DUBLIN SAN RAMON SERVICES DISTRICT/
EAST BAY MUNICIPAL UTILITY DISTRICT
RECYCLED WATER AUTHORITY

Basic Financial Statements
For the Years Ended June 30, 2026 and 2025

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DUBLIN SAN RAMON SERVICES DISTRICT/
EAST BAY MUNICIPAL UTILITY DISTRICT
RECYCLED WATER AUTHORITY

Basic Financial Statements
For the Years Ended June 30, 2026 and 2025

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Dublin San Ramon Services District/
East Bay Municipal Utility District Recycled Water Authority
Oakland, California

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Dublin San Ramon Services District/East Bay Municipal Utility District Recycled Water Authority (the "Authority") as of and for the year ended June 30, 2026, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the Table of Contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Authority as of June 30, 2026, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Standards for California Special Districts. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the State Controller's Minimum Audit Standards for California Special Districts, will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the State Controller's Minimum Audit Standards for California Special Districts, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2026, on our consideration of the Authority'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's 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 Authority's internal control over financial reporting and compliance.

Report on Summarized Comparative Information

The financial statements of the Authority as of for the year ended June 30, 2025, were audited by other auditors whose report has been furnished to us, dated November 7, 2025, expressed an unmodified opinion on those statements.



Pleasant Hill, California
September 29, 2026

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DUBLIN SAN RAMON SERVICES DISTRICT/
EAST BAY MUNICIPAL UTILITY DISTRICT
RECYCLED WATER AUTHORITY

Management's Discussion and Analysis
For the Years Ended June 30, 2026 and 2025

This section presents management's analysis of the Dublin San Ramon Services District/East Bay Municipal Utility District Recycled Water Authority (the "Authority") financial condition and activities as of and for the years ended June 30, 2026 and 2025. Management's Discussion and Analysis (MD&A) is intended to serve as an introduction to the Agency's basic financial statements. The MD&A represents management's examination and analysis of the Authority's financial condition and performance.

This information should be read in conjunction with the audited financial statements that follow this section. The information in the MD&A is presented under the following headings:

- Overview of the Basic Financial Statements
- Financial Summary
- Detailed Analyses
- Significant Capital Asset and Long-Term Financing Activity
- Currently Known Facts, Decisions, or Conditions
- Request for Information

Overview of the Basic Financial Statements

The Dublin San Ramon Services District/East Bay Municipal Utility District Recycled Water Authority (the "Authority") is a public entity established pursuant to California Government Code Section 6500 et seq. The Authority was created in accordance with the terms of a Joint Exercise of Powers Agreement, dated June 28, 1995, between Dublin San Ramon Services District (DSRSD) and East Bay Municipal Utility District (EBMUD). The Authority was established to supply recycled water to DSRSD and EBMUD through the construction and operation of a water recycling facility with a planned capacity of a minimum of 5.7 million gallons per day. The water recycling facility started operation on February 1, 2006.

For additional information, please see the notes to the basic financial statements.

The basic financial statements include a *statement of net position, a statement of revenues, expenses, and changes in net position, a statement of cash flows,* and *notes to financial statements.* The report also contains other required supplementary information in addition to the basic financial statements.

The Authority's basic financial statements include:

The *statement of net position* presents information on the Authority's assets and liabilities, with the difference between the two reported as net position. It provides information about the nature and amount of resources and obligations at year-end.

The *statement of revenues, expenses, and changes in net position* presents the results of the Authority's operations over the course of the fiscal year and information as to how the *net position* changed during the year.

The *statement of cash flows* presents changes in cash and cash equivalents resulting from operational, capital, and related financing, and investing activities. This statement summarizes the annual flow of cash receipts and cash payments, without consideration of the timing of the event, giving rise to the obligation or receipt.

The *notes to basic financial statements* provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to basic financial statements can be found on pages 13 to 20 of this report.

Financial Summary

Table 1 summarizes net position at June 30, 2026 and 2025, and Table 2 summarizes revenues, expenses and changes in net position for the years ended June 30, 2026 and 2025. Both tables also include changes from the prior year.

