading. The value of securities is determined on the basis of the market value of such securities or, if market quotations are not readily available, at fair value, under guidelines established by the Trustees. Investments with short remaining maturities may be valued at amortized cost, which the Board has determined to equal fair value.

Fair Value Measurement

The District categorizes its fair value investments within the fair value hierarchy established by generally accepted accounting principles. The District has the following recurring fair value measurements as of June 30, 2017:

Category	Fair Value Hierarchy			
	Total	Level 1	Level 2	Level 3
Investments reported at Fair Value				
U.S. Agency				
FFCB	\$ 39,914,700	\$ -	\$ 39,914,700	\$ -
FFCB- Floating	10,020,200	-	10,020,200	-
FHLB	9,967,300	-	9,967,300	-
FHLMC	20,429,845	-	20,429,845	-
FNMA	40,536,170	-	40,536,170	-
Corporate- Fixed	57,883,925	-	57,883,925	-
Corporate- Floating	14,887,206	-	14,887,206	-
Municipal	51,723,574	-	51,723,574	-
CalTRUST	25,675,164	-	25,675,164	-
Total Investments at Fair Value	<u>\$ 271,038,084</u>	<u>\$ -</u>	<u>\$ 271,038,084</u>	<u>\$ -</u>

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 3 — Capital Asset Activity

The capital asset activity for the fiscal year ended June 30, 2017 was as follows:

	Beginning Balance June 30, 2016	Additions	Reductions	Ending Balance June 30, 2017
Capital assets, not being depreciated				
Land	\$ 56,160,972	\$ 2,150,879	-	\$ 58,311,851
Tunnel Water Seepage Agreement	1,750,900	-	-	1,750,900
Construction in progress	93,124,927	88,097,597	(49,590,991)	131,631,533
Total capital assets not being depreciated	151,036,799	90,248,476	(49,590,991)	191,694,284
Capital assets, being depreciated				
Water plant, lines and equipment	1,148,804,466	20,510,493	(1,973,073)	1,167,341,886
Water capacity rights	30,074,350	-	-	30,074,350
Sewer plant, lines and equipment	1,872,527,632	22,758,711	(3,148,265)	1,892,138,078
Equipment and general facilities	134,118,749	6,321,787	(20,945,712)	119,494,824
Total capital assets being depreciated	3,185,525,197	49,590,991	(26,067,050)	3,209,049,138
Less accumulated depreciation for				
Water plant, lines and equipment	428,313,179	40,179,029	(1,523,295)	466,968,913
Water capacity rights	8,785,594	722,730	-	9,508,324
Sewer plant, lines and equipment	566,583,257	48,798,801	(1,810,369)	613,571,689
Equipment and general facilities	94,067,374	6,267,694	(19,789,843)	80,545,225
Total accumulated depreciation	1,097,749,404	95,968,254	(23,123,507)	1,170,594,151
Total capital assets being depreciated, net	2,087,775,793	(46,377,263)	(2,943,543)	2,038,454,987
Capital assets, net	\$ 2,238,812,592	\$ 43,871,213	\$ (52,534,534)	\$ 2,230,149,271

Net interest cost capitalized during fiscal year ended June 30, 2017 was \$1,600,962.

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 — Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2017 is as follows:

	Ending Balance June 30, 2016	Additions	Reductions	Ending Balance June 30, 2017	Due Within One Year
Long-Term Debt					
Advances for Construction, Notes and Assessments:					
CA DWR Prop 204 (HWFP)	\$ 21,999,043	\$ -	(1,614,069)	\$ 20,384,974	\$ 820,816
SWRCB SRF loan (APAD)	37,553,551	-	(2,135,398)	35,418,153	2,144,409
SWRCB SRF loan (SCATT)	31,234,639	-	(1,809,878)	29,424,761	-
Total notes payable	90,787,233	-	(5,559,345)	85,227,888	2,965,225
Capital Lease Obligations	23,752	-	(10,970)	12,782	11,764
Revenue Bonds:					
2011A refunding	26,150,000	-	(8,420,000)	17,730,000	4,145,000
2012A refunding	50,000,000	-	(50,000,000)	-	-
2013A refunding	54,575,000	-	(54,575,000)	-	-
2014A refunding	48,645,000	-	(48,645,000)	-	-
2014B refunding	45,175,000	-	(45,175,000)	-	-
2014C refunding	54,460,000	-	(54,460,000)	-	-
2015A refunding	50,000,000	-	-	50,000,000	-
2015B	74,430,000	-	-	74,430,000	-
2016A Refunding	209,230,000	-	(3,900,000)	205,330,000	5,010,000
2016B Refunding	-	124,925,000	-	124,925,000	1,300,000
2017A Refunding	-	54,810,000	-	54,810,000	-
2017B Refunding	-	50,225,000	-	50,225,000	-
2017C Refunding	-	17,515,000	-	17,515,000	-
2017D	-	102,500,000	-	102,500,000	-
2017E Refunding	-	147,970,000	-	147,970,000	330,000
2017F Refunding	-	47,545,000	-	47,545,000	-
Unamortized premium	50,917,542	47,399,786	(3,537,873)	94,779,455	4,667,009
Total revenue bonds	663,582,542	592,889,786	(268,712,873)	987,759,455	15,452,009
Certificates of Participation:					
2007A refunding	20,135,000	-	(20,135,000)	-	-
2008C refunding	47,545,000	-	(47,545,000)	-	-
2008H	140,035,000	-	(140,035,000)	-	-
Net unamort prem/disc	(325,729)	-	325,729	-	-
Total COPs	207,389,271	-	(207,389,271)	-	-
General Obligation Bonds:					
2005A	12,390,000	-	(495,000)	11,895,000	515,000
2009	22,150,000	-	(500,000)	21,650,000	525,000
Net unamort prem/disc	380,903	-	(20,394)	360,509	20,393
Total GO bonds	34,920,903	-	(1,015,394)	33,905,509	1,060,393
Sub-total long term debt	996,703,701	592,889,786	(482,687,853)	1,106,905,634	19,489,391
Other Noncurrent Liabilities					
Compensated absences	14,432,512	21,458,568	(23,088,517)	12,802,563	7,634,381
Total long-term liabilities	\$ 1,011,136,213	\$ 614,348,354	\$ (505,776,370)	\$ 1,119,708,197	\$ 27,123,772

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 — Long-Term Liabilities (Continued)

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

	Date of Issue	Original Issue	Revenue Sources	Lien	Final Maturity Date	Interest Rates
Advances for construction, notes and assessments:						
CA DWR Prop 204 (HWFP) <i>Hemet Water Filtration Plant Construction Project</i>	3/3/05	\$ 42,098,388	(a)	Subordinate	7/1/28	Imputed-2.273%
SWRCB SRF loan						
(APAD) <i>Moreno Valley RWRF Acid Phase Anaerobic Digestion Project</i>	9/15/09	43,908,096	(a)	Subordinate	3/16/33	0.422%
SWRCB SRF loan (SCATT) <i>Moreno Valley RWRF Secondary Clarifier & Tertiary Treatment Expansion Project</i>	6/23/09	38,302,852	(a)	Subordinate	7/5/32	1.0%
Revenue Bonds:						
2011A Refunding	7/20/11	56,225,000	(a)	Senior	7/1/20	4% to 5%
2015A Refunding	6/23/15	50,000,000	(a)	Subordinate	7/1/39	Variable
2015B	6/18/15	74,430,000	(a)	Subordinate	7/1/39	4% to 5%
2016A Refunding	4/5/16	209,230,000	(a)	Subordinate	7/1/39	2% to 5%
2016B Refunding	9/14/16	124,925,000	(a)	Subordinate	7/1/35	2% to 5%
2017A Refunding	4/12/17	54,810,000	(a)	Subordinate	7/1/35	Variable
2017B Refunding	4/12/17	50,225,000	(a)	Subordinate	7/1/38	Variable
2017C Refunding	5/2/17	17,515,000	(a)	Subordinate	7/1/23	5.0%
2017D	5/18/17	102,500,000	(a)	Subordinate	7/1/47	5.0% to 5.25%
2017E Refunding	5/25/17	147,970,000	(a)	Subordinate	7/1/46	Variable
2017F Refunding	5/25/17	47,545,000	(a)	Subordinate	7/1/46	Variable
General Obligation Bonds:						
2005A	6/7/15	18,255,000	(b)	N/A	9/1/35	4% to 5%
2009	8/12/09	31,625,000	(b)	N/A	9/1/39	4.25% to 5.625%

(a) Net water and sewer revenues

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

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 — Long-Term Liabilities (Continued)

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

Year ending June 30:	Principal	Interest	Total
2018	\$ 14,801,989	\$ 32,389,260	\$ 47,191,249
2019	17,992,174	33,786,997	51,779,171
2020	18,601,687	32,828,939	51,430,626
2021	19,328,311	31,792,014	51,120,325
2022	45,550,744	32,960,772	78,511,516
2023-2027	122,800,273	140,361,494	263,161,767
2028-2032	140,190,491	117,771,495	257,961,986
2033-2037	181,505,001	86,682,400	268,187,401
2038-2042	200,000,000	60,239,966	260,239,966
2043-2047	205,400,000	27,820,225	233,220,225
2048	45,595,000	1,139,875	46,734,875
Sub-total	1,011,765,670	597,773,437	1,609,539,107
Add: Unamortized premium/discount	95,139,964	-	95,139,964
Total	\$ 1,106,905,634	\$ 597,773,437	\$ 1,704,679,071

Advances for Construction, Notes and Assessments

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

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

Year ending June 30:	Principal	Interest	Total
2018	\$ 2,965,225	\$ 934,320	\$ 3,899,545
2019	5,651,156	869,862	6,521,018
2020	5,716,687	804,331	6,521,018
2021	5,783,311	737,707	6,521,018
2022	29,955,744	2,649,345	32,605,089
2023-2027	26,415,273	927,520	27,342,793
2028-2032	8,740,492	91,706	8,832,198
Total	\$ 85,227,888	\$ 7,014,791	\$ 92,242,679

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 — Long-Term Liabilities (Continued)

Advances for Construction, Notes and Assessments (continued)

On January 25, 2016, the District executed a project financing agreement with the State of California Water Resources Control Board to provide financing, under the Clean Water State Revolving Fund, for planning, design and construction costs related to the North Trumble and PVRWRF Case Road Recycled Storage Ponds project. This agreement provides \$11,246,300 in funding with a future thirty-year loan at an interest rate of 1.0 percent. Contingent on the District's performance of its obligations under this agreement, the estimated amount of principal that will be due to the State Water Board is \$7,798,170 with the remaining balance of \$3,448,130 awarded as a grant. Loan repayment is expected to begin in June 30, 2018. Construction advances totaling \$4,790,073 for this project were recorded through June 30, 2017.

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

Revenue Bonds

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

Future principal and interest payments on all revenue Bonds as of June 30, 2017 are as follows:

Year ending June 30:	Principal	Interest	Total
2018	\$ 10,785,000	\$ 29,759,008	\$ 40,544,008
2019	11,255,000	31,269,864	42,524,864
2020	11,750,000	30,428,215	42,178,215
2021	12,360,000	29,509,251	41,869,251
2022	14,355,000	28,820,568	43,175,568
2023-2027	89,685,000	132,930,021	222,615,021
2028-2032	123,795,000	112,956,500	236,751,500
2033-2037	172,460,000	84,238,868	256,698,868
2038-2042	195,540,000	59,852,685	255,392,685
2043-2047	205,400,000	27,820,225	233,220,225
2048	45,595,000	1,139,875	46,734,875
	892,980,000	568,725,080	1,461,705,080
Add: Unamortized premium	94,779,455	-	94,779,455
Total	\$ 987,759,455	\$ 568,725,080	\$ 1,556,484,535

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 — Long-Term Liabilities (Continued)

2016B Refunding Revenue Bonds

In September 2016, the District issued \$124,925,000 in refunding revenue bonds, Series 2016B. The net proceeds were used to pay the costs of executing and delivering the 2016B Bonds and advance refund the outstanding 2008H Certificates of Participation.

A portion of the proceeds of the 2016B bonds were deposited in an irrevocable trust with an escrow agent for the payment of the 2008H COPs. These funds are being held until July 1, 2018 when the 2008H COPs are redeemable and as a result, these certificates are considered defeased and the liability for the certificates has been removed from the Statement of Net Position. The 2016B bonds were issued on the subordinate lien which improves the debt service coverage on the outstanding senior debt. Refunding the 2008H COPs released \$14.4 million in restricted reserves to be used to finance additional capital projects and reduced debt service payments over 18 years by \$34.6 million. The reacquisition price exceeded the net carrying amount of the old debt by \$12,026,470 and resulted in \$29.7 million net present value savings.

The 2016B bonds include principal installments due in varying amounts from \$1,300,000 to \$22,460,000 annually from July 1, 2017 to July 1, 2035, with interest payable semiannually at fixed rates ranging from 2 to 5 percent.

