

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

for the year ended June 30, 2013

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EAST BAY MUNICIPAL UTILITY DISTRICT • OAKLAND, CALIFORNIA 94623  
Prepared by the Accounting Division of the Finance Department

<i>INTRODUCTORY SECTION</i>	<u>Page</u>
Letter of Transmittal .....	i
District Profile .....	ii
Mission, Values and Goals .....	iii
Major Initiatives .....	iv
Finance.....	x
Administrative Services.....	xiii
Awards and Acknowledgements .....	xiv
Board of Directors .....	xvi
Organizational Staffing .....	xvii
District Organizational Chart.....	xviii
 <i>FINANCIAL SECTION</i>	
Independent Auditor’s Report on Basic Financial Statements .....	1
Management’s Discussion and Analysis .....	5
<b>Basic Financial Statements</b>	
Balance Sheets .....	20
Statements of Revenues, Expenses and Changes in Net Position .....	22
Statements of Cash Flows.....	23
Statements of Fiduciary Net Position – Fiduciary Fund – Pension and Other Employee Benefit Trust (Component Unit).....	25
Statements of Changes in Fiduciary Net Position – Fiduciary Fund- Pension and Other Employee Benefit Trust (Component Unit).....	26
Notes to Basic Financial Statements.....	27
 <b>Required Supplemental Information</b>	
Employee Retirement System Schedule of Funding Progress.....	69
 <b>Supplemental Information</b>	
Employees’ Retirement System Net Position .....	73
Employees’ Retirement System Statement of Changes in Net Position.....	74

*FINANCIAL SECTION (Continued)*

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.....	75
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*STATISTICAL SECTION***Financial Trends**

Comparative Highlights .....	77
Ten-Year Summary of Financial Data (Water System).....	79
Ten-Year Summary of Financial Data (Wastewater System) .....	80
Changes in Net Position .....	81
Net Position by Component.....	83

**Revenue Capacity**

Ten-Year Summary of Revenue by Source (Water System).....	84
Ten-Year Summary of Revenue by Source (Wastewater System).....	85
Rate History.....	86
Ten-Year Summary of Net Revenue and Debt Service Coverage (Water System) .....	87
Ten-Year Summary of Net Revenue and Debt Service Coverage (Wastewater System).....	88

**Debt Capacity**

Debt Ratings.....	89
Outstanding Debt by Type.....	90
Authorized but Unissued Revenue Bonds and Outstanding Short-Term Debt .....	91
Ratio of Net General Obligation Bonded Debt to Annual Billings and Net General Bonded Debt per Account .....	92
Assessed Valuation of Taxable Property.....	93
Summary of Debt Outstanding .....	95

*STATISTICAL SECTION (Continued)***Demographic and Economic Information**

District Information .....	96
Principal Water Rate Payers .....	97
Water Sold by Type of Customer .....	98
Consumption and Account Comparative Highlights.....	99
Area Employment Information .....	100

**Operating Information**

Full-time Equivalent District Employees by Function/Program .....	101
Assessed Valuation of Taxable Property .....	102
Ten-Year Summary of Property, Plant & Equipment (Water System) .....	103
Ten-Year Summary of Property, Plant & Equipment (Wastewater System) .....	104
Capital Asset Statistics by Function/Program.....	105
Operating Indicators by Function/Program .....	106
Ten-Year Summary of Expense by Source .....	107



Letter of Transmittal

GFOA Award Certificate

Board of Directors

Organizational Staffing

Organization Chart

December 31, 2013  
East Bay Municipal Utility District  
Oakland, California

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the East Bay Municipal Utility District (EBMUD, or District) for the fiscal year ended June 30, 2013.

The CAFR has been prepared by the Finance Department in compliance with the principles and standards for financial reporting set forth by the Governmental Accounting Standards Board (GASB). Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive internal control framework it established for this purpose. Because the cost of internal control should not surpass its benefits, the objective is to provide reasonable rather than absolute assurance that the financial statements are free of any material misstatements.