Table 1
Summary of Net Position
June 30, 2026 and 2025

	2026	2025	Variance
Assets:			
Current assets	$ 5,986,555	$ 4,197,827	$ 1,788,728
Capital assets	63,676,056	65,814,972	(2,138,916)
Total assets	69,662,611	70,012,799	(350,188)
Liabilities:			
Current liabilities	3,054,255	2,031,677	1,022,578
Total liabilities	3,054,255	2,031,677	1,022,578
Net position:			
Net investment in capital assets	63,676,056	65,182,185	(1,506,129)
Unrestricted	2,932,300	2,798,937	133,363
Total net position	$ 66,608,356	$ 67,981,122	$ (1,372,766)

Table 2
Summary of Revenues, Expenses, and Changes in Net Position
Years ended June 30, 2026 and 2025

	2026	2025	Variance
Operating revenue:	$ 7,934,780	$ 9,876,571	$ (1,941,791)
Operating expenses:			
Professional services	(7,672)	(5,561)	(2,111)
General and administrative	(524,545)	(337,422)	(187,123)
Operation and maintenance	(5,092,333)	(6,167,593)	1,075,260
Depreciation	(2,327,290)	(2,309,060)	(18,230)
Total operating expenses	(7,951,840)	(8,819,636)	867,796
			-
Nonoperating income (expenses):			
Investment and other income	171,583	253,427	(81,844)
Reimbursement of Member Contributions	(1,511,469)	(2,339,884)	828,415
Interest on state loan	(15,820)	(55,568)	39,748
Total other income (expenses)	(1,355,706)	(2,142,025)	786,319
Change in net position	(1,372,766)	(1,085,090)	(287,676)
			-
Total net position - beginning	67,981,122	69,066,212	(1,085,090)
Total net position - ending	$ 66,608,356	$ 67,981,122	$ (1,372,766)

Detailed Analyses

In the current fiscal year, DERWA had total operating revenue of $7.93 million and total operating expenses of $7.95 million. The change in net position decreased from ($1.09) million last fiscal year to ($1.37) million in the current fiscal year. DERWA's total net position decreased from $67.98 million to $66.61 million during the current fiscal year.

- Current assets of the Authority increased by $1.79 million due to an increase in cash from the prior year.
- The net position of the Authority decreased by $1.37 million from the prior year. The reason is due to a decrease in total assets of $0.35 million offset by an increase in current liabilities of $1.02 million.
- Capital assets as of June 30, 2026 decreased by $2.14 million due to a higher depreciation amount over capital expenditures.
- Total liabilities as of June 30, 2026 increased by $1.02 million from the prior year due to an increase in accounts payable and payables to members.
- The Authority borrowed a 20-year loan in the amount of $24.7 million with a 2.5% fixed interest rate. After repayment of the twentieth installment of $0.65 million for fiscal year 2026, as of June 30, 2026, the loan has been paid off.

Significant Capital Asset and Long-Term Financing Activity

The Authority had $63.67 million (net of accumulated depreciation) invested in a broad range of capital assets as of June 30, 2026. Total capital assets were $65.81 million as of June 30, 2025. The investment in capital assets includes land, water treatment plants, pumping plants, reservoirs, and distribution mains. In the current fiscal year, capital assets decreased $2.14 million over the prior fiscal year. Annual changes are consistent with the Authority's capital improvement program.

Table 3
Summary of Capital Assets, Net of Accumulated Depreciation
June 30, 2026 and 2025

	2026	2025	Variance
Structures, buildings, and equipment	$ 61,552,336	$ 63,453,620	$ (1,901,284)
Land and rights-of-way	1,890,978	1,890,978	-
Constuction in progress	232,742	470,374	(237,632)
Total Capital Assets	$ 63,676,056	$ 65,814,972	$ (2,138,916)

Currently Known Facts, Decisions, or Conditions

The Authority adopts an operating budget of $7.50 million for FY27, a decrease of $0.20 million or 2.6% under the adopted FY26 operating budget of $7.70 million. The decrease in overall budget is the result of having no further debt service payments beginning in FY27.

The capital expenditure budget for FY27 is $1.25 million. Capital projects continuing in the next fiscal year are the New/Replacement Capital under $50K, Isolation Valve Replacements, Permanent Supplemental Water Supply, Pine Valley Transmission Cathodic Protection, SCADA, and Turbidity Monitoring Equipment Upgrades. There are no new capital projects proposed.

Request for Information

This financial report is designed to provide readers with a general overview of the Dublin San Ramon Services District/East Bay Municipal Utility District Recycled Water Authority's finances and demonstrate the Authority's accountability for the assets and liabilities it manages. If you have any questions about this report or need additional information, please contact: DERWA Treasurer, Jacqueline Lee, MS #809, P.O. Box 24055, Oakland, California 94623.