2017A Refunding Revenue Bonds

In April 2017, the District issued \$54,810,000 in refunding revenue bonds, Series 2017A. The net proceeds were used to current refund the outstanding 2013A SIFMA Flex Index Tender Notes and to pay the costs of issuance of the 2017A bonds.

A portion of the proceeds of the 2017A revenue bonds were deposited with the 2013A Trustee for redemption of the 2013A revenue bonds and as a result, these bonds are considered defeased and the liability for the bonds has been removed from the Statement of Net Position. The 2017A bonds require less administrative overhead than the original index notes and were issued on the subordinate lien which improves the debt service coverage on the outstanding senior debt. The 2017A and 2013A refunding revenue bonds are variable rate debt, therefore, there is no economic gain or loss resulting from the refunding other than the cost to underwrite.

The 2017A Bonds include principal installments due in varying amounts from \$3,820,000 to \$5,395,000 annually from July 1, 2024 to July 1, 2035, with interest payable semiannually at a variable rate that is remarketed weekly based on the SIFMA index rate.

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 — Long-Term Liabilities (Continued)

2017B Refunding Revenue Bonds

In April 2017, the District issued \$50,225,000 in refunding revenue bonds, Series 2017B. The net proceeds were used to current refund the outstanding 2012A SIFMA Floating Rate Notes and to pay the costs of issuance of the 2017B bonds.

A portion of the proceeds of the 2017B revenue bonds were deposited with the 2012A Trustee for redemption of the 2012A revenue bonds and as a result, these bonds are considered defeased and the liability for the bonds has been removed from the Statement of Net Position. The 2017B bonds require less administrative overhead than the original 2012A bonds and were issued on the subordinate lien which improves the debt service coverage on the outstanding senior lien. The 2017B and 2012A refunding revenue bonds are variable rate debt, therefore, there is no economic gain or loss resulting from the refunding other than the cost to underwrite.

The 2017B bonds include principal installments due in varying amounts from \$16,075,000 to \$17,365,000 annually from July 1, 2026 to July 1, 2038, with interest payable semiannually at a variable rate that is remarketed weekly, based on the SIFMA index rate.

2017C Refunding Revenue Bonds

In May 2017, the District issued \$17,515,000 in refunding revenue bonds, Series 2017C. The net proceeds were used to current refund the outstanding 2007A certificates of participation and to pay the costs of issuance of the 2017C Bonds.

A portion of the proceeds of the 2017C Bonds were deposited in an irrevocable trust with an escrow agent for the payment of the 2007A COPs maturing on July 1, 2017 and for the payment of the certificates maturing after July 1, 2017. As a result, these certificates are considered defeased and the liability for the certificates has been removed from the Statement of Net Position. The refunding of the 2007A certificates of participation resulted in \$2.7 million net present value savings and freed up \$4.4 million in restricted debt service reserve funds to be used for financing capital projects. The refunding reduced debt service payments over 7 years by \$3.4 million and the reacquisition price equaled the net carrying amount of the old debt resulting in no deferred cost of refunding.

The 2017C bonds include principal installments due in varying amounts from \$5,555,000 to \$6,130,000 annually from July 1, 2021 to July 1, 2023, with interest payable semiannually at a fixed rate of 5 percent.

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 — Long-Term Liabilities (Continued)

2017D Revenue Bonds

In May 2017, the Eastern Municipal Water District Financing Authority issued \$102,500,000 in Revenue Bonds, Series 2017D. The bonds were issued to finance the acquisition and construction of water and sewer capital improvements for the District and to pay the costs of executing and delivering the 2017D Bonds.

The 2017D Bonds include principal installments due in varying amounts from \$5,555,000 to \$6,130,000 annually from July 1, 2021 to July 1, 2023, with interest payable semiannually at a fixed rate of 5 percent.

2017E Refunding Revenue Bonds

In May 2017, the District completed a private placement refunding of the 2014A, 2014B, and 2014C refunding revenue bonds into the \$147,970,000 Series 2017E refunding revenue bonds. The bonds were placed with Wells Fargo Bank for a term of three years with an expiration date of May 25, 2020.

Refunding the 2014 series revenue bonds shifted the base index from SIFMA to 70 percent of the LIBOR, diversifying the District's variable rate debt portfolio. The 2017E bonds were issued on the subordinate lien which maintains the debt service coverage on the outstanding senior debt. The 2017E and 2014A, 2014B and 2014C refunding revenue bonds are variable rate debt, therefore, there is no economic gain or loss resulting from the refunding other than the cost to underwrite.

The 2017E refunding revenue bonds include principal installments due in varying amounts annually from \$330,000 to \$8,090,000 from July 1, 2017 to July 1, 2030 with an interest rate of 3.1 percent that is synthetically fixed through a swap agreement with Wells Fargo Bank carried forward from the 2014C refunding revenue bonds. The remaining principal is due in varying amounts annually from \$15,575,000 to \$19,920,000 from July 1, 2039 to July 1, 2046. Interest on the unhedged bonds is payable semiannually at a variable rate that is remarketed monthly, based on an index of 70 percent of LIBOR plus 30 basis points.

2017F Refunding Revenue Bonds

In May 2017, the District completed a private placement refunding of the 2008C Certificates of Participation into the 2017 Refunding Revenue Bonds. The bonds were placed with Bank of America for a term of four years with an expiration date of May 25, 2021.

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 — Long-Term Liabilities (Continued)

2017F Refunding Revenue Bonds (continued)

Refunding the 2008C COPs shifted the base index from SIFMA to 70 percent of the LIBOR, diversifying the District's variable rate debt portfolio. The 2017F bonds were issued on the subordinate lien, shifting the principal from the senior lien and improving the debt service coverage on the outstanding senior debt. The 2017F and 2008C refunding bonds are variable rate debt, therefore, there is no economic gain or loss resulting from the refunding other than the cost to underwrite.

The 2017F refunding revenue bonds include principal installments due in varying amounts from \$5,230,000 to \$6,705,000 from July 1, 2039 to July 1, 2046 with a partially hedged variable interest rate set at 5.13 percent through a swap agreement with Wells Fargo Bank carried forward from the 2008C refunding certificates of participation. The swap, amortized separately from the 2017F bond principal payments, will expire in 2020. Interest on the unhedged portion of the bonds is payable semiannually at a variable rate that is remarketed monthly based on an index of 70 percent LIBOR plus 35 basis points.

General Obligation (GO) Bonds

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

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

Year ending June 30:	Principal	Interest	Total
2018	\$ 1,040,000	\$ 1,695,407	\$ 2,735,407
2019	1,085,000	1,647,265	2,732,265
2020	1,135,000	1,596,393	2,731,393
2021	1,185,000	1,545,056	2,730,056
2022	1,240,000	1,490,859	2,730,859
2023-2027	6,700,000	6,503,953	13,203,953
2028-2032	7,655,000	4,723,289	12,378,289
2033-2037	9,045,000	2,443,532	11,488,532
2038-2042	4,460,000	387,281	4,847,281
Sub-total	33,545,000	22,033,035	55,578,035
Add: Unamortized premium	360,509	-	360,509
Total	<u>\$ 33,905,509</u>	<u>\$ 22,033,035</u>	<u>\$ 55,938,544</u>

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 — Long-Term Liabilities (Continued)

General Obligation (GO) Bonds (continued)

The general obligation bonds are callable prior to maturity, subject to certain call premiums. The liability for the general district bonds and improvements within the respective special districts, and the funds for retirement thereof, are derived from a bond redemption levy based on the assessed valuation within the individual improvement districts. At June 30, 2017, general obligation bonds authorized but not issued total \$547,650,000.

The District defeased certain bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the assets in the trust account and the liability for the defeased debt are not included on the District's financial statements. On June 30, 2017, \$160.1 million of bonds outstanding were considered defeased.

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 on the Hemet Water Filtration Plant State Revolving Fund in the event that the District has not provided the Trustee with sufficient funds by the installment payment date to make the required installment payments. The current required reserve amount and reserve balance at June 30, 2017 for the outstanding debt is as follows:

<u>Description</u>	<u>Required</u>	<u>Actual</u>	<u>Excess (Deficiency)</u>
Hemet WFP SRF- \$4.21M ¹	\$ 1,894,428	\$ 1,925,679	\$ 31,251
Total Debt Service Reserve Funds	\$ 1,894,428	\$ 1,925,679	\$ 31,251

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

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 — Long-Term Liabilities (Continued)

Master Resolution

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

1. Debt Coverage Ratio

The District has covenanted that Net Water and Sewer Revenues shall be at least 1.15 times the sum of all Debt Service on all Parity Obligations, plus the amount of all deposits required to be made to the Operating Reserve Fund. As of June 30, 2017, the District’s parity and subordinate obligation debt service coverage ratios were 7.1 times and 3.4 times, respectively.

2. Operating Reserve Fund

The District has covenanted that it will maintain a minimum of one quarter of its annual maintenance and operating costs as set forth in its operating budget in a separate reserve fund. The required reserve amount and the actual reserve balance at June 30, 2017 was \$37,459,564.

NOTE 5 - Interest Rate Swap Contracts

Standby Certificate Purchase Agreements

Included in long-term debt at June 30, 2017 are \$155,035,000 Series 2015A, 2017A and 2017B Revenue Bonds (collectively, the Supported Variable Rate Debt). The Supported Variable Rate Debt have a tender provision for bondholders on seven-day notice, to tender their bonds at par value plus accrued interest. In connection with the issuance of the Supported Variable Rate Debt, the District executed Standby Purchase Agreements (SPA) between the Corporation and various banks. The SPA is terminated prior to the expiration date only if there is an occurrence of “events of defaults”. As of June 30, 2017, there were no outstanding bonds that have been tendered but failed to be remarketed. The bank and expiration date for each SPA at June 30, 2017 for each Supported Variable Rate Debt is:

Description	SPA Bank	SPA Expiration Date
2015A Bond	MUFG Union Bank	06/22/2018
2017A Bond	Sumitomo Mitsui Banking Corp	04/12/2022
2017B Bond	Sumitomo Mitsui Banking Corp	04/12/2022

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 5 — Interest Rate Swap Contracts (continued)

Plan Description

The fair value balances and notional amounts of financial instruments (instruments) outstanding at June 30, 2017, classified by type and the changes in fair value of such instruments for the year then ended are shown in the following table.

	<u>Changes in Fair Value</u>		<u>Fair Value at June 30, 2017</u>		<u>Notional</u>
	<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>	
Cash flow hedges:					
2017E Bonds	Pay-fixed interest swap				
	Deferred inflow	\$ 345,041	Debt	\$ (8,062,436)	\$ 54,150,000
2017F Bonds	Pay-fixed interest swap- cost of funds				
	Deferred inflow	\$ 97,602	Debt	\$ (1,816,477)	\$ 27,995,000

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

Objective and Terms of Financial Instruments

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

The following table displays the objective and terms of the District's financial instruments outstanding at June 30, 2017, along with the credit rating of the associated counterparty.

<u>Type</u>	<u>Objective</u>	<u>Notional Amount</u>	<u>Effective Date</u>	<u>Maturity Date</u>	<u>Terms</u>	<u>Counterparty Credit Rating</u>
Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2017E debt issue	\$ 54,150,000	11/1/14	7/1/30	Pay 3.1%, receive 66% of one-month LIBOR from WFB	S&P: AA- Moody's: Aa2
Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2017F debt issue	\$ 27,995,000	12/1/14	7/1/20	Pay 5.125%, receive the SIFMA Swap Index from WFB	S&P: AA- Moody's: Aa2

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 5 — Interest Rate Swap Contracts (continued)

Credit Risk

The counterparty credit ratings as of June 30, 2017 are shown in the table above. If the counterparty credit rating is lowered to or below Baa1 by Moody's Investors Service (Moody's) or BBB+ by Standard & Poor's (S&P), the financial instruments may be terminated. The counterparty credit ratings for Wells Fargo Bank either met or exceeded these rating requirements at June 30, 2017.

Interest Rate Risk

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

Basis Risk

The financial instruments expose the District to basis risk, which refers to a mismatch between the interest rate received from the swap contract and the interest paid on the variable rate payment to be made on the debt. The District pays the counterparty a fixed rate of 5.125 percent and receives the SIFMA Swap Index for the 2017F financial instrument, which may be different from the variable rate payments made on the 2017F debt. The District is exposed to basis risk should the floating rate that it receives on a swap be less than the variable rate the District pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost savings from the swap may not be realized.

Termination Risk

The financial instruments may be terminated by the District or its counterparty if the other party fails to perform under the terms of the contract. In addition, the District has the option to terminate the financial instruments upon proper notification to the counterparties. If the financial instruments are terminated, the District would prospectively pay the variable rates on the 2017E and 2017F bonds rather than fixed rate payments under the financial instruments. The termination could therefore increase the District's total debt service. If, at the time of termination, the financial instrument is in a liability position, the District would be liable to the counterparty for a payment equal to the negative fair value.

On May 25, 2017, the Series 2014C and 2008C bonds were refunded with the Series 2017E and 2017F bonds. This resulted in a termination of hedge accounting with the balance in the deferred outflow from hedge accounting being cleared. Hedge accounting is resumed with the hedged bonds being the Series 2017E and 2017 F bonds. As of June 30, 2017, the financial instruments had a combined negative fair value of \$9,878,913.