Maze & Associates, Accountancy Corporation, have issued an unmodified ("clean") opinion on the East Bay Municipal Utility District's financial statements for the year ended June 30, 2013. The purpose of the independent audit was to provide reasonable assurance that the financial statements of EBMUD for the year ended June 30, 2013, are free of material misstatements. The independent auditor's report is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. This transmittal letter is designed to complement the MD&A and should be read in conjunction with it.

The Comprehensive Annual Financial Report follows the guidelines recommended by the Government Finance Officers Association (GFOA) of the United States and Canada. The District is submitting the CAFR to GFOA for review and certification.

The East Bay Municipal Utility District is a publicly owned utility formed in 1923 under the Municipal Utility District Act of 1921 (MUD Act) to provide water services to parts of Alameda and Contra Costa counties. The MUD Act was amended in 1941 to enable formation of special districts. In 1944, voters in six East Bay cities elected to form EBMUD's Special District No. 1 to treat wastewater released in the Bay. Wastewater treatment for those cities began in 1951 and was expanded 20 years later to include Kensington, El Cerrito and a part of Richmond.

The District's Water system collects, transmits, treats, and distributes high-quality water to approximately 60 percent of the developed area within Alameda and Contra Costa counties of California. The water is supplied to approximately 1.3 million industrial, commercial, residential, and public authority users out of 7.3 million population in the Bay Area in a 332-square-mile service area extending from Crockett in the north, southward to San Lorenzo (encompassing Oakland, Berkeley and Alameda), eastward from San Francisco Bay to Walnut Creek, and east through the San Ramon Valley.

The Wastewater system intercepts and treats wastewater from residences and industries. It serves approximately 650,000 customers in an 88-square-mile area of Alameda and Contra Costa counties along the Bay's east shore, extending from Richmond in the north to San Leandro in the south.

EBMUD has continually pursued an array of solutions to provide a reliable water supply and protect the San Francisco Bay now and in the future. EBMUD employed approximately 1,708 full-time employees at the end of fiscal year 2013. All the staff at EBMUD continues to focus on water supply and planning, drought protection, water conservation, infrastructure maintenance and improvements, watershed protection, wastewater treatment, and fiscal integrity and stability.

## Introduction

The Government Finance Officers Association (GFOA) recommends that all governmental entities use some form of strategic planning to provide perspective for service delivery and budgeting. EBMUD has developed a Strategic Plan that is a blue print for how the District will respond to future challenges and changing priorities. Based on the District mission and values, goals are established, monitored and reviewed regularly with the Board of Directors.

## Mission

To manage the natural resources with which the District is entrusted; to provide reliable, high-quality water and wastewater services at fair and reasonable rates for the people of the East Bay; and to preserve and protect the environment for future generations.

## Values

- Exercise responsible financial management
- Ensure fair rates and charges
- Provide responsive customer service
- Promote ethical behavior in the conduct of District business
- Ensure fair and open processes involving the public
- Provide a healthy work environment
- Promote diversity and equality in personnel matters and contracting
- Promote environmental responsibility and sustainability

## Goals

- Long-term water supply  
Ensure a reliable high-quality water supply for the future
- Water quality and environmental protection  
Meet or surpass environmental and public health standards and protect public trust values
- Long-term infrastructure Investment  
Maintain and improve the District's infrastructure in a cost-effective manner to ensure delivery of reliable, high-quality service now and in the future
- Long-term financial stability  
Manage the District's finances to support District needs and maintain reasonable water and wastewater rates
- Customer service  
Understand and be responsive to customer expectations for service
- Workforce planning and development  
Ensure ample talent to do the District's work today and tomorrow

## Introduction

In Fiscal Year 2013 (FY13), EBMUD achieved many strategic goals to best serve East Bay communities. In California, where new water projects take years to develop, long-term planning ensures reliable water supplies for the future. EBMUD is implementing its Water Supply Management Program 2040 which helps EBMUD meet water needs for its customers for the next 30 years. Rate increases and cost-cutting programs continued to stabilize and improve EBMUD's financial position. Through cooperative efforts with stakeholders in FY13, EBMUD continued to maneuver through the many challenges with strength and stability.