DUBLIN SAN RAMON SERVICES DISTRICT/
EAST BAY MUNICIPAL UTILITY DISTRICT
RECYCLED WATER AUTHORITY
Statements of Net Position
June 30, 2026 and June 30, 2025

ASSETS	2026	2025
Current Assets:		
Cash and cash equivalents (Note 2)	$ 2,861,087	$ 1,054,350
Investments (Note 2)	1,153,235	1,105,760
Receivables:		
East Bay Municipal Utility District	438,094	471,796
Dublin San Ramon Services District	1,071,765	934,365
City of Pleasanton	451,429	619,793
Interest receivable	10,945	11,763
Total current assets	5,986,555	4,197,827
Capital Assets (Note 3):		
Structures, buildings, and equipment	101,953,362	101,527,356
Less accumulated depreciation	(40,401,026)	(38,073,736)
Subtotal	61,552,336	63,453,620
Land and rights-of-way	1,890,978	1,890,978
Construction in progress	232,742	470,374
Total capital assets, net of accumulated depreciation	63,676,056	65,814,972
Total assets	69,662,611	70,012,799
LIABILITIES		
Current Liabilities:		
Current portion of State loan payable (Note 5)	-	632,787
Accounts payable	67,374	12,219
Payable to members:		
East Bay Municipal Utility District	525,274	10,623
Dublin San Ramon Services District	2,461,607	1,376,048
Total liabilities	3,054,255	2,031,677
NET POSITION (Note 1)		
Net Investment in capital assets	63,676,056	65,182,185
Unrestricted	2,932,300	2,798,937
Total net position	$ 66,608,356	$ 67,981,122

See accompanying notes to financial statements.

DUBLIN SAN RAMON SERVICES DISTRICT/
EAST BAY MUNICIPAL UTILITY DISTRICT
RECYCLED WATER AUTHORITY
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2026 and June 30, 2025

	2026	2025
Operating revenue:		
Contributions from members	$ 6,690,141	$ 8,504,014
Contributions from others	1,244,639	1,372,557
Total contributions	7,934,780	9,876,571
Operating (expenses):		
Professional services	(7,672)	(5,561)
General and administrative	(524,545)	(337,422)
Operation and maintenance	(5,092,333)	(6,167,593)
Depreciation (Note 3)	(2,327,290)	(2,309,060)
Total operating (expenses)	(7,951,840)	(8,819,636)
Net operating income	(17,060)	1,056,935
Nonoperating revenue (expense):		
Interest and other income	171,583	253,427
Reimbursement of Member Contributions	(1,511,469)	(2,339,884)
Interest on state loan	(15,820)	(55,568)
Total nonoperating revenue (expenses)	(1,355,706)	(2,142,025)
Changes in net position	(1,372,766)	(1,085,090)
Total net position - beginning	67,981,122	69,066,212
Total net position - ending	$ 66,608,356	$ 67,981,122

See accompanying notes to financial statements.

DUBLIN SAN RAMON SERVICES DISTRICT/
EAST BAY MUNICIPAL UTILITY DISTRICT
RECYCLED WATER AUTHORITY
Statements of Cash Flows
For the Years Ended June 30, 2026 and June 30, 2025

	2026	2025
Cash flows from operating activities:		
Cash received for sales of water	$ 7,999,446	$ 10,111,613
Cash paid for supplies and services	(3,806,440)	(5,838,123)
Net cash provided by operating activities	4,193,006	4,273,490
Cash flows from capital and related financing activities:		
Cash paid to member agencies	(1,511,469)	(2,339,884)
Cash paid for interest	(15,820)	(55,567)
Cash paid on state loan	(632,787)	(1,589,946)
Cash paid for construction of capital assets	(351,119)	(655,839)
Net cash (used) in capital and related financing activities	(2,511,195)	(4,641,236)
Cash flows provided by investing activities:		
Interest and other income received	172,401	253,130
Net (decrease) in cash and equivalents, and investments	1,854,212	(114,616)
Cash and equivalents, and investments at beginning of period	2,160,110	2,274,726
Cash and equivalents, and investments at end of period	$ 4,014,322	$ 2,160,110
Reconciliation of cash and cash equivalents and investments to amounts reported on the statement of net position:		
Cash and cash equivalents	2,861,087	1,054,350
Investments	1,153,235	1,105,760
Cash and equivalents, and investments at end of period	$ 4,014,322	$ 2,160,110
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ (17,060)	$ 1,056,935
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,327,290	2,309,060
Changes in operating assets and liabilities:		
Accounts receivable	64,666	235,042
Other assets	162,745	-
Accounts payable	1,655,365	672,453
Net cash provided by operating activities	$ 4,193,006	$ 4,273,490

See accompanying notes to financial statements.