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 5 — Interest Rate Swap Contracts (continued)

Collateral Requirements

The financial instruments include provisions that require the District to post collateral in the event the lowest credit rating assigned to any of its long-term, unenhanced debt secured by a pledge of Net Water and Sewer Revenues falls below A- as issued by Fitch Ratings, A-as issued by Standard & Poor's Rating Services, or A3 as issued by Moody's Investors Service. The collateral posted is required to be in the form of cash or U.S. Treasury securities in the amount of the fair value of the financial instrument, net of agreed upon adjustments. If the District does not post collateral, the financial instruments may be terminated by the counterparty. At June 30, 2017, the aggregate fair value of all financial instruments with these collateral posting provisions is a negative \$9,878,913. If the collateral posting requirements were triggered at June 30, 2017, the District would be required to post \$9,878,913 to the counterparty. The District's credit ratings for its senior Revenue Bonds were AAA/Aa2/AA+ and the credit ratings for its subordinate Revenue Bonds were AA+/Aa3/AA+ by Fitch Ratings, Moody's Investors Service, Inc. and Standard & Poor's Rating Services, respectively; therefore, no collateral was posted at June 30, 2017.

NOTE 6 - Defined Benefit Pensions Plan

Plan Description

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

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 6 — Defined Benefit Pensions Plan (Continued)

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members who must be public employees and beneficiaries. Benefits are based on years of credited service equal to one year of full-time employment. The Plans' provisions and benefits in effect at June 30, 2017 are summarized as follows:

	Miscellaneous		
	<u>Prior to 11/1/10</u>	<u>11/1/10-1/1/13</u>	<u>On or after 1/1/2013</u>
Hire date			
Benefit formula	2.5% @ 55	2% @ 55	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life	Monthly for life
Retirement age	50-55	50-55	62-67
Monthly Benefits as a % of eligible compensation	2.5%	2.0% to 2.5%	2.0% to 2.5%
Required employee contribution rates	8.0%	7.0%	5.75%
Required employer contribution rates	19.2%	19.2%	19.2%

Employees Covered

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

Active Members	619
Transferred Members	80
Terminated Members	105
Retired Members and Beneficiaries	<u>429</u>
Total	<u>1,233</u>

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 6 — Defined Benefit Pensions Plan (Continued)

Contribution Description

Section 20814 (c) of the California Public Employees’ Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following the notice of a change in the rate. The total plan contributions are determined through the CalPERS annual actuarial valuation report. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ending June 30, 2016 (the measurement date), the District’s average contribution rate is 17.81 percent of annual payroll. District contribution rates may change if plan contracts are amended. It is the responsibility of the District to make necessary accounting adjustments to reflect the impact due to any District Paid Member Contributions or situations where members are paying the portion of the District contribution.

Actuarial Methods and Assumptions Used To Determine Total Pension Liability

For the measurement period ending June 30, 2016 (the measurement date), the total pension liability was determined using the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.00%
Investment Rate of Return	7.5%Net of Pension Plan Investment and Administrative Expenses; includes inflation
Mortality Rate Table ¹	Derived using CalPERS’ Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

¹ The mortality table used was developed based on CalPERS’ specific data. The table includes twenty years of mortality improvements using Society of Actuaries Scale BB.

All other actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality, and retirement rates. The Experience Study Report can be obtained at the CalPERS website under Forms and Publications.

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 6 — Defined Benefit Pensions Plan (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. The tests revealed the assets would not run out. Therefore, the current 7.65 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund. The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained at CalPERS website under the GASB 68 section.

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

In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Taking in to account historical returns of all the Public Employees Retirement Funds’ asset classes (which includes the agent plan and two cost-sharing plans or PERF A, B and C funds), expected compound (geometric) returns were calculated over the short-term (first ten years) and the long-term (eleven to sixty years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each PERF fund. The expected rate was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the Board effective July 1, 2015.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1 - 10¹</u>	<u>Real Return Years 11²</u>
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	20.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	1.00%	-0.55%	-1.05%
	<u>100.0%</u>		

¹An expected inflation of 2.5% used for this period

²An expected inflation rate of 3.0% used for this period

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 6 — Defined Benefit Pensions Plan (Continued)

Pension Plan Fiduciary Net Position

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

Changes in Net Pension Liability

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

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (c) = (a) - (b)
Balance at 6/30/2015 (VD)	\$ 366,239,154	\$ 270,031,488	\$ 96,207,666
Changes Recognized for the Measurement Period:			
Service Cost	7,843,422	-	7,843,422
Interest on the Total Pension Liability	27,711,744	-	27,711,744
Changes of Benefit Terms	-	-	-
Differences between Expected Plan to Plan Resource Movement and Actual Experience	(377,219)	-	(377,219)
Changes of Assumptions	-	-	-
Contributions from the Employer	-	8,782,080	(8,782,080)
Contributions from Employees (1)	-	4,187,293	(4,187,293)
Net Investment Income	-	1,420,440	(1,420,440)
Benefit Payments, including Refunds of Employee Contributions	(15,077,250)	(15,077,250)	-
Administrative Expense	-	(164,570)	164,570
Net Changes during 2015-2016	\$ 20,100,697	\$ (852,007)	\$ 20,952,704
Balance at 6/30/2016 (MD)	\$ 386,339,851	\$ 269,179,481	\$ 117,160,370

(VD) Valuation Date

(MD) Measurement Date

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

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 6 — Defined Benefit Pensions Plan (Continued)

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

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

	Discount Rate	Current	Discount Rate
	-1%	Discount	+1%
	6.65%	7.65%	8.65%
Plan's Net Pension Liability/(Asset)	\$ 170,829,184	\$ 117,160,370	\$ 72,749,365

Subsequent Events

In December 2016, the CalPERS Board of Administration voted to lower the discount rate from 7.5 percent over the next three years. For public agencies, the discount rate changes approved by the Board for the next three fiscal years ending June 30, 2019, 2020 and 2021 are 7.375 percent, 7.25 percent and 7.00 percent, respectively.

Recognition of Gains and Losses

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

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

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

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

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 6 — Defined Benefit Pensions Plan (Continued)

Recognition of Gains and Losses (continued)

The EARSL for the Plan for the June 30, 2016 measurement period is 4.8 years, which was obtained by dividing the total service years of 5,913 (the sum of remaining service lifetimes of the active employees) by 1,240 (the total number of participants: active, inactive and retired). Inactive employees and retirees have remaining service lifetimes equal to 0. Total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

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

For the measurement period ending June 30, 2016 (the measurement date), the District recognized a pension expense of \$11,593,126 for the plan.

As of June 30, 2017, the District reported other amounts for the Plan as deferred outflow and deferred inflow of resources related to pensions as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 9,699,290	\$ -
Changes in Assumptions	-	(4,028,543)
Differences between Expected and Actual Experience	-	(369,241)
Net Difference between Projected and Actual Earnings on Pension Plan Investments	<u>14,456,901</u>	<u>-</u>
Total	<u>\$ 24,156,191</u>	<u>\$ (4,397,784)</u>

The \$9,699,290 reported as deferred outflows of resources related to employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Measurement Period Ended June 30	Deferred Outflows/(Inflows) of Resources
2017	\$ 553,996
2018	553,996
2019	5,199,422
2020	3,751,703
2021	-

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 — Defined Contribution Plan

The District maintains the EMWD 401(a) Plan, a defined contribution money purchase pension plan that is qualified under Internal Revenue Code Section 401(a). The District has an agreement with Nationwide Retirement Solutions (Nationwide) whereby Nationwide receives, invests, and reports on the funds sent to them on behalf of eligible employees. Contribution requirements of the District are established and may be amended through the memorandum of understanding between the District and its Union. Employees are vested in the funds contributed on their behalf after one year of service and have several investment options within the lineup of funds available at Nationwide. The 401(a) Plan was adopted in January 1978 and may be amended by the District, provided Nationwide joins in such amendment. The District's required contributions to the 401(a) Plan are 7.15 percent of each eligible employee's compensation, up to a maximum annual compensation of \$16,500. The District's contribution to the 401(a) Plan was \$768,373 for the fiscal year ended June 30, 2017.

In July 2011, the District executed a plan amendment to its 401(a) Plan to provide for a contribution to this 401(a) Plan on behalf of the General Manager in accordance with his employment contract. Contribution to this 401(a) Plan was \$43,527 the fiscal year ended June 30, 2017.

The district provides a voluntary 457(b) deferred compensation plan for employees to contribute to their retirement on a tax-deferred basis. In October 2013, the District executed an amendment to its 401(a) Plan to provide for a matching contribution for those employees contributing to the 457(b) deferred compensation plan. The District's matching contributions will be paid into the 401(a) plan equal to 100 percent of an employee's 457(b) contribution at a rate of 2.0 percent in Year 1 of the labor contract (July 24, 2016 to December 31, 2017), 3.0 percent in Year 2 (January 1, 2018 to December 31, 2018), and 4.0 percent in Year 3 (January 1, 2019 to December 31, 2019). Matching contributions to the 401(a) plan totaled \$819,563 for the fiscal year ended June 30, 2017.

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 8 — Postemployment Benefits Other Than Pensions

Plan Description

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

Tier 1 (Hired Prior to August 1, 2005)- For the plan year 2016, the District paid up to the greater of Blue Shield or Kaiser Southern CA non-Medicare (basic) premium coverage less retiree cost-sharing contributions. The cost-sharing monthly contribution was up to \$86.67 for family coverage. The District's monthly contribution was \$1,703. Effective January 1, 2017, the District's contribution is 100 percent of the coverage level elected by the retiree up to a maximum of \$675 per month for single coverage, \$1,350 for two-party coverage and \$1,750 per month for family coverage. The cost-sharing monthly contribution is the difference between the cost of medical coverage provided (through PEMHCA or Kaiser 'A') and the District's contribution. The District's contribution consist of the CalPERS statutory minimum required contribution of \$128 for 2017 and a contribution through a health reimbursement arrangement (HRA). Retirees in the Kaiser A HMO are required to pay a monthly contribution based on the family coverage category elected.

Tier 2 (Hired from August 1, 2005 to March 26, 2014)- For the plan year 2016, the District paid the greater of the Tier 1 contribution (after cost sharing) or PEMHCA published average of the four health benefit plans that had the largest state enrollment, multiplied by vesting percentage according to PEMHCA Section 22893. Vesting percentages ranged from 50 percent to 100 percent for retirees with CalPERS service of 10 years to 20 years or more. Effective January 1, 2017, the District's contribution is 100 percent of the coverage level elected by the retiree, up to the greater of the same contribution amount as a retiree hired prior to August 1, 2005 multiplied by a vesting schedule or the 100/90 amount per PEMHCA. The 100/90 amount is 100 percent of the weighted average of single coverage and 90 percent of the weighted average of additional premium for two-arty and family coverage for the four PEMCHA plans with the highest State enrollment in the prior year, for 2017: \$707 for single, \$1,349 for two-party and \$1,727 for family. The District's contribution consist of the CalPERS statutory minimum required contribution of \$128 for 2017 and a contribution through a health reimbursement agreement (HRA).

Tier 3 (hired after March 26, 2014) - The District's contribution is the PEMHCA minimum required contribution of \$125 per month in 2016 and \$128 per month for 2017.

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

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 8 — Postemployment Benefits Other Than Pensions (Continued)

Plan Description (continued)

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

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

Funding Policy and Annual OPEB Cost

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

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

The District's total contribution for the fiscal year ended June 30, 2017 was \$17,562,209. This total included a pay-as-you-go contribution of \$3,428,496 and CERBT trust contributions of \$14,133,713.

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

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 8 — Postemployment Benefits Other Than Pensions (Continued)

Funding Policy and Annual OPEB Cost (continued)

The following table shows the components of the District's annual OPEB cost for the fiscal year, the amount actually contributed to the plan and changes to the District's net OPEB obligation:

Annual required contribution	\$ 10,062,209
Interest on net OPEB obligation	3,093,053
Amortization of net OPEB obligation	<u>(3,422,818)</u>
Annual OPEB cost	9,732,444
Contributions Made	<u>(17,562,209)</u>
Decrease in Net OPEB obligation	(7,829,765)
Net OPEB obligation, beginning of year	<u>51,636,947</u>
Net OPEB obligation, end of year	<u>\$ 43,807,182</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation (liability) for 2015 through 2017 are shown in the following table.

Plan	Year Ended	Annual OPEB Cost	Actual Contributions	Percentage of OPEB Cost Contributed	Net OPEB Obligation
Retired Employees/Elected	06/30/15	\$ 8,568,000	\$ 8,842,531	103.2%	\$ 51,927,505
Officials Healthcare and Life	06/30/16	9,478,577	9,769,135	103.1%	51,636,947
Insurance Plans	06/30/17	9,730,444	17,562,209	180.5%	43,807,182

Funded Status and Funding Progress

The funded status of the plans as of June 30, 2015, the plan's most recent actuarial valuation date, is shown in the following table. Actuarially determined amounts were not calculated separately for each plan. The Schedule of Funding Progress, presented as required supplementary information following the notes to the basic financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability.