## Long-term Water Supply

### *Water Supply Management Program 2040*

EBMUD completed development of the Water Supply Management Program (WSMP) 2040. The District expects the number of customers to grow to 1.7 million by the year 2040 with increased and diverse water needs. The Plan calls for maintaining a reliable, high-quality water supply by aggressively conserving and recycling while setting limits to rationing and tapping into a variety of regional water supply sources. The planning document also stresses the District's objectives to preserve and protect the environment, adjust to new regulations and water system changes, seek cost-effective collaborative solutions and be prepared to address uncertainties including climate change and Delta challenges.

EBMUD's long-term plan will meet future water supply needs through 2040 by:

- Developing 115 thousand acre feet of supplemental water supplies through a combination of water transfers, groundwater storage and regional supply projects to meet customer needs during a severe, multi-year drought;
- Working with the Central Sierra foothill communities on prudent land management programs to protect EBMUD's water sources and water quality;
- Pursuing water right permits renewal to secure water supplies;
- Maximizing conservation, saving up to 62 million gallons a day;
- Aggressively recycling, stretching the water supply by 20 million gallons a day;
- Limiting drought rationing to 15 percent district wide.

In FY13, a number of significant steps were taken to improve EBMUD's long-term water supply reliability. These included:

- Signing Memorandums of Agreement with Placer County Water Agency and Yuba County Water Agency, respectively, regarding long-term water transfers;
- Signing Principles of Agreement with Contra Costa Water District regarding coordination and shared use of key water facilities;
- Issuing the EIR for the Camanche Permit Extension.

### *Water Recycling*

EBMUD can currently produce an average of 9 million gallons per day (MGD) of recycled water. EBMUD's goal is to recycle 20 MGD by the year 2040. Recycled water is provided for industrial processes, landscape irrigation, commercial cooling, and toilet flushing. EBMUD's current recycled water projects include East Bayshore, San Ramon Valley, North Richmond, Richmond Advanced Recycled Expansion (RARE), and San Leandro. The East Bayshore project provides recycled water for a variety of nonpotable applications to portions of Emeryville and Oakland. The San Ramon Valley project provides recycled water for landscape irrigation to portions of San Ramon. The North Richmond and RARE projects provide recycled water to a refinery for its cooling towers and boiler feedwater system. In FY13, the RARE Water Project continued to provide up to 3.5 million gallons per day of recycled water to the Chevron Richmond refinery, thereby conserving an equivalent amount of potable water. Chevron continues to pay a monthly service charge to cover all capital, operations, and maintenance costs associated with the facility. The San Leandro project provides recycled water for irrigation to portions of Alameda and Oakland. In the past, EBMUD has secured federal, state, and customer funding to partly pay for these recycled water facilities. Recently, state funding was secured to install a segment of the East Bayshore pipeline from Oakland to Emeryville. Also, EBMUD partnered with the City of Albany's bike path project to install another segment of the East Bayshore pipeline which resulted in cost savings. EBMUD's recycled water program uses a valuable treated wastewater resource that is otherwise lost to the San Francisco Bay. Recycled water is a local, reliable, and sustainable supply that offsets the use of potable water and minimizes the need for severe rationing during droughts.

### *Continuing Water Conservation and Management*

California experienced extremely dry weather from 2006 to 2008. In 2009, customer conservation and ample rainfall ended the mandatory water rationing. Customers continue to conserve and use water wisely to minimize the effect of future droughts. The District developed a Water Conservation Master Plan, updated in 2011, which directs the District's comprehensive strategies and initiatives to promote water conservation and reduce demand for water by an additional 39 MGD through conservation initiatives by the year 2040.

In FY13, the District continued to offer a comprehensive range of conservation services that included water management information services to residential and non-residential customers through the success of the Home Self-Survey Kits, WaterSmart Home Water Report (HWR) Pilot Study and distribution of custom Irrigation Reduction Information System (IRIS) landscape water budgets. Common residential rebates issued remained fairly constant with a total of 10,028. Overall, year-end residential customer outreach through audits, incentives and device distribution totaled more than 50,000 interventions.