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NOTE 1 –NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A. Description of Reporting Entity

The Dublin San Ramon Services District/East Bay Municipal Utility District Recycled Water Authority (the "Authority") is a public entity established pursuant to California Government Code Section 6500 et seq. The Authority was created in accordance with the terms of a Joint Exercise of Powers Agreement, dated June 28, 1995, between Dublin San Ramon Services District (DSRSD) and East Bay Municipal Utility District (EBMUD). The Authority was established to supply recycled water to DSRSD and EBMUD through the construction and operation of a water recycling facility with a planned capacity of a minimum of 5.7 million gallons per day. The water recycling facility is fully operational.

An additional member, or members, may be added to the Authority upon request evidenced by submission of a certified copy of a resolution adopted by the governing body of the public agency requesting membership in the Authority. Such request must be approved by the governing bodies of all the existing members. The Board may require a party seeking to become a member to meet any terms and conditions the Board deems appropriate.

The facilities became operational on February 1, 2006. Operation and maintenance expenses are allocated based on each member's actual usage. General and administrative expenses were allocated equally to DSRSD and EBMUD during the first year of operation ending on March 31, 2007; after the first operation year, the costs are allocated based on the member's actual water usage. Capital costs, including debt service, are allocated based on each member's proportional value of capital assets assigned to each member agency.

B. Basis of Accounting

The accompanying financial statements report the financial position of the Authority in accordance with accounting standards generally accepted in the United States of America. As the Authority is a governmental entity, the preparation of its financial statements is governed by the pronouncements of the Governmental Accounting Standards Board (GASB).

The Authority, as a proprietary enterprise, is accounted for on a flow of economic resources measurement focus using the accrual basis of accounting. Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements.

The Authority distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Statement of Net Position – The statement of net position is designed to display the financial position of the Authority. The Authority's fund equity is reported as net position, which is the excess of all of the Authority's assets over all its liabilities. Net Position is divided into three captions under GASB Statement 34. As of June 30, 2026 the Authority reported the following classifications of net position:

- *Net investment in capital assets* describes the Authority's capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

- *Unrestricted* describes the portion of Net Position which is not restricted to use.

NOTE 1 –NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Statement of Revenues, Expenses, and Changes in Net Position – The statement of revenues, expenses, and changes in net position is the operating statement for proprietary funds. Revenues are reported by major source. This statement distinguishes between operating and nonoperating revenues and expenses and presents a separate subtotal for operating revenues, operating expenses, and operating income.

C. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclose contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

D. Capital Assets

The additions to capital assets are capitalized at historical cost. Cost includes material, direct labor and fringe benefits, transportation, and such indirect items as engineering, supervision, and interest on borrowed funds during construction, net of interest earned on unspent construction proceeds. Repairs, maintenance, and minor purchases of equipment are charged to expenses as incurred.

The purpose of depreciation is to spread the cost of capital assets equitably among all customers over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of depreciable capital assets.

Depreciation of all capital assets in service, excluding land, is charged as an expense against operations each year and the total amount of depreciation taken over the years, called accumulated depreciation, is reported on the balance sheet as a reduction in the book value of the capital assets.

Capital assets are depreciated using the straight-line method of depreciation, which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the assets is fully depreciated. The Authority has assigned the useful lives listed below to capital assets:

Utility plant:	Years
Water Treatment	20-75
Pumping Plants	25-75
Reservoirs	25-100
Pipeline	25-75

E. Cash and Cash Equivalents

The Authority considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents.

F. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles.

NOTE 1 –NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs are inputs – other than quoted prices included within level 1 – that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for an asset or liability.

If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

NOTE 2 – CASH AND INVESTMENTS

A. Composition

The Authority's cash and cash equivalents at June 30 consisted of the following deposits and investments held by EBMUD on the Authority's behalf:

	2026	2025
Demand deposits with banks	$ 2,861,087	$ 1,054,350
Local Agency Investment Fund	1,153,235	1,105,760
Total cash and cash equivalents	$ 4,014,322	$ 2,160,110

B. Collateralization of Cash and Cash Equivalents

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the Authority's cash on deposit or first trust deed mortgage notes with a value of 150% of the Authority's cash on deposit as collateral for these deposits. Under California Law this collateral is held in an investment pool by an independent financial institution in the Authority's name and places the Authority ahead of general creditors of the institution pledging the collateral. The Authority has waived collateral requirements for the portion of deposits covered by federal deposit insurance.