Actuarial accrued liability	\$ 100,353,312
Actuarial value of plan assets	<u>(14,204,337)</u>
Unfunded actuarial accrued liability	86,148,975
Funded ratio	14.2%
Covered payroll	\$ 47,804,000
Unfunded actuarial accrued liability as a percentage of covered payroll	180.2%

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 8 — Postemployment Benefits Other Than Pensions (Continued)

Funded Status and Funding Progress (continued)

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

Actuarial Methods and Assumptions

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

Valuation date	6/30/2015		
Actuarial cost method	Entry Age Normal		
Amortization method	Level Percent of Payroll		
Remaining amortization method	24 years as of valuation date		
Actuarial assumptions:			
Prefunding	100% of Annual Required Contribution		
Investment rate of return	7.00%		
Payroll growth	3.00%		
Healthcare cost trend rate:			
<u>Year</u>	<u>PPO</u>	<u>HMO</u>	<u>PEMHCA</u>
2015	Actual	Actual	Actual
2016	Actual	Actual	Actual
2017	7.0%	6.5%	4.0%
2018	6.5%	6.0%	4.0%
2019	6.0%	5.5%	4.0%
2020	5.5%	5.0%	4.0%
2021+	5.0%	5.0%	4.0%
Plan participants	<u>Active</u>	<u>Retired</u>	<u>Total</u>
	619	360	979

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

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 9 — Restricted and Unrestricted Net Position

Restricted Net Position

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

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

Unrestricted Net Position

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

NOTE 10 — Commitments

Construction Contracts

The District is committed to approximately \$59,021,235 of open construction contracts as of June 30, 2017. The contracts with the largest remaining balances include:

	<u>Contract Amount</u>	<u>Balance To Complete</u>
TVRWRF 23 MGD Expansion	\$ 75,063,070	\$ 45,842,670
Perris and Elder Booster Station	5,557,121	5,344,122
Audie Murphy Road Sewage Lift Station	2,496,140	2,104,263
Moreno Valley Sewer Improvements	1,859,433	1,745,500
La Piedra Recycled Water Pipeline	1,540,885	1,406,730
Redlands/Hemlock Booster Sta. & Pipe	4,260,644	419,870
Paradise Meadows 5.0 MG Tank-Rebid	<u>3,262,993</u>	<u>327,519</u>
TOTAL	<u>\$ 94,040,286</u>	<u>\$ 57,190,674</u>

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 10 — Commitments (Continued)

Claims and Judgments

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

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

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

	Beginning Balance			Ending Balance		Due Within
	June 30, 2016	Additions	Deletions	June 30, 2017	One Year	
General Liability	\$ 290,790	\$ 265,186	\$ (204,441)	\$ 351,535	\$ 351,535	
Workers Compensation	6,898,366	928,114	(954,239)	6,872,241	1,500,000	
	<u>\$ 7,189,156</u>	<u>\$ 1,193,300</u>	<u>\$ (1,158,680)</u>	<u>\$ 7,223,776</u>	<u>\$ 1,851,535</u>	

	2017	2016
Unpaid claims, beginning	\$ 7,189,156	\$ 7,241,082
Incurred claims and changes in estimates	1,193,300	1,314,965
Claim Payments	<u>(1,158,680)</u>	<u>(1,366,891)</u>
Unpaid claims, ending	<u>\$ 7,223,776</u>	<u>\$ 7,189,156</u>

There was no significant reduction in insurance coverage by major categories of risk from fiscal year 2016 to 2017. There were no settlements that exceeded insurance coverage for the two prior fiscal years ended June 30, 2017 and June 30, 2016. However, the stipulation discussed above did exceed the District's coverage at the time of the legal decision and the District subsequently purchased excess insurance coverage.

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 10 — Commitments (Continued)

Soboba Settlement Act

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

The Settlement Agreement provides that:

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

The District's share for the construction of the facilities and use of Tribe's water is estimated to be \$8,966,222. The District and local agencies established a financing plan for the construction costs of the facilities. This plan is based upon the repayment schedule for the 2008H COP (while the 2008H COP has been refunded, it does not change the Soboba repayment schedule) and requires the local agencies to contribute towards principal payments totaling \$12,998,778 and interest payments at their proportionate share. All amounts paid or accrued relating to the financing plan are recorded on the District's books.

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 10 — Commitments (Continued)

Soboba Settlement Act (continued)

In association with this settlement agreement, the stipulated judgment required that a watermaster be established to develop and implement a groundwater management plan and administer the provisions of the judgment. The Hemet-San Jacinto Watermaster (Watermaster) was established on April 18, 2013 and began operations in June 2013. Prior to formation of the Watermaster, the local agencies established an interim plan for imported water deliveries from MWD for in-lieu and replenishment water. The local agencies have agreed that the District will continue to purchase and deliver in-lieu and replenishment settlement water and bill the agencies directly on behalf of the Watermaster. The District recorded a \$958,232 receivable from the agencies on behalf of the Watermaster for outstanding billings of imported settlement water deliveries as of June 30, 2017.

Due to favorable weather and snow pack conditions during early calendar year 2016, an abundance of water supply was available for recharge later in the year. A total of 12,656 acre feet of water was imported for recharge, meeting the annual settlement obligation of 7,500 acre feet and reducing the outstanding obligation of undelivered 2014 settlement water from 3,746 acre feet to zero, also reducing the outstanding obligation of undelivered 2015 settlement water from 7,500 to 6,050 acre feet. Due to returning favorable weather and snowpack conditions in early calendar year 2017, a total of 8,068 acre feet of water was imported for recharge through June 30, 2017, meeting the annual settlement obligation of 7,500 acre feet and reducing the outstanding obligation of undelivered 2015 settlement water from 6,050 acre feet at December 31, 2016 to 5,482 acre feet at June 30, 2017. The District's share of imported settlement water recorded in Fiscal Year 2017 was 6,374 acre feet.

In June 2013, the District established a methodology for valuing its share of the native groundwater in the Hemet-San Jacinto Groundwater Basin, including additions and withdrawals. The District recorded \$5,663,910 and \$2,602,072 in water inventory for the fiscal years ended June 30, 2017 and June 30, 2016, respectively. The District's methodology identifies various water layers in the basin and assigns a zero dollar value to native water, with additions of imported settlement water valued at purchased cost and withdrawals valued at a weighted average cost of all inventory layers. The following table illustrates the changes in water inventory for the fiscal year ended June 30, 2017.

	Beginning Balance			Ending Balance
	June 30, 2016	Additions	Reductions	June 30, 2017
Acre feet	73,399	14,695	(11,153)	76,941
Dollar value	\$ 2,602,072	\$ 3,457,225	\$ (395,387)	\$ 5,663,910

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 10 — Commitments (Continued)

Special Funding District Bonds

These bonds are not direct liabilities of the District, and their payment is secured by valid liens on certain lands. Reserves have been established from the bond proceeds to meet delinquencies, should they occur. Neither the faith and credit nor the taxing power of the District is pledged to the payment of the Bonds. If delinquencies occur beyond the amounts held in those reserves, the District has no duty to pay those delinquencies out of any other available funds. The District acts solely as an agent for those paying assessments or special taxes and the bondholders. The Special Funding District Bonds outstanding at June 30, 2017 was \$200,785,480. These are not included in the District's financial statements.

NOTE 11 — Contingencies

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

NOTE 12 — Santa Ana Watershed Project Authority

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

According to the latest available audited financial statements, as of June 30, 2016 SAWPA had total assets of \$175,164,843 and total net assets of \$67,167,745. SAWPA Financial Statements can be obtained by contacting SAWPA at 11615 Sterling Avenue, Riverside, CA 92503 or at www.sawpa.org. The District does not have a measurable equity interest in SAWPA.

NOTE 13 — Advances from Developers

The District receives deposits from developers in advance to cover various costs for both sewer and water related projects. At June 30, 2017, the amount of refundable deposits was \$19,617,294. When a project is closed, the developer is refunded only the amount remaining after offsetting all accumulated construction in progress costs. If costs exceed the deposit amount during the project, the developer is billed for additional deposits.

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 14 — Subsequent Events

In August 2017, the District received a \$22.5 million Proposition I Groundwater grant award from the State Water Resources Control Board. The grant will fund the \$41 million Perris II Reverse Osmosis Treatment Facility Project, a multi-phase project that will produce potable water from the contaminated Perris South Water Groundwater Management Zone. The project consists of construction of RO treatment process facilities, four water supply wells, pipelines and additional treatment trains at the RO treatment facilities. The award is for construction of the first phase of the project.

In July 2017, the District received the fully executed funding agreement from the State Water Resources Control Board for the \$120 million Recycled Water Supply Optimization Program Project. The State funding total of \$95.3 million includes an anticipated \$15 million Proposition 1 grant award and an \$80.3 million State Revolving Fund loan. The Recycled Water Supply Optimization Project, which will expand the District's recycled water portfolio, includes the Temecula Valley Regional Water Reclamation Facility expansion, the Reach 4 Recycled Water Booster Station and Phase II of the Solar Photovoltaic Renewable Energy Initiative. The project is estimated to be completed in September 2019.



Required Supplementary Information

REQUIRED SUPPLEMENTARY INFORMATION

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**EASTERN MUNICIPAL WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017**

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

Measurement Period	2015-2016	2014-2015	2013-2014
Total Pension Liability			
Service Cost	\$ 7,843,422	\$ 7,679,279	\$ 7,775,568
Interest	27,711,744	26,241,865	24,817,574
Changes of Benefit Terms	-	-	-
Difference between Expected and Actual Experience	(377,219)	(117,683)	-
Changes of Assumptions	-	(6,714,237)	-
Benefit Payments, Including Refunds of Employee Contributions	<u>(15,077,250)</u>	<u>(13,746,546)</u>	<u>(13,419,729)</u>
Net Change in Total Pension Liability	20,100,697	13,342,678	19,173,413
Total Pension Liability- Beginning	<u>366,239,154</u>	<u>352,896,476</u>	<u>333,723,063</u>
Total Pension Liability- Ending (a)	<u>\$ 386,339,851</u>	<u>\$ 366,239,154</u>	<u>\$ 352,896,476</u>
Plan Fiduciary Net Position			
Contributions- Employer	\$ 8,782,080	\$ 8,161,529	\$ 7,786,103
Contributions- Employee	4,187,293	4,204,174	4,510,815
Net Investment Income	1,420,440	6,028,932	40,103,890
Benefit Payments, Including Refunds of Employee Contributions	(15,077,250)	(13,746,546)	(13,419,729)
Net Plan to Plan Resource Movement	-	-	-
Administrative Expense	<u>(164,570)</u>	<u>(303,937)</u>	<u>-</u>
Net Change in Fiduciary Net Position	(852,007)	4,344,152	38,981,079
Plan Fiduciary Net Position- Beginning	<u>270,031,488</u>	<u>265,687,336</u>	<u>226,706,257</u>
Plan Fiduciary Net Position- Ending (b)	<u>\$ 269,179,481</u>	<u>\$ 270,031,488</u>	<u>\$ 265,687,336</u>
Plan Net Pension Liability- Ending (a)- (b)	<u>\$ 117,160,370</u>	<u>\$ 96,207,666</u>	<u>\$ 87,209,140</u>
Pension Liability	69.67%	73.73%	75.29%
Covered Employee Payroll	\$ 51,405,543	\$ 50,202,213	\$ 48,184,720
Plan Net Pension Liability as a Percentage of Covered Employee Payroll	227.91%	191.64%	180.99%

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

Notes To Schedule:

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

Changes in Assumptions: In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without reduction for pension plan administrative expense). In 2014, amounts reported were based on the 7.5 percent discount rate.

**EASTERN MUNICIPAL WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017**

Schedule of Pension Plan Contributions
Last Ten Fiscal Years*

	<u>2016-2017</u>	<u>Fiscal Year 2015-2016</u>	<u>2014-2015</u>
Actuarially Determined Contribution	\$ 9,699,290	\$ 8,782,080	\$ 8,160,464
Contributions in Relation to the Actuarially Determined Contribution	(9,699,290)	(8,782,080)	(8,160,464)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Employee Payroll	\$ 53,441,059	\$ 51,405,543	\$ 50,202,213
Contributions as a Percentage of Covered Employee Payroll	18.15%	17.08%	16.26%

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

Notes to Schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2016-17 were from the June 30, 2014 public agency valuations.

Actuarial Cost Method	Entry Age Normal Cost
Amortization Method/Period	Level Percent of Payroll ¹
Asset Valuation Method	Market Value ¹
Inflation	2.75%
Salary Increase	Varies by entry age and service
Payroll Growth	3.00%
Investment Rate of Return	7.50%, net of Pension Plan Investment Expenses
Retirement Age	The probabilities of Retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period 1997 to 2007. Pre-retirement and Post-retirement mortality rates include five years of projected mortality improvement using Scale AA published by the Society of Actuaries.