When industrial and irrigation customers use recycled water during droughts more potable water is available for customers. The District also has an aggressive leak detection program for its own water system that uses innovative technology to detect underground leaks. Finding leaks on EBMUD's system early not only saves valuable water but also reduces the cost of repairs and the amount of customer inconvenience resulting from breaks. Federal grant funds help EBMUD expand recycled water service for landscape irrigation in the San Ramon Valley.

The District's comprehensive water conservation and recycling programs ensure that EBMUD will meet requirements of the California Water Conservation Act of 2009, which mandates a 20 percent reduction in water used by Californians by the year 2020. Ongoing demand reduction by EBMUD customers has positioned the District well in continuing to meet its target water savings in the year 2020 and beyond.

### *Reliable Water Supplies*

EBMUD customers receive 90 percent of their water from the Mokelumne River watershed in the foothills of the Sierra Mountains. During normal rainfall years, the Mokelumne and local Easy Bay watersheds provide sufficient water for EBMUD's needs today and far into the future. However, California has a history of drought. Historically, dry years can mean up to ten times less precipitation compared to wet years. To assure more reliable dry year supplies, EBMUD worked with Sacramento County to complete the Freeport Regional Water Project. The Freeport Regional Water Facility will provide up to 85 million gallons of water a day to the Sacramento area to protect its fragile groundwater basin. For EBMUD, the project guarantees a dry-year supply of up to 100 million gallons a day to guard against severe water shortage. The Freeport facilities will also provide an opportunity for other communities to move water more easily throughout the region.

Additional dry year supply is also available from the Bayside Groundwater Facility, a state of the art groundwater well that can store excess water more than 500 feet below ground in wet periods for later recovery during droughts. During droughts, up to one million gallons per day of water from the well can be pumped from the aquifer, treated on-site and delivered to EBMUD water distribution system.

During FY13, EBMUD continued its efforts to secure a reliable water supply through the year 2040. In February 2013, EBMUD and the Yuba County Water Agency executed a cost share agreement to obtain the necessary permits from the State Water Resources Control Board to allow for future water sales of Yuba Accord releases to EBMUD. In May of 2013, the EBMUD Board adopted a groundwater management plan for the South East Bay Plain Groundwater Basin. The plan provides a management structure to protect the groundwater basin used by EBMUD's Bayside Groundwater Project for drought supply. In addition, EBMUD continued discussions with numerous agencies regarding future partnership opportunities. Specifically, EBMUD worked together with staff of the Contra Costa Water District, Bay Area Water Supply and Conservation Agencies, Placer County Water Agency, San Joaquin County, San Francisco Public Utilities Commission, Zone 7 Water Agency, and Santa Clara Valley Water District on partnership concepts related to long-term water transfers, groundwater banking, and regional desalination.

## **Water quality and environmental protection**

### *Generating Renewable Energy*

In FY13, EBMUD generated 433,000 Mega Watts per hour (MWh) of renewable energy at its hydropower, photovoltaic and cogeneration facilities and used 69,000 of it for its own use. Renewable energy revenues were \$12.6 million. EBMUD's innovation in energy management was awarded the National Environmental Achievement Award from the National Association of Clean Water Agencies for the innovative and sustainable practices of our Resource Recovery program, turning organic wastes to energy.

Through our innovative Resources Recovery Program, EBMUD's Main Wastewater Treatment Plant became a net energy producer by 126 percent of the electricity needed to power our main wastewater plant by creating renewable energy using food waste, wineries, fats, oils and greases and other organic waste material. This reduced green-house gas emissions and also provides substantial revenue, helping keep wastewater rates low.