The Authority's investments are carried at fair value, as required by generally accepted accounting principles. The Authority adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

C. Credit Risk

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. As an external investment pool, the Local Agency Investment Fund was not rated as of June 30, 2026 and 2025.

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

D. Fair Value Hierarchy

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. The California Local Agency Investment Fund is exempt from classification for fair value hierarchy.

E. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Authority generally manages its interest rate risk by purchasing a combination of short-term and long-term investments and holding investments to maturity. The Authority's only investment is in the California Local Agency Investment Fund, which can be withdrawn at any time, usually within a day.

F. Local Agency Investment Fund (LAIF)

The Authority is a participant in the Local Agency Investment Fund (LAIF), which is regulated by California Government Code §16429 under the oversight of the Treasurer of the State of California. The value of the pool shares in LAIF is determined on an amortized cost basis, which is different from the fair value of its position in the pool. Authority's investments with LAIF at June 30, 2026 and 2025 included a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments included the following:

- Structured Notes are debt securities (other than asset-backed securities) whose cash-flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.

- Asset-Backed Securities, the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets, such as principal and interest repayments from a pool of mortgages (such as Collateralized Mortgage Obligations) or credit card receivables.

As of June 30, 2026 and 2025, the Authority had investments of $1,153,235 and $1,105,760, respectively, invested in LAIF, which had invested 3.47% and 3.81% of the pooled investment funds in Structured Notes and Asset-Backed Securities.

NOTE 3 – CAPITAL ASSETS

Capital assets as of June 30, 2026, consist of land, not being depreciated and capital assets being depreciated. The capital assets began depreciation effective February 2006. Construction of capital assets is funded through member contributions. Capital assets activity for the year ended June 30, 2026 was as follows:

	Balance at June 30, 2025	Additions and Transfers, net	Retirements and Transfers, net	Balance at June 30, 2026
Capital assets not being depreciated:				
Land and rights-of-way	$ 1,890,978	$ -	$ -	$ 1,890,978
Construction in progress	470,374	351,120	(588,752)	232,742
Total capital assets not being depreciated	2,361,352	351,120	(588,752)	2,123,720
Capital assets, being depreciated:				
Water treatment	43,314,591	370,086	-	43,684,677
Pumping plants	13,792,192	-	-	13,792,192
Reservoirs	14,439,008	-	-	14,439,008
Pipelines	29,981,565	55,920	-	30,037,485
Total capital assets being depreciated	101,527,356	426,006	-	101,953,362
Less accumulated depreciation for:				
Water treatment	(15,242,106)	(1,087,736)	-	(16,329,842)
Pumping plants	(6,227,535)	(344,805)	-	(6,572,340)
Reservoirs	(5,573,991)	(288,780)	-	(5,862,771)
Pipelines	(11,030,104)	(605,969)	-	(11,636,073)
Total accumulated depreciation	(38,073,736)	(2,327,290)	-	(40,401,026)
Net capital assets being depreciated	63,453,620	(1,901,284)	-	61,552,336
Capital assets, net	$ 65,814,972	$ (1,550,164)	$ (588,752)	$ 63,676,056

NOTE 3 – CAPITAL ASSETS (CONTINUED)

Capital assets activity for the year ended June 30, 2025 was as follows:

	Balance at June 30, 2024	Additions and Transfers, net	Retirements and Transfers, net	Balance at June 30, 2025
Capital assets not being depreciated:				
Land and rights-of-way	$ 1,890,978	$ -	$ -	$ 1,890,978
Construction in progress	112,504	655,839	(297,969)	470,374
Total capital assets not being depreciated	2,003,482	655,839	(297,969)	2,361,352
Capital assets, being depreciated:				
Water treatment	43,016,622	297,969	-	43,314,591
Pumping plants	13,792,192	-	-	13,792,192
Reservoirs	14,439,008	-	-	14,439,008
Pipelines	29,981,565	-	-	29,981,565
Total capital assets being depreciated	101,229,387	297,969	-	101,527,356
Less accumulated depreciation for:				
Water treatment	(14,166,262)	(1,075,844)	-	(15,242,106)
Pumping plants	(5,882,730)	(344,805)	-	(6,227,535)
Reservoirs	(5,285,211)	(288,780)	-	(5,573,991)
Pipelines	(10,430,473)	(599,631)	-	(11,030,104)
Total accumulated depreciation	(35,764,676)	(2,309,060)	-	(38,073,736)
Net capital assets being depreciated	65,464,711	(2,011,091)	-	63,453,620
Capital assets, net	$ 67,468,193	$ (1,355,252)	$ (297,969)	$ 65,814,972