¹For details, see June 30, 2014 Funding Valuation Report

**EASTERN MUNICIPAL WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017**

OPEB Funding Progress

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

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

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Statistical Section

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

CONTENTS

FINANCIAL TRENDS

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

REVENUE CAPACITY

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

DEBT CAPACITY

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

DEMOGRAPHIC AND ECONOMIC INFORMATION

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

OPERATING INFORMATION

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

SOURCES

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



STATISTICAL SECTION

EASTERN MUNICIPAL WATER DISTRICT NET POSITION BY COMPONENT LAST TEN FISCAL YEARS

	2008	2009	2010	2011	2012	2013	2014	2015 ¹	2016	2017
Net investment in capital assets	\$ 1,097,667,937	\$ 1,084,747,657	\$ 1,153,155,186	\$ 1,182,870,831	\$ 1,231,275,509	\$ 1,239,753,130	\$ 1,300,393,466	\$ 1,370,476,337	\$ 1,403,875,420	\$ 1,338,331,638
Restricted for debt service/covenantants	56,443,385	58,248,958	65,090,658	65,433,313	64,333,290	73,268,230	70,625,613	74,689,785	80,348,698	71,207,358
Restricted for construction	133,617,326	169,061,541	150,977,362	127,083,266	99,513,601	56,375,249	45,199,054	40,347,436	38,265,888	60,632,573
Unrestricted	101,896,457	120,482,286	129,229,640	136,478,455	126,867,540	148,512,588	134,353,793	(7,842,690)	(1,974,861)	62,360,074
Total net position	\$ 1,389,625,105	\$ 1,432,540,442	\$ 1,498,452,846	\$ 1,511,865,865	\$ 1,521,989,940	\$ 1,517,909,197	\$ 1,550,571,926	\$ 1,477,670,868	\$ 1,520,515,145	\$ 1,532,531,643
% Increase	5.1%	3.1%	4.6%	0.9%	0.7%	-0.3%	2.2%	-4.7%	2.9%	0.8%

Note:

¹ The District implemented GASB Statement Nos. 68 and 71 for the fiscal year ended June 30, 2015. As a result of this GASB implementation, the balance in net position includes a net prior period adjustment of (\$103,259,883).

STATISTICAL SECTION

EASTERN MUNICIPAL WATER DISTRICT CHANGES IN NET POSITION LAST TEN FISCAL YEARS

Fiscal Year	Operating Revenues		Operating Expenses		Operating Loss	Nonoperating Revenues/ (Expenses) ¹	Income Before Capital Contributions	Capital Contributions ²	Change in Net Position
	Water	Wastewater	Water	Wastewater					
2008	94,135,642	56,972,828	122,519,535	90,017,563	(61,428,628)	90,911,996	29,483,368	38,350,704	67,834,072
2009	103,013,429	62,611,918	122,515,771	94,629,395	(51,519,819)	59,613,648	8,093,829	34,821,508	42,915,337
2010	102,747,031	65,937,963	134,462,273	96,301,243	(62,078,522)	51,691,692	(10,386,830)	49,369,637	38,982,807
2011	102,009,545	67,114,654	137,981,887	98,467,509	(67,325,197)	41,208,043	(26,117,154)	39,530,173	13,413,019
2012	104,741,242	71,118,648	148,531,957	107,780,498	(80,452,565)	33,845,761	(46,606,804)	56,730,879	10,124,075
2013	112,456,804	74,633,171	154,950,442	108,169,114	(76,029,581)	45,528,065	(30,501,516)	30,446,825	(54,691)
2014	122,724,175	79,225,506	163,774,490	111,720,396	(73,545,205)	57,381,626	(16,163,579)	48,826,308	32,662,729
2015	117,295,152	83,513,268	162,871,146	116,781,896	(78,844,622)	49,992,435	(28,852,187)	59,211,012	30,358,825
2016	112,457,426	93,833,665	154,989,658	121,778,812	(70,477,379)	75,675,617	5,198,238	37,646,039	42,844,277
2017	120,870,937	100,328,285	167,605,351	124,278,288	(70,684,418)	61,307,368	(9,377,050)	21,393,548	12,016,498

Notes:

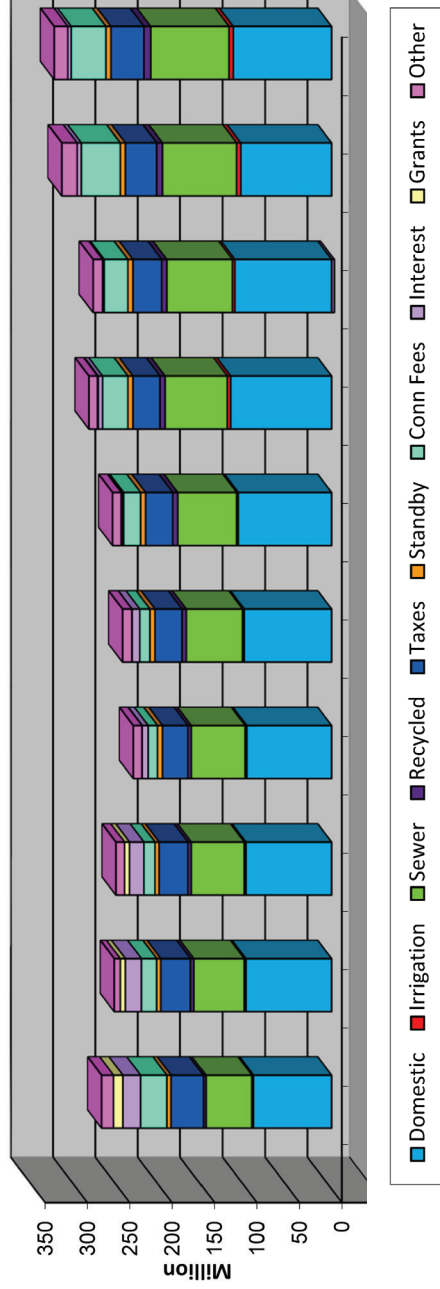
¹ Total operating and capital grant revenues are included in non-operating revenues and expenses prior to 2010. Beginning in fiscal year 2010, capital grants are reported in capital contributions.

² Fluctuations in contributed capital are due to the volume of construction activity and project close outs in a fiscal year. Lower construction activity is reflected in fiscal years 2008, 2009 and 2011. Increased developer project close-outs are reflected in fiscal years 2010, 2012, 2014 and 2015.

STATISTICAL SECTION

EASTERN MUNICIPAL WATER DISTRICT REVENUES BY SOURCE LAST TEN FISCAL YEARS

Fiscal Year	Domestic Water Sales		Ag & Irrig Water Sales		Sewer Service Charges		Recycled Water Sales		Taxes & Assmnts		Standby		Connect Fees		Interest Income		Grants ¹		Other		Total Revenues	
	% of Total	Total	% of Total	Total	% of Total	Total	% of Total	Total	% of Total	Total	% of Total	Total	% of Total	Total	% of Total	Total	% of Total	Total	% of Total	Total	% of Total	Total
2008	34.0%	91,864,344	0.8%	2,271,298	0.8%	54,408,172	0.9%	2,564,656	13.9%	37,648,103	1.8%	4,868,154	11.4%	30,706,687	7.7%	20,579,581	11.2%	11,261,996	4.2%	13,867,981	5.2%	270,040,972
2009	38.9%	100,967,796	0.8%	2,045,633	0.8%	58,889,788	1.4%	3,722,130	13.5%	35,102,975	1.9%	5,015,076	6.9%	17,789,045	7.4%	19,093,011	11.4%	6,466,818	2.5%	10,224,676	4.0%	259,316,948
2010	39.8%	100,699,778	0.8%	2,047,253	0.8%	61,885,298	1.6%	4,052,665	13.3%	33,559,211	2.1%	5,246,008	5.1%	13,010,929	6.3%	16,028,408	11.4%	6,063,577	2.4%	10,510,099	4.2%	253,103,226
2011	42.8%	100,198,290	0.8%	1,811,255	0.8%	62,609,731	1.9%	4,504,923	13.0%	30,354,685	2.4%	5,569,818	4.6%	10,815,294	3.2%	7,553,352	11.4%	517,888	0.2%	10,117,631	4.3%	234,052,867
2012	41.9%	103,226,203	0.6%	1,515,039	0.6%	65,983,462	2.1%	5,135,186	12.9%	31,730,750	2.3%	5,600,661	4.9%	12,150,826	3.7%	9,208,523	11.4%	373,285	0.2%	11,533,511	4.7%	246,457,446
2013	42.8%	110,468,194	0.8%	1,988,610	0.8%	68,957,128	2.2%	5,676,043	12.6%	32,555,228	2.2%	5,635,153	7.9%	20,364,185	0.3%	831,935	10.5%	2,052,613	0.8%	9,579,321	3.7%	258,108,410
2014	41.5%	118,695,153	1.2%	4,029,022	1.4%	73,100,086	2.1%	6,125,420	11.4%	32,578,837	2.1%	5,700,591	10.5%	30,149,861	1.7%	4,923,583	10.1%	969,474	0.3%	9,622,670	3.4%	285,894,697
2015	40.8%	113,859,511	1.2%	3,435,641	1.2%	77,120,505	2.3%	6,392,763	12.2%	34,100,580	1.8%	5,735,466	14.4%	28,307,625	-0.9%	(2,593,627)	10.1%	-	0.0%	10,834,613	3.9%	278,911,003
2016	33.7%	107,319,708	1.6%	5,137,718	1.6%	87,184,856	2.1%	6,648,809	11.6%	36,876,790	1.8%	5,784,242	14.4%	45,715,784	1.6%	5,056,957	14.4%	-	0.0%	18,313,734	5.8%	318,038,598
2017	35.4%	115,796,435	1.5%	5,074,502	1.5%	92,536,116	2.4%	7,792,169	11.8%	38,578,024	1.8%	5,831,357	12.4%	40,565,197	1.5%	4,802,069	12.4%	-	0.0%	16,439,820	5.0%	327,415,689



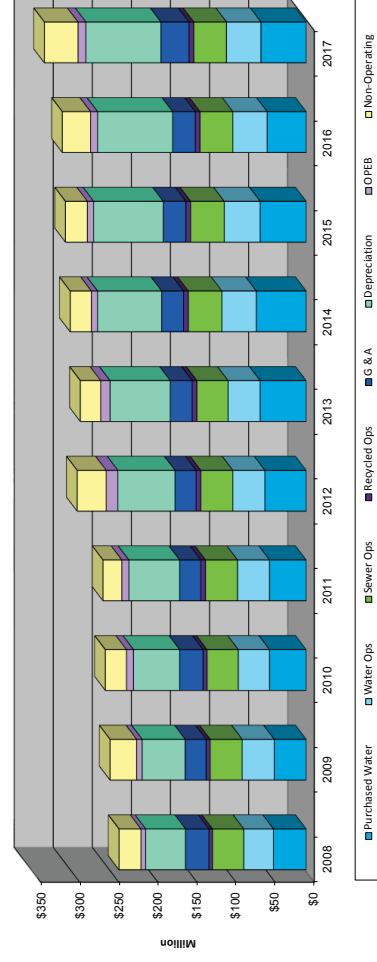
Notes:

¹ Operating and capital grants are reported in grants revenue for fiscal years 2008 and 2009. Beginning in fiscal year 2010, capital grants are reported in capital contributions on the Statement of Revenue & Expenditures.

STATISTICAL SECTION

EASTERN MUNICIPAL WATER DISTRICT EXPENSES BY FUNCTION LAST TEN FISCAL YEARS

Fiscal Year	Purchased Water		Water Operations		Sewer Operations		Recycled Water Operations		General & Admin ¹		Depr. & Amort		Net OPEB ²		Total Non-Operating Expenses ³		Total Expenses	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
2008	41,653,430	17.3%	38,447,533	16.0%	39,976,740	16.6%	5,071,116	2.1%	30,138,792	12.5%	51,030,538	21.3%	6,218,949	2.6%	28,020,506	11.6%	240,557,604	
2009	41,318,803	16.4%	40,834,689	16.3%	41,160,507	16.4%	4,749,447	1.9%	27,471,196	10.9%	54,545,053	21.7%	7,065,471	2.8%	34,077,953	13.6%	251,223,119	
2010	46,936,179	18.2%	39,967,447	15.5%	39,657,747	15.4%	5,466,039	2.1%	30,256,670	11.7%	59,347,777	23.0%	9,131,657	3.5%	27,061,214	10.5%	257,824,730	
2011	46,489,850	17.9%	41,364,910	15.9%	41,247,883	15.9%	6,103,502	2.3%	26,707,578	10.3%	65,354,991	25.1%	9,180,682	3.5%	23,720,625	9.1%	260,170,021	
2012	52,697,993	18.0%	40,789,231	13.9%	41,308,806	14.1%	5,748,205	2.0%	27,112,598	9.3%	73,369,622	25.0%	15,286,000	5.2%	36,751,795	12.5%	293,064,250	
2013	58,445,847	20.3%	40,994,915	14.2%	40,279,734	14.0%	5,992,260	2.1%	28,392,519	9.8%	77,162,281	26.7%	11,852,000	4.1%	25,490,370	8.8%	288,609,926	
2014	63,850,688	21.1%	44,193,507	14.6%	42,710,741	14.1%	5,992,372	2.0%	28,352,049	9.4%	82,037,529	27.2%	8,358,000	2.8%	26,563,390	8.8%	302,058,276	
2015	59,040,009	19.2%	45,691,510	14.8%	42,743,947	13.9%	6,101,759	2.0%	28,677,026	9.3%	88,830,791	28.9%	8,568,000	2.8%	28,110,148	9.1%	307,763,190	
2016	50,334,462	16.1%	43,582,087	13.9%	42,095,206	13.5%	6,287,916	2.0%	29,687,364	9.5%	95,302,858	30.5%	9,478,577	3.0%	36,071,890	11.5%	312,840,360	
2017	57,512,425	17.1%	44,089,564	13.1%	42,232,322	12.5%	6,064,944	1.8%	36,283,686	10.8%	95,968,255	28.5%	9,732,444	2.9%	44,909,099	13.3%	336,792,739	



Notes:
¹The increase in fiscal year 2017 includes a \$4.6 million increase in unallocated pension expense.