### *Water Quality and Safety*

Federal and State regulatory agencies continually evaluate and establish new water quality standards for drinking water for protection of public health. Every day of the year EBMUD's laboratory tests water samples throughout the water system to ensure that water quality meets or surpasses all primary (health related) and secondary (aesthetic) drinking water standards established by the Federal and State regulatory agencies. The testing results are summarized and released annually to the public through our Annual Water Quality Report. In addition, the District has been actively working to reduce the public's exposure to lead in drinking water and is looking forward to January 4, 2014, when the national Safe Drinking Water Act amendment will reduce the allowable lead content of drinking water plumbing fixtures from 8 to 0.25 percent lead. The 2011 law was fashioned after the 2010 California's lead-free standard, whose language was the result of EBMUD sponsored legislation (AB1953).

### *New Phase in Bay Protection*

Over the years, Bay protection agencies, environmental groups and EBMUD have all worked to keep the Bay as healthy as possible. EBMUD's main wastewater treatment plant operated continuously, 24 hours a day, for 13 years within permit limits and without a National Pollutant Discharge Elimination System violation. Over the past two years, EBMUD have worked intensively with local sewer agencies to establish programs and plans to accelerate maintenance and replacement of the sewer system collection and treatment infrastructure that supports storm water management and protects San Francisco Bay.

The East Bay has separate systems for storm water runoff and sewage, but storm water can seep into cracks in aging sewer system during storms, resulting in excess flow and partially treated sewage being released into the Bay. Under a settlement agreement with the U.S. Environmental Protection Agency, the State Water Resources Control Board and the Regional Water Quality Control Board, EBMUD is working with six cities and one sewer district in our wastewater service area to ensure that private property owners fix old, cracked sewer pipes that serve business or residences as quickly as possible.

In November 2013, the U.S. EPA approved a grant to evaluate "sidestream processes" to reduce nutrient loading in San Francisco Bay. This project proposal, entitled "Reducing Nutrients in the San Francisco Bay through Wastewater Sidestream Treatment," was awarded \$517,650 in funding with a 1:1 matching fund requirement. EBMUD submitted this grant proposal as a regional collaborative effort and has a number of project partners including three other wastewater agencies, Stanford and UC Berkeley, and the San Francisco Estuary Institute. This project provides the District with an opportunity to lead a regional effort on a very significant regulatory issue, while demonstrating proactive action in regards to the growing interest in SF Bay nutrients to key stakeholders. In addition, staff has identified nutrient removal from internal recycle streams at the MWWTP (i.e., sidestreams) as a key business issue with potential benefits to the ongoing and future growth of the Resource Recovery Program.

### *Pollution Prevention*

The District continues to grow its Pollution Prevention Program and to expand partnerships with satellite agencies, environmental groups, and other stakeholders to educate industries, commercial businesses and residents about their role in protecting the San Francisco Bay. Key efforts included the Fats, Oils, and Grease (FOG) program, mercury, copper, PCBs, green chemistry and pharmaceuticals. The many highlights for FY13 include:

- The completion of a multi-year effort to investigate, identify and abate controllable sources of PCBs;
- Continuous enhancement of the “A Clean Bay Begins with You” customer outreach campaign, which was developed to link household activities with the health of the San Francisco Bay;
- Expansion of the pharmaceuticals disposal campaign to promote safe disposal of unwanted medicines to address these substances’ impact to water quality.

### *Environmental Stewardship*

The Mokelumne River, EBMUD’s primary water source, flows into the Sacramento-San Joaquin Delta. While EBMUD’s supplies are not taken directly from the Delta, protection of the Delta and its environmental health are important to EBMUD. The Delta faced many challenges to its sustainability, both as a viable ecosystem and for water conveyance with its vast network of earthen levees. EBMUD continues to invest in Delta levee maintenance to protect EBMUD’s aqueducts and other stakeholder interests in the Delta. In addition, progress continues in EBMUD’s efforts to restore and enhance the salmonid fishery in the Mokelumne River, which has been a notable success story in the Delta watershed. With WSMP 2040, EBMUD has intensified its commitment to water use efficiency and regional cooperation, thus reducing pressure on demands from the Delta watershed. As the Bay Delta Conservation Plan (BDCP) progresses, EBMUD continues to play a constructive role, both in protecting its ratepayer interests and in advancing alternatives that can be supported by a broad array of stakeholders. In 2013, the District provided detailed comments on the Administrative Draft of the BDCP, focusing on fishery impacts, operations modeling, and the viability of financing for the Plan.