NOTE 4 – COMMERCIAL PAPER NOTES PAYABLE

The Authority's Board of Directors authorized a short-term commercial paper borrowing program of up to $50,000,000 on December 15, 2003. The proceeds from the issuance of commercial paper are used to finance the acquisition and construction of facilities for the treatment, transmission, distribution and storage of recycled water. Under the program, the Authority may issue commercial paper notes at the prevailing interest rate for periods not more than 270 days from the date of issuance. To provide liquidity support for the program, the Authority would maintain a liquidity support agreement (letter of credit) with a commercial bank. The commercial paper notes and any bank notes issued under the program are payable solely from revenues of the Authority after payment of specific operating and maintenance expenses. The Authority does not currently have a liquidity support agreement with a commercial bank and would have to secure an agreement before issuing new commercial paper. All then outstanding commercial paper notes under the program were retired in Fiscal Year 2011 and no new commercial paper notes have been issued since that time. As of June 30, 2026, there were no commercial paper notes outstanding under this program.

NOTE 5 – LONG TERM DEBT

The Authority's Board of Directors authorized a long-term borrowing program from the State Water Resource Control Board of up to $24,764,850 on July 25, 2005. The Authority drew down $22,993,368 as of the fiscal year ended June 30, 2006, the proceeds from which were used to finance the acquisition and construction of facilities for the treatment, transmission, distribution and storage of recycled water. As of June 30, 2008, the Authority drew down an additional amount of $1,685,283. The loan has a 20-year term at a 2.5% fixed interest rate. The repayment of the loans and interest are made in annual installments commencing on July 1, 2007. The loan is collateralized solely by the revenues of the Authority, after payment of specific operating and maintenance expenses.

The following is the activity in the State Loan Program during the fiscal year ended June 30, 2026:

	Balance June 30, 2025	Retirements	Balance June 30, 2026
2006 State Water Resource Loan 2.5%, due 07/01/2026	$ 632,787	$ 632,787	$ -
Current portion	$ 632,787	$ 632,787	$ -

The following is the activity in the State Loan Program during the fiscal year ended June 30, 2025:

	Balance June 30, 2024	Retirements	Balance June 30, 2025
2006 State Water Resource Loan 2.5%, due 07/01/2026	$ 2,222,733	$ 1,589,946	$ 632,787
Less amount due within one year	1,589,946	-	632,787
Noncurrent portion	$ 632,787	$ 1,589,946	$ -

NOTE 6 – RELATED PARTY TRANSACTIONS

DSRSD is responsible for the operation of the facility. DSRSD and EBMUD both provide professional services that are capitalized as well as administrative services. In addition, as the Authority does not have any employees, EBMUD provides certain treasury management and accounting services including conducting all cash transactions and providing for the annual audit. The two members received the following total reimbursements for their services for the years ended June 30:

	2026	2025
DSRSD	$ 5,703,712	$ 6,710,378
EBMUD	40,523	45,508
	$ 5,744,235	$ 6,755,886

NOTE 7 – RISK MANAGEMENT

The Authority's liability and property risks are insured by commercial insurance carriers. Selected insurance coverages include:

Coverage	Policy limit
Bodily injury	$ 10,000,000
Property damage	10,000,000
Personal injury	10,000,000
Non-owned and hired automobile liability	10,000,000
Public officials errors and omissions	10,000,000
Fire damage liability	1,000,000
Employment practices liability	5,000,000

Any liability the Authority may have for uninsured claims is limited to general liability claims. However, the Authority has experienced no losses from such claims during the preceding three years, and it therefore believes there is no liability for claims incurred but not reported.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Dublin San Ramon Services District/East Bay
Municipal Utility District Recycled Water Authority
Oakland, California

We have audited, in accordance with the 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, the basic financial statements of the Dublin San Ramon Services District/East Bay Municipal Utility District Recycled Water Authority (the "Authority"), as of and for the years ended June 30, 2026, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 29, 2026.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We have also issued a separate Memorandum on Internal Control dated September 29, 2026, which is an integral part of our audit and should be read in conjunction with this report.

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Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Pleasant Hill, California
September 29, 2026