STATISTICAL SECTION

EASTERN MUNICIPAL WATER DISTRICT WATER PRODUCED AND CONSUMED AND WASTEWATER TREATED LAST TEN FISCAL YEARS

Fiscal Year	Gallons Produced ¹			Water			Gallons Consumed			Unbilled		Gallons of Wastewater Treated	Total Direct Rate		
	Purchased	Wells	Desalters	Total	Domestic	Ag & Irrig	Total	Total	Avg %	Base Rate ^{2,5}	Usage Rate ^{3,5}		Sewer ⁴		
2008	28,254	6,591	982	35,827	32,284	1,537	33,821	2,006	5.6%	10.04	36.38	20.58			
2009	25,390	6,332	1,455	33,177	30,721	1,225	31,946	1,231	3.7%	10.52	41.52	21.88			
2010	23,042	5,555	1,816	30,413	27,001	1,116	28,117	2,296	7.5%	10.52	46.32	22.73			
2011	21,611	5,220	1,943	28,774	25,958	857	26,815	1,959	6.8%	10.52	48.26	22.90			
2012	22,365	5,244	1,783	29,392	27,154	690	27,844	1,548	5.3%	10.52	47.50	23.96			
2013	23,709	5,683	1,909	31,301	28,078	860	28,938	2,363	7.6%	10.52	49.92	24.72			
2014	25,057	6,192	1,820	33,069	28,982	1,820	30,802	2,267	6.9%	10.77	52.50	25.90			
2015	22,246	3,789	2,427	28,462	26,040	1,449	27,489	971	3.4%	11.16	53.76	27.01			
2016	19,016	4,820	2,285	26,121	21,608	2,086	23,695	2,426	9.3%	11.59	57.56	30.12			
2017	21,366	5,125	2,194	28,685	23,618	1,951	25,569	3,117	10.9%	11.83	56.70	31.47			

Notes:

The Information reported above does not include recycled water.

- Gallons are presented in millions.
- Rate shown is based on the daily fixed charge for meters up to and including 1”.
- Rate shown is an average rate for 20 billing units. A billing unit is 100 cubic feet of water or 748 gallons.
- Rate shown is an average rate for one month of service. In February 2013, a new block rate sewer methodology was implemented to compliment the domestic retail water rate structure. This methodology uses the number of household occupants to better align charges with wastewater system costs based upon flow levels.
- In January 2009, the District revised the daily fixed charge meter factors for all domestic retail customers. In April 2009, the District implemented a budget-based tiered rate structure for single-family and multi-family residential and landscape domestic usage.

STATISTICAL SECTION

EASTERN MUNICIPAL WATER DISTRICT WATER AND SEWER RATES LAST TEN FISCAL YEARS

Fiscal Year	2008	2009 ³	2010	2011	2012	2013	2014	2015	2016	2017
Water Rates										
Monthly base rate (meter size)										
<=1"	\$ 10.04	\$ 10.52	\$ 10.52	\$ 10.52	\$ 10.55	\$ 10.52	\$ 10.77	\$ 11.16	\$ 11.62	\$ 11.83
1 1/2"	15.06	27.68	27.68	27.68	27.76	27.68	28.29	29.50	30.50	31.03
2"	20.08	51.40	51.40	51.40	51.55	51.40	52.62	54.45	56.73	57.79
3"	40.15	171.25	171.25	171.25	171.72	171.25	175.20	181.59	189.10	192.54
4"	50.19	270.40	270.40	270.40	271.15	270.40	276.49	286.83	298.60	303.86
6"	70.26	505.53	505.53	505.53	506.91	505.53	517.08	536.25	558.15	568.18
8"	80.30	633.28	633.28	633.28	635.01	633.28	647.88	671.60	699.06	712.05
Usage rate (per billing unit)¹	\$ 36.38	\$ 41.52	\$ 46.32	\$ 48.26	\$ 47.50	\$ 49.92	\$ 52.50	\$ 53.76	\$ 57.56	\$ 56.70
Sewer Rates (avg per month)²	\$ 20.58	\$ 21.88	\$ 22.73	\$ 22.90	\$ 23.96	\$ 24.72	\$ 25.90	\$ 27.01	\$ 30.12	\$ 31.47

Notes:

The Information reported above does not include recycled water.

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

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

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

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

STATISTICAL SECTION

EASTERN MUNICIPAL WATER DISTRICT CUSTOMERS BY WATER SERVICE TYPE LAST TEN FISCAL YEARS

← Treated and Untreated Water →

Fiscal Year	Treated and Untreated Water										Total
	Residential	Commercial	Industrial	Public Agency	Construction & Temporary	Irrigation	Agricultural	Total	Recycled	Total	
2008	128,184	3,103	135	614	737	2,146	603	135,522	230	135,752	
2009	129,242	3,282	137	608	557	2,236	627	136,689	260	136,949	
2010	133,320	3,276	140	597	373	2,260	649	140,615	266	140,881	
2011 ¹	131,308	3,240	142	596	327	2,285	670	138,568	265	138,833	
2012	132,080	3,272	144	625	353	2,310	694	139,478	283	139,761	
2013	133,279	3,308	142	646	373	2,344	692	140,784	297	141,081	
2014	134,656	3,347	136	679	426	2412	721	142,377	316	142,693	
2015	136,425	3,410	138	665	412	2,446	759	144,255	356	144,611	
2016	138,247	3,472	137	663	432	2,484	790	146,225	379	146,604	
2017	140,332	3,573	136	645	449	2,526	812	148,473	420	148,893	

Treated and Untreated Water Service Type by Customer Category Fiscal Year 2017

	Residential			Commercial		Industrial		Public Agency		Construction & Temporary		Irrigation		Agricultural		Total
	Domestic	Agricultural	Wholesale	Residential	Commercial	Industrial	Public Agency	Construction & Temporary	Irrigation	Agricultural	Total					
	140,332	-	-	3,571	136	614	449	2,523	696	148,321						
	-	2	-	4	-	3	116	125	27	27						
Total	140,332	-	-	3,573	136	645	449	2,526	812	148,473						

Note:

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

STATISTICAL SECTION

EASTERN MUNICIPAL WATER DISTRICT LARGEST DOMESTIC WATER CUSTOMERS AS OF JUNE 30, 2017

<u>Customer Name</u>	<u>Annual Water Sales in Acre Feet</u>	<u>Annual Revenues</u>	<u>Percentage</u>
1 Western Municipal Water District ^{1,2}	1,619	\$ 2,000,233	18.2%
2 City of Perris ¹	1,603	1,981,658	18.1%
3 Moreno Valley Unified School District	957	1,254,360	11.4%
4 City of Moreno Valley	749	1,143,781	10.4%
5 Valley-Wide Recreation Park	695	1,073,558	9.8%
6 Val Verde Unified School District	567	801,867	7.3%
7 County of Riverside	557	774,543	7.1%
8 Stonegate at Towngate	515	670,723	6.1%
9 City of Murrieta	422	659,265	6.0%
10 Country Meadows II Assoc.	372	603,544	5.5%
Total	8,056	\$ 10,963,532	
Total domestic water sales	72,480	\$ 115,796,435	
Percentage of total	11.1%	9.5%	

Notes:

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

1. Wholesale customer.

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

Source: Eastern Municipal Water District

STATISTICAL SECTION

EASTERN MUNICIPAL WATER DISTRICT LARGEST AGRICULTURAL & IRRIGATION WATER CUSTOMERS AS OF JUNE 30, 2017

<u>Customer Name</u>	<u>Annual Water Sales in Acre Feet</u>	<u>Annual Revenues</u>	<u>Percentage</u>
1 Metropolitan Water District	195	\$ 252,714	22.9%
2 C & R Farms	406	251,316	22.8%
3 Kevin and Pauline Doan	151	192,726	17.5%
4 HP Mobile Estates	60	76,171	6.9%
5 Expressway Dairy	104	73,528	6.7%
6 New Lakeview Farms LLC	46	58,917	5.3%
7 Pastime Lakes Dairy	82	57,800	5.2%
8 Essie Bootsma	89	52,558	4.8%
9 Demler Egg Ranch	67	44,966	4.1%
10 Brothers Nursery	35	41,008	3.7%
Total	<u>1,235</u>	<u>\$ 1,101,704</u>	
Total ag. & irrigation water sales	5,987	\$ 5,074,502	
Percentage of total	20.6%	21.7%	

Notes:

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

Source: Eastern Municipal Water District

STATISTICAL SECTION

EASTERN MUNICIPAL WATER DISTRICT LARGEST RECYCLED WATER CUSTOMERS AS OF JUNE 30, 2017

<u>Customer Name</u>	<u>Annual Water Sales in Acre Feet</u>	<u>Annual Revenues</u>	<u>Percentage</u>
1 Valley Wide Recreation Park	663	\$ 298,126	13.6%
2 Rancho Casa Loma	3,902	289,094	13.2%
3 Agri Empire	2,321	266,308	12.2%
4 A G Sod Farms	1,997	223,003	10.2%
5 America Greenworld Inc	632	214,005	9.8%
6 Dept of Fish and Wildlife	3,727	189,363	8.7%
7 Hemet Golf Club Landmark	368	183,977	8.4%
8 The Golf Club at Rancho California	430	181,545	8.3%
9 Marvo Holstein	1,758	181,494	8.3%
10 Don Bean Farms	1,377	159,620	7.3%
Total	<u>17,175</u>	<u>\$ 2,186,535</u>	
Total recycled water sales	29,872	\$ 7,792,169	
Percentage of total	57.5%	28.1%	

Notes:

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

Source: Eastern Municipal Water District

STATISTICAL SECTION

EASTERN MUNICIPAL WATER DISTRICT LARGEST SEWER CUSTOMERS AS OF JUNE 30, 2017

<u>Customer Name</u>	<u>Annual Revenues</u>	<u>Percentage</u>
1 Pechanga Resort and Casino	\$ 799,111	29.8%
2 New Highland Meadows	560,551	20.9%
4 Murrieta Valley Unified School District	214,901	8.0%
5 Moreno Valley Unified School District	177,662	6.6%
6 Hemet Unified School District	163,162	6.1%
7 Iris Landing HOA	162,700	6.1%
8 Waterstone at Murrieta Apartments	160,471	6.0%
9 Casabella Owner's Association	155,038	5.8%
10 Westwind Enterprises	154,551	5.8%
3 Stonegate at Towngate	135,576	5.1%
Total	\$ 2,683,722	
Total sewer revenue	\$ 92,536,116	
Percentage of total revenue	2.9%	

Source: Eastern Municipal Water District

STATISTICAL SECTION

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

Rates Effective Beginning January	Full Service Domestic		Interim Agricultural Program ¹		Long Term Seasonal Storage		
	Treated	Untreated	Treated	Untreated	Treated	Untreated	
2008	Tier 1	508	351	394	261	390	258
	Tier 2	606	449	n/a	n/a	n/a	n/a
2009	Tier 1	579	412	465	322	436	294
	Tier 2	695	528	n/a	n/a	n/a	n/a
2010	Tier 1	701	484	615	416	558	366
	Tier 2	811	594	n/a	n/a	n/a	n/a
2011	Tier 1	744	527	687	482	601	409
	Tier 2	869	652	n/a	n/a	n/a	n/a
2012	Tier 1	794	560	765	537	651	442
	Tier 2	920	686	n/a	n/a	n/a	n/a
2013	Tier 1	847	593	n/a	n/a	n/a *	n/a *
	Tier 2	997	743	n/a	n/a	n/a	n/a
2014	Tier 1	890	593	n/a	n/a	n/a *	n/a *
	Tier 2	1,032	735	n/a	n/a	n/a	n/a
2015	Tier 1	923	582	n/a	n/a	n/a *	n/a *
	Tier 2	1,055	714	n/a	n/a	n/a	n/a
2016	Tier 1	942	594	n/a	n/a	n/a *	n/a *
	Tier 2	1,076	728	n/a	n/a	n/a	n/a
2017	Tier 1	979	666	n/a	n/a	n/a *	n/a *
	Tier 2	1,073	760	n/a	n/a	n/a	n/a

Notes:

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

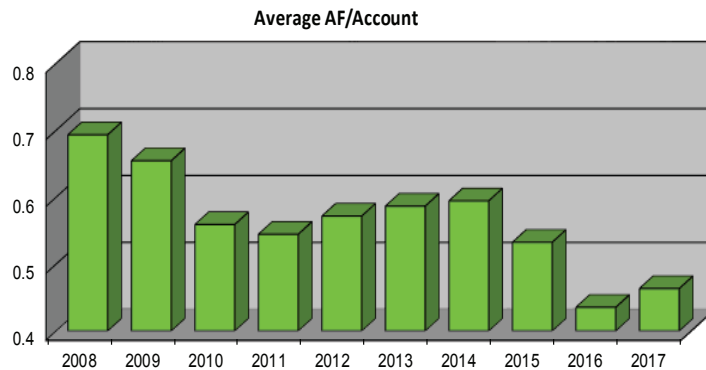
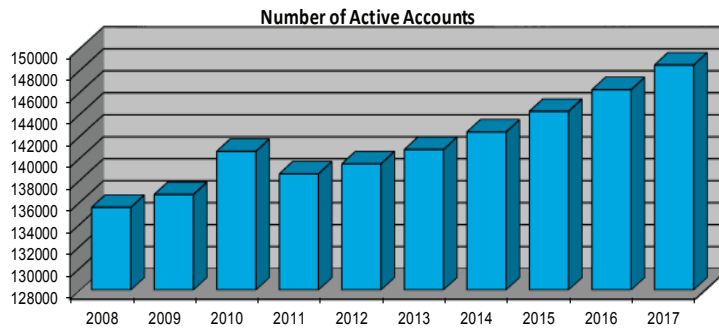
* MWD is continuing discussions with member agencies on the replenishment program.