EBMUD continued its stewardship efforts on the Mokelumne River in 2013. These included continuing to improve river habitat for salmon and steelhead spawning, conducting a telemetry study of outmigrating salmon to better understand migratory path and survival, and working with federal water project operators to modify Delta operations to minimize impacts to salmon. The success indicator for these efforts is in the abundance of the salmon return to the Mokelumne. This year was the fourth highest since records were first kept in 1940, with a total approaching 12, 200 salmon.

## Long-term infrastructure Investment

With an aging system, EBMUD must continually evaluate infrastructure durability and adjust investments to address the most pressing reliability concerns. Keeping infrastructure in good condition protects the environment and public health. EBMUD is increasing investments in refurbishing and replacing aging infrastructure. As of FY13, EBMUD have replaced 37 miles of pipes over the last five years with a goal of replacing at least 53 miles of pipes over the next five years. That's a 43 percent increase in infrastructure rehabilitation to help maintain reliable water service. Contracts were awarded for rehabilitation of three steel reservoirs, and other rehabilitation work was in planning, design or construction on a wide range of projects at pumping plants, treatment plants and other locations.

Infrastructure rehabilitation master plans are continuously updated for water distribution facilities, distribution pipelines, reservoirs, pumping plants, rate control stations and regulators. On-going studies to determine capital funding needs on large diameter pipe replacements and extending the life of cement pipes are examples of efforts to maintain the current system, and prevent disruptions with timely upgrades to facilities to deliver the best service to the customers.

Master plans are continuously updated for water distribution facilities, distribution pipelines, reservoirs, pumping plants, rate control stations and regulators. On-going studies to determine capital funding needs on large diameter pipes replacement and extend life of cement pipes are examples of efforts to maintain the current system, prevent disruptions and timely upgrade the facilities to deliver the best service to the customers.

In the coming years, EBMUD will continue to invest in infrastructure while at the same time ensuring our services remain affordable. We will continue our efforts to earn the trust and satisfaction of our customers by providing high-quality water and services at a reasonable price.

## Financial Position and Highlights

Over the two-year budget period (FY12-FY13), adequate water supplies were available for EBMUD customers. Overall, customer water use was below historical norms for the past two years, thus stretching the water supply. Prudent budgeting and rigorous cost controls offset revenue shortfalls. To keep the budget balanced, EBMUD raised water and wastewater rates and continued to implement cost-cutting programs including delaying capital projects, reducing discretionary spending and restructuring the debt portfolio. As a result, EBMUD maintained its strong and stable fiscal position and continued to meet its financial goals.

In FY13, the total assets and deferred outflows of the District exceeded the total liabilities and deferred inflows by \$1.6 billion (*net position*). Net position increased by \$37 million or 2 percent during the fiscal year. Capital assets increased by \$97 million or 2 percent to \$4.2 billion. By far the largest portion of the District's net position - 62 percent or \$1.0 billion - represents investment in capital assets necessary to provide services.

In FY13, total operating revenue increased by \$34 million to \$427 million and operating expense increased by \$13 million to \$385 million. Changes in net position (including capital contributions) increased from negative \$27 million to \$37 million.

For liquidity purposes, EBMUD had \$201 million in cash and cash equivalent investments available to operating expenditures as of June 30, 2013.

## Financial Policies

Prudent financial management policies have resulted in long-term bond ratings of AAA (Water and Wastewater) from Standard & Poor's, Aa1 for Water and Aa2 for Wastewater from Moody's Investors' Service and AA+ for Water and Wastewater from Fitch.