Source: Metropolitan Water District of Southern California (MWD)

STATISTICAL SECTION

EASTERN MUNICIPAL WATER DISTRICT ANNUAL DOMESTIC CONSUMPTION (AF) LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Usage (AF)</u>	<u>Active Accounts</u>	<u>Average AF per Account</u>
2008	93,956	135,522	0.69
2009	89,448	136,689	0.65
2010	78,621	140,615	0.56
2011	75,461	138,568	0.54
2012	79,752	139,478	0.57
2013	82,591	140,784	0.59
2014	84,650	142,377	0.59
2015	76,832	144,255	0.53
2016	63,673	146,225	0.44
2017	68,813	148,473	0.46



Notes:

Amounts exclude wholesale accounts.

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

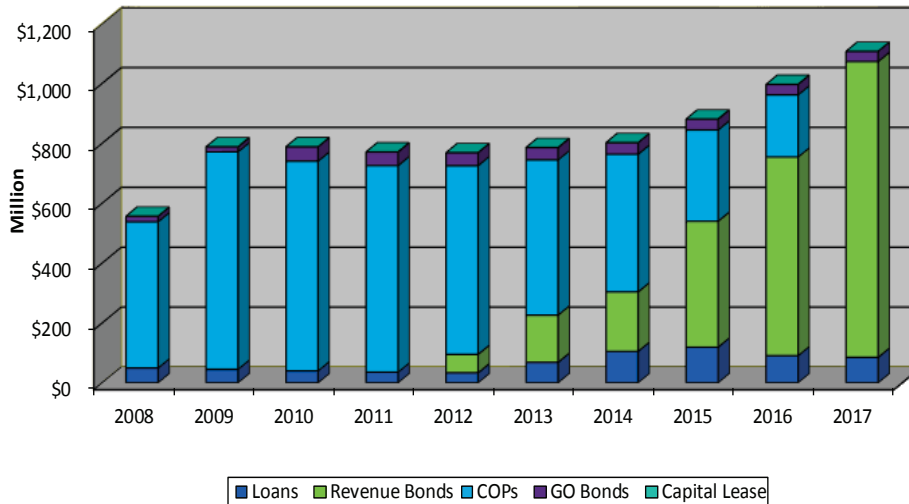
The decrease in average AF per account for beginning 2008 is mainly due to lower usage relating to conservation efforts and cooler weather patterns.

STATISTICAL SECTION

EASTERN MUNICIPAL WATER DISTRICT RATIO OF OUTSTANDING DEBT BY TYPE LAST TEN FISCAL YEARS

*See Debt Footnotes for dollar amounts

Fiscal Year	Loans	Revenue Bonds ¹	Certificates of Participation ¹	General Obligation Bonds	Capital Lease	Total	Percentage of Personal Income ²	Debt per Capita ³
2008	49,630,496	-	488,460,000	18,140,000	-	556,230,496	0.91%	777
2009	45,407,198	-	726,270,000	16,260,000	-	787,937,198	1.23%	1,086
2010	40,279,228	-	700,311,094	47,672,284	-	788,262,606	1.21%	1,068
2011	35,818,082	-	689,723,765	45,481,394	-	771,023,241	1.22%	1,014
2012	33,651,101	61,452,320	630,227,034	43,145,504	-	768,475,959	1.18%	1,000
2013	68,749,388	157,648,717	518,338,874	40,949,446	-	785,686,425	1.13%	1,011
2014	105,195,668	198,525,127	459,710,090	38,446,800	55,072	801,932,757	1.11%	1,022
2015	119,352,359	420,407,712	305,016,307	35,896,296	41,574	880,714,248	1.15%	1,108
2016	90,787,233	663,582,542	207,389,271	34,920,903	23,752	996,703,701	1.27%	1,240
2017	85,227,888	987,759,455	-	33,905,509	12,782	1,106,905,634	1.32%	1,356



Notes:

Details regarding the District's outstanding debt can be found in Note 4 to the Basic Financial Statements.

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

¹ In fiscal year 2017, the District issued six refunding revenue bonds to redeem all outstanding certificates of participation and five refunding revenue bonds. A new series revenue bond was issued to finance the construction of water and sewer capital improvements.

² Based upon Riverside County personal income amounts. The District is located in the County of Riverside.

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

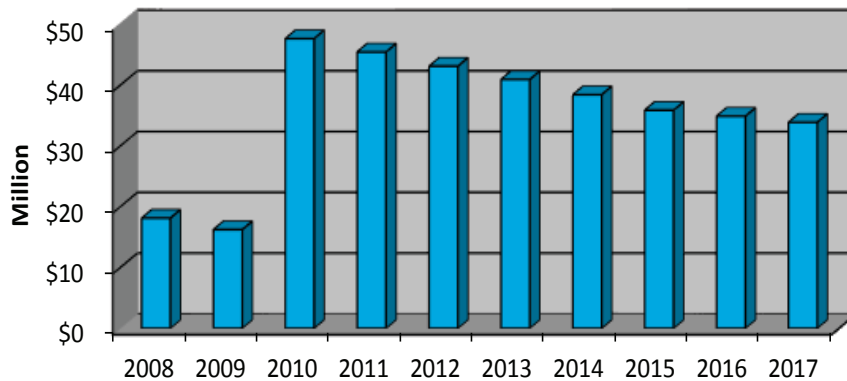
³ Based upon approximate population of District service area. See the Demographic and Economic Statistics schedule for amounts.

STATISTICAL SECTION

EASTERN MUNICIPAL WATER DISTRICT RATIO OF GENERAL BONDED DEBT OUTSTANDING LAST TEN FISCAL YEARS

Fiscal Year	General Obligation Bonds ¹	Assessed Value ²	Percentage of Assessed Value	Debt per Capita ³
2008	18,140,000	68,127,605,656	0.03%	25
2009	16,260,000	67,617,348,347	0.02%	22
2010	47,672,284	56,743,387,948	0.08%	65
2011	45,481,394	54,294,174,863	0.08%	60
2012	43,145,504	53,890,135,705	0.08%	56
2013	40,949,446	53,506,155,585	0.08%	53
2014	38,446,800	55,926,804,094	0.07%	49
2015	35,896,296	61,313,471,497	0.06%	45
2016	34,920,903	66,226,873,815	0.05%	43
2017	33,905,509	70,005,613,492	0.05%	42

Total Bonds Outstanding



Notes:

Details regarding the District's outstanding debt can be found in Note 4 to the Basic Financial Statements.

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

¹ Beginning 2010, amounts shown include net bond premium/discount.

² Bonds are issued by improvement district, but the amounts shown are for the District's entire service area. Beginning 2016, included District No. 04-5408: EMWD Detachment#2 in the assessed value.

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

STATISTICAL SECTION

EASTERN MUNICIPAL WATER DISTRICT PARITY DEBT SERVICE COVERAGE FISCAL YEARS 2008 - 2017

	2008	2009 ¹	2010	2011	2012	2013	2014	2015	2016	2017
OPERATING REVENUES:										
Water sales	\$ 94,135,642	\$ 103,013,429	\$ 102,747,031	\$ 102,479,984	\$ 104,741,242	\$ 110,468,195	\$ 122,724,175	\$ 117,295,152	\$ 112,457,426	\$ 120,870,937
Sewer service sales	54,408,172	58,889,788	61,885,298	62,840,013	65,983,462	70,945,738	73,100,086	77,120,505	87,184,856	92,536,116
Recycled water	2,564,656	3,722,130	4,052,665	4,504,923	5,135,186	5,676,043	6,125,420	6,392,763	6,648,809	7,792,169
Total operating revenues	151,108,470	165,625,347	168,684,994	169,824,920	175,859,890	187,089,976	201,949,681	200,808,420	206,291,091	221,199,222
OPERATING EXPENSES:										
Water purchases	41,653,430	41,318,803	46,936,179	46,489,850	52,697,993	58,445,847	63,850,688	59,040,009	50,334,462	57,512,425
Water operations	38,447,533	40,834,689	39,967,447	41,364,910	40,789,231	40,994,915	44,193,507	45,691,510	43,582,087	44,089,564
Sewer operations	45,047,856	45,909,954	45,123,786	47,351,385	47,057,011	46,271,994	48,703,113	48,845,706	48,383,122	48,297,266
Other Post Employment Benefits (OPEB) Contribution ²	-	-	-	-	2,620,589	5,740,000	6,123,000	8,568,000	9,478,577	9,732,444
General & administrative	30,138,792	27,471,196	30,256,670	26,707,578	27,112,598	28,392,519	28,352,049	28,677,026	29,687,364	36,283,686
Total operating expenses	155,287,611	155,534,642	162,284,082	161,913,723	170,277,422	179,845,275	191,222,357	190,822,251	181,465,612	195,915,385
OPERATING INCOME (LOSS)	(4,179,141)	10,090,705	6,400,912	7,911,197	5,582,468	7,244,701	10,727,324	9,986,169	24,825,479	25,283,837
NON-OPERATING REVENUES:										
Property taxes - general purpose	34,528,767	33,149,232	29,474,227	25,884,964	26,574,300	27,243,491	28,061,489	30,843,713	32,271,305	33,971,127
Standby charges	4,868,154	5,015,076	5,246,008	5,569,818	5,600,661	5,635,153	5,700,591	5,735,466	5,784,242	5,831,357
Water and sewer connection fees	30,706,687	17,789,045	13,010,929	10,815,294	12,150,826	20,364,185	30,149,861	28,307,625	45,715,784	40,565,197
Interest income ³	20,128,848	18,706,820	16,681,744	7,664,191	7,431,966	4,485,217	3,133,313	3,092,643	3,405,039	4,733,897
Grant revenues	11,261,996	6,466,818	6,063,577	16,137,906	22,926,555	12,503,511	5,214,780	3,830,382	2,823,624	6,164,479
Other income/(expense)	8,812,367	1,767,759	487,672	1,727,067	(4,563,952)	2,967,319	947,126	829,006	2,859,968	(3,494,598)
Total non-operating revenues	110,306,819	82,894,750	70,964,157	67,799,240	70,120,356	73,198,876	73,207,160	72,638,836	92,859,962	87,771,459
Net Water and Sewer Revenues for Debt Coverage	106,127,678	92,985,455	77,365,069	75,710,437	75,702,824	80,443,577	83,934,484	82,625,004	117,685,441	113,055,296
PARITY OBLIGATION DEBT SERVICE:										
Parity Obligation Payments (COP/Bonds)	28,708,962	34,779,234	32,958,765	32,731,966	37,044,680	35,061,971	35,521,108	26,604,369	22,545,830	15,651,578
State Loan Payments	-	5,074,279	5,800,750	5,703,603	4,115,116	4,322,228	4,013,353	5,877,892	-	-
Total Parity Obligation Debt Service	28,708,962	39,853,513	38,759,515	38,435,569	41,159,796	39,384,199	39,534,461	32,482,262	22,545,830	15,651,578
PARITY OBLIGATION DEBT SERVICE COVERAGE	3.7	2.3	2.0	2.0	1.8	2.0	2.1	2.5	5.2	7.2
REVENUES AVAILABLE FOR SUBORDINATE OBLIGATIONS	77,418,716	53,131,942	38,605,554	37,274,868	34,543,028	41,059,379	44,400,023	50,142,743	95,139,611	97,403,718
SUBORDINATE OBLIGATION DEBT SERVICE	-	-	-	-	-	-	-	2,917,542	20,192,253	28,935,832
SUBORDINATE OBLIGATION DEBT SERVICE COVERAGE	NA	NA	NA	NA	NA	NA	NA	17.2	4.7	3.4
REMAINING REVENUES	77,418,716	53,131,942	38,605,554	37,274,868	34,543,028	41,059,379	44,400,023	47,225,200	74,947,358	68,467,886
TOTAL DEBT SERVICE	28,708,962	39,853,513	38,759,515	38,435,569	41,159,796	39,384,199	39,534,461	35,399,804	42,738,083	44,587,410
ALL-IN DEBT SERVICE COVERAGE	3.7	2.3	2.0	2.0	1.8	2.0	2.1	2.3	2.8	2.5

Source: Eastern Municipal Water District

Notes:

1. 2009 amounts were restated for net internal service funds included in other non-operating income rather than general and administrative expense.
2. Beginning FY 2012, OPEB contribution expense was separated from Water and Sewer operating expense.
3. Beginning FY 2012, excludes change in fair market value of investments (unrealized gain/loss) as these are non-cash items.