The District has adopted a comprehensive set of financial policies. During the current year, two of these policies were of most significance. The Cash Reserve and Debt Management Policy set forth comprehensive guidelines to maintain operating and self-insurance reserves, necessary to provide ongoing working capital while maintaining a reasonable balance between debt and current revenue financing of capital projects. During FY013, the District issued Water System Revenue Refunding Bonds, Series 2012A, 2012B, 2013A and Wastewater System Revenue Refunding Bonds, Series 2012A.

Annually, the Board adopts an investment policy that is in compliance with the California Government Code, Sections 53600 et seq. The investment of idle funds is delegated by the Board to the District's Director of Finance as the Treasurer who assumes full responsibility for the transactions of the investment program. The objectives of the investment policy are safety, liquidity, yield, and diversity. The District's investments are in compliance with the adopted investment policy. See Note 2 in the Notes to the Financial Statements for detailed investment information.

This report also contains a Statistical Section, which provides both financial and non-financial trend data about the District and its operations.

## Debt Administration

### *Overview*

In FY13, the Water System had total long-term term revenue bonds, extendable commercial paper notes and State loans (net of unamortized costs) outstanding of \$2.7 billion. The District issued \$60 million of new money extendable commercial paper notes to fund capital expenditures and \$599 million of Water System Revenue Refunding Bonds to fully or partially refund Water System Subordinated Revenue Refunding Bond Series 2003, 2005A, 2007A, 2008A, 2008B-3 and 2009A. The Wastewater System had total long-term term revenue bonds, extendable commercial paper notes and State loans (net of unamortized costs) outstanding of \$469 million. The District issued \$20 million principal amount of Wastewater System Revenue Refunding Bonds to refund \$20 million principal amount of Wastewater System Subordinated Revenue Refunding Bonds Series 2007A.

### *Water System Revenue Refunding Bonds, Series 2012A*

The District issued \$191.8 million principal amount of Water System Series 2012A Bonds to refund \$71.8 million principal amount of the District's Water System Subordinated Revenue Bonds, Series 2005A and \$120 million principal amount of the District's Water System Subordinated Revenue Bonds, Series 2007A. The Series 2012A Bonds are special obligations of the District and are payable solely from and secured by a pledge of Subordinated Water Revenues. The refunding of Series 2005A and 2007A created an economic gain of \$15 million. The 2012A Bonds follow the same maturity schedule of the 2005A and 2007A Bonds but the date of the first call was extended to June 1, 2022 from June 1, 2015 on the Series 2005A Bonds and from June 1, 2017 on the Series 2007A Bonds.

### *Water System Revenue Refunding Bonds, Series 2012B*

The District issued \$358.6 million principal amount of Water System Series 2012B Bonds to refund and defease \$228.7 million principal amount of the District's Water System Revenue Refunding Bonds, Series 2009A Bonds as well as \$115.1 million principal amount of the District's Water System Revenue Refunding Bonds Series 2008A and \$43.4 million principal amount of the District's Water System Revenue Refunding Bonds Series 2008B-3. The Series 2012B Bonds are special obligations of the District and are payable solely from and secured by a pledge of Subordinated Water Revenues. The partial refunding of the Series 2008A, 2008B-3 and 2009A Water Bonds reduced debt service payments in FY13 by approximately \$16 million. This refunding created an economic loss of \$1 million.

### *Water System Revenue Refunding Bonds, Series 2013A*

The District issued \$48.7 million principal amount of Water System Series 2013A to refund \$56.1 million principal amount of the District's Water System Subordinated Revenue Refunding Bonds, Series 2003. The Series 2013A Bonds are special obligations of the District and are payable solely from and secured by a pledge of Subordinated Water Revenues. The refunding of Series 2003 Water Bonds reduced debt service payments in FY13 by approximately \$5 million. This refunding created an economic gain of \$7 million.

***Wastewater System Revenue Refunding Bonds, Series 2012A***

The District issued \$20 million principal amount of Wastewater System Series 2012A Bonds to refund \$20 million principal amount of the District's Wastewater System Subordinated Revenue Bonds, 2007A. The Series 2012A Bonds are special obligations of the District and are payable solely from and secured by a pledge of Subordinated Wastewater Revenues. The partial refunding of the 2007A Bonds created an economic gain of \$1 million. The 2012A Bonds have the same coupon rate and final maturity as the Series 2007A Bonds but the date of the first call was extended from June 1, 2017 to June 1, 2022.