STATISTICAL SECTION

EASTERN MUNICIPAL WATER DISTRICT DEMOGRAPHIC AND ECONOMIC STATISTICS LAST TEN CALENDAR YEARS

<u>Calendar Year</u>	<u>Population¹</u>	<u>Personal Income² (thousands of \$)</u>	<u>Per Capita Personal Income²</u>	<u>Unemployment Rate²</u>
2007	715,664	63,538,333	31,574	6.0%
2008	725,610	66,347,611	31,972	8.5%
2009	737,868	67,367,683	31,932	13.4%
2010	760,128	65,359,484	30,446	14.7%
2011	768,264	66,904,690	30,380	13.6%
2012	776,986	71,213,948	31,828	12.2%
2013	784,834	73,158,724	32,263	10.3%
2014	794,790	75,223,346	32,765	8.2%
2015	803,973	78,852,989	33,867	6.7%
2016	816,411	84,025,987	35,589	6.1%

Notes:

¹ Data is for the District's service area. Amounts for prior years are restated with the most recent available information.

² Data is for the County of Riverside. The District is located within the County. Amounts for prior years are restated for most recent available information.

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

STATISTICAL SECTION

EASTERN MUNICIPAL WATER DISTRICT PRINCIPAL EMPLOYERS FISCAL YEAR ENDED JUNE 30, 2017

<u>Employer</u>	<u>No. of Employees</u>	<u>Percentage of Total Employment</u>
County of Riverside	22,538	2.3%
University of California, Riverside	8,686	0.9%
March Air Reserve Base	8,500	0.9%
Amazon	7,500	0.8%
Kaiser Permanente Riverside Medical Ctr	5,739	0.6%
Corona-Norco Unified School District	5,399	0.5%
Riverside Unified School District	4,236	0.4%
Pechanga Resort & Casino	4,000	0.4%
Riverside University Health System	3,876	0.4%
Eisenhower Medical Center	3,665	0.4%
Total	<u>74,139</u>	7.6%
Total Employment	<u>983,800</u>	

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

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

STATISTICAL SECTION

EASTERN MUNICIPAL WATER DISTRICT EMPLOYEES BY FUNCTION LAST TEN FISCAL YEARS

	2008	2009	2010	2011	2012	2013 ⁴	2014	2015 ⁵	2016	2017
<u>Operations and Maintenance Division</u>										
Water Operations and Distribution	66	63	63	64	64	65	66	61	65	65
Water Reclamation	82	82	87	90	90	86	87	88	87	85
Assets & Facility Management (formerly Maintenance Services)	20	22	17	17	17	15	15	22	19	19
Auto Shop and Fabrication Shop (reassigned)	14	13	14	16	15	16	15	-	-	-
Wastewater Collection	15	14	15	15	13	14	14	15	14	14
Mechanical Services (includes Fab Shop)	27	27	30	30	30	28	29	31	31	31
Electrical Services	21	22	21	22	23	24	24	23	24	22
Pipeline Maintenance (formerly included Building & Grounds)	37	37	35	37	34	34	34	22	22	22
Total Operations & Maintenance Division	282	280	282	291	286	282	284	262	262	258
<u>Engineering Division</u>										
General Engineering ^{1,6}	56	57	55	53	52	43	44	46	42	45
Construction Management and Inspections	39	40	38	39	39	35	33	29	32	30
New Business Development ¹	28	25	25	26	20	17	18	19	21	21
Total Engineering Division	123	122	118	118	111	95	95	94	95	96
<u>Planning and Resources Division</u>										
Planning and Resources ²	17	19	19	19	20	20	19	20	24	24
Environmental and Regulatory Compliance	7	8	8	9	9	9	10	11	12	12
Water Quality and Laboratory	15	15	14	15	15	14	14	12	12	12
Source Control	10	10	8	9	9	9	10	10	10	11
Total Planning and Resources Division	49	52	49	52	53	52	53	53	58	59
<u>Executive and Administration</u>										
Executive and Administration ⁶	10	10	10	10	11	12	12	13	15	16
Public and Governmental Affairs ³	3	2	3	3	11	11	11	12	12	12
Human Resources (formerly included Risk Management)	13	13	13	13	13	11	12	8	6	7
Safety/Risk and Emergency Management	-	-	-	-	-	-	-	4	5	5
Billing/Customer Service	49	49	60	62	58	55	53	56	56	54
Meter Services	25	25	24	24	24	21	19	16	14	13
Finance and Accounting	20	21	21	22	26	22	22	22	22	22
Information Systems	33	33	34	33	34	33	31	30	27	23
Purchasing, Warehouse and Records Management	28	29	26	27	30	28	27	28	28	25
Fleet Services (formerly Auto Shop)	-	-	-	-	-	-	-	11	11	11
Community Involvement ³	9	9	9	8	-	-	-	-	-	-
Total Executive and Administration	190	191	200	202	207	193	187	200	196	188
Total Filled Positions End of Year	644	645	649	663	657	622	619	609	611	601
Total Authorized Positions Start of Year	670	667	676	690	667	636	633	629	631	629
Change in Authorized Positions from Prior Year	Not Available	(3)	9	14	(23)	(31)	(3)	(4)	2	(2)
Number of Vacant Positions as of June 30	26	22	27	27	10	13	10	20	20	28
Vacancy Rate as of June 30	3.9%	3.3%	4.0%	3.9%	1.5%	2.0%	1.6%	3.2%	3.2%	4.5%

Notes:

All directors and managers are included with their divisions.

Temporary, contract and summer help employees are not included.

1. The General Engineering departments were reorganized in 2012.

2. The Planning and Resources workgroup was reorganized in 2016.

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

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

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

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

STATISTICAL SECTION

EASTERN MUNICIPAL WATER DISTRICT OPERATING AND CAPITAL INDICATORS LAST TEN FISCAL YEARS

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
POTABLE WATER SYSTEM										
Miles of pipeline:										
transmission and distribution: ¹	2,437	2,444	2,421	2,428	2,430	2,443	2,448	2,463	2,465	2,380
as-built	2,038	2,157	2,260	2,280	2,296	2,366	2,376	2,391	2,399	2,314
construction in progress	399	287	161	148	134	77	72	72	66	66
Number of storage tanks ²	78	77	77	77	77	77	77	77	78	79
Maximum storage capacity (million gallons)	193	193	193	191	191	191	191	191	199	203
Number of active pumping plants	81	84	84	83	83	83	83	83	83	84
Number of active wells:										
domestic	18	18	18	21	21	18	18	18	16	16
desalter ⁶	5	5	7	7	8	7	11	11	12	12
Domestic well production capacity:										
gallons per minute	21,597	21,806	20,361	22,326	22,285	23,292	23,382	19,299	19,604	14,708
million gallons per day	31.1	31.4	29.3	32.1	32.1	33.5	33.7	27.8	28.2	21.2
acre feet per year	0	0	0	0	0	0	0	31,129	31,622	23,725
Number of water treatment plants:										
desalter	2	2	2	2	2	2	2	2	2	2
filtration	2	2	2	2	2	2	2	2	2	2
Treatment plant capacity: (million gallons per day)										
desalter plants	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
filtration plants	32.0	32.0	32.0	32.0	32.0	36.0	36.0	36.0	36.0	36.0
Number of service connections: ⁷										
active domestic accounts	129,344	131,392	133,810	135,233	136,478	140,653	142,244	144,123	146,098	148,348
active agriculture accounts	140	143	146	124	122	131	133	132	127	125
SEWER SYSTEM										
Miles of sewer lines: ^{1,3}										
as-built	1,721	1,729	1,727	1,736	1,756	1,780	1,799	1,813	1,816	1,790
construction in progress	1,407	1,539	1,607	1,626	1,639	1,725	1,735	1,749	1,772	1,741
Number of treatment plants	5	5	5	5	5	5	5	5	5	5
Treatment plant average design capacity (MGD) ⁴	56	60	60	60	60	68	68	70	70	69
Average million gallons per day treated	46.2	45.2	45.0	46.0	45.0	44.8	44.9	44.8	42.4	43.3
Percentage of capacity utilized	82%	75%	75%	77%	75%	66%	66%	64%	61%	63%
Number of active lift stations	46	46	46	46	47	48	48	47	46	46
RECYCLED WATER SYSTEM										
Miles of pipeline:										
transmission and distribution: ¹	201	202	199	202	206	213	215	217	217	207
as-built	165	172	178	179	186	196	198	200	208	197
construction in progress	36	30	21	23	20	17	17	17	9	10
Number of active pumping facilities ⁸	17	19	20	20	20	21	24	24	24	24
Maximum storage capacity (acre feet) ⁵	6,764	5,776	5,714	5,714	5,721	5,736	6,184	6,448	6,448	7,571
GENERAL INFORMATION										
Service area (annexed property):										
acres	346,449	346,691	346,732	346,732	346,732	346,745	346,745	346,745	346,808	346,808
square miles	541.3	541.7	541.8	541.8	541.8	541.8	541.8	541.8	541.9	541.9
Gross service area (square miles)	555	555	555	555	555	555	555	555	555	555
Average years of service of employees	10.05	10.20	10.47	10.84	11.39	11.31	12.11	12.50	12.25	11.90

- Notes:
1. Miles of pipelines as-built excludes open construction in progress (CIP). CIP reflects what was recorded as open projects as of the year end date.
 2. Potable water storage tanks and capacity decreased in 2008 and 2009 due to conversion to recycled water.
 3. Miles of sewer lines decreased in 2008 because the District transferred sewer lines to the City of San Jacinto. Decrease is reflected in each as0built amount.
 4. The Sun City RWRf (3 MGD) was formerly included in the total capacity although it was decommissioned. Amounts are now reflected as average design capacity. The Perris RWRf expansion is 25 MGD was completed in 2014.
 5. Recycled storage decreased in 2009 due to a change in the reporting method to show only tertiary-treated water dedicated to distribution. Prior years included capacity for secondary-treated storage. Decrease in 2010 relates to lower capacity for Winchester ponds due to operational assessments. Increase in 2014 storage is due to more accurate measurements from recent surveys, plus a conversion of some secondary storage to tertiary storage.
 6. Desalter wells formerly inactive were placed back into service during 2014.
 7. Starting 2013, the number of customer connections billed within the year was used instead of the number of customers as of June 30th.

Source: Eastern Municipal Water District

STATISTICAL SECTION

EASTERN MUNICIPAL WATER DISTRICT CUSTOMER ACCOUNT WRITE OFFS AS A PERCENTAGE OF SALES LAST TEN FISCAL YEARS

Fiscal Year	Retail Sales	Write Offs	% of Sales
2008	126,144,814	1,155,769	0.9%
2009	139,863,262	1,386,075	1.0%
2010	142,354,003	1,035,076	0.7%
2011	143,427,078	734,381	0.5%
2012	149,580,286	703,666	0.5%
2013	159,559,632	717,146	0.4%
2014	170,496,733	851,419	0.5%
2015	169,744,235	823,650	0.5%
2016	171,146,902	714,213	0.4%
2017	182,818,310	475,022	0.3%
Total	<u>\$ 1,555,135,255</u>	<u>\$ 8,596,417</u>	<u>0.6%</u>

Note: Excludes sales collected by other agencies.

Source: Eastern Municipal Water District

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

Fiscal Year	Year End A/R Balance	Reserves	% of A/R
2008	9,375,405	690,461	7.4%
2009	10,377,183	838,543	8.1%
2010	9,603,615	678,848	7.1%
2011	11,170,339	610,537	5.5%
2012	13,072,905	676,182	5.2%
2013	14,195,028	842,850	5.9%
2014	13,805,842	850,608	6.2%
2015	9,916,469	609,075	6.1%
2016	10,127,047	324,530	3.2%
2017	11,882,229	215,340	1.8%

Note: Reserves equal accounts over 60 days past due.

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