**Budget and Rates**

The adopted biennial budget for Fiscal Year 2014/2015 supports EBMUD's mission, values and strategic plan. The total budget is \$1.45 billion, \$1.18 billion for water system and \$0.27 billion for wastewater system. The Board of Directors approved a water system rate increase of 9.75 percent for FY14 and 9.5 percent for FY15, and a wastewater system rate increase of 9 percent for FY14 and 8.5 percent for FY15.

The budget addresses three key strategic plan priorities: investing in aging infrastructure, enhancing effective maintenance practices, and improving customer service. In addition, to provide for long-term financial stability the budget is based on prudent projections of water demand and housing growth, addresses structural revenue shortfalls with rate adjustments, and meets the Board's policy goals for debt service coverage. The adopted budget for FY14-15 embodies these themes. It supports the District's mission, values and strategic plan, and the Board's commitment that the East Bay's world class quality of life must be supported by a world class water and wastewater utility.

The total water system budget is \$585 million in FY14, and \$595 million in FY15. The FY14-15 Capital Improvement Program (CIP) includes funding for improving water treatment processes; replacing, upgrading and maintaining aging infrastructure; protecting natural resources; and ensuring our future water supply. Over the next five years, the District anticipates spending over \$500 million to maintain the District's pipelines, aqueducts, pumping plants and reservoirs.

The total wastewater system budget is \$128 million in FY14, and \$144 million in FY15. Over the next five years, the District anticipates spending over \$50 million on rehabilitation and improvements to the infrastructure at the wastewater treatment plant that include addressing odor conditions. Other projects include \$16 million to upgrade the digesters and \$19 million to rehabilitate a sewer interceptor.

**Internal Controls**

EBMUD management is responsible for establishing and maintaining adequate internal controls to assure that District operations are effective and efficient; that applicable laws and regulations are followed; and financial reports are reliable. Internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and that cost-benefit analyses require estimates and judgments by management.

## Customer Service

EBMUD has consistently leveraged the use of technology to improve the quality of service while keeping costs low for its ratepayers. Since 1963, it has updated its business tools to keep records and handle customer billing. It also uses its capabilities to assist other public agencies in billing and collecting sewer service charges and utility user taxes.

Today, EBMUD continues to partner with six sewer agencies and three cities that rely on its expertise in customer service to help its customers. On their behalf, EBMUD collected \$70 million in charges in 2013, and assisted common customers without duplicating the costs associated with billing, collection, and related customer service activities. EBMUD's Contact Center responded to more than 350,000 customer contacts over the past year. A dedicated team of employees works hard to meet customer needs for advice, information and answers to billing questions. Self-service tools allow customers to conduct business around-the-clock. In 2013, over 1.1 million water bill payments were processed electronically through a variety of convenient payment options available to customers over the Internet and by automated phone service. EBMUD replaced outdated software to provide better customer service system reliability and continues to improve and add functionalities as customer and business needs dictate.

## Workforce planning and development

In anticipation of changes in the workforce, EBMUD continuously reviews and updates its workforce planning effort to ensure that there is ample talent to carry on the District's tradition of excellence. Beginning with a careful analysis of the EBMUD's workforce demographics and focused on areas where significant numbers of retirements are anticipated, EBMUD have developed short and long range training and recruitment programs to be responsive to its operational needs.

The Government Finance Officers' Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to EBMUD for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2012. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of a state and local government financial report. To be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements. This is the eighth consecutive year that EBMUD has received this award. We are submitting our current CAFR to determine its eligibility for another certificate.

In addition, the District also received the GFOA's Distinguished Budget Presentation Award for its FY14-15 biennial budget document. To qualify, the District's budget document had to be judged proficient as a policy document, a financial plan, an operations guide and a communications device.

I would like to thank the Board of Directors for their continued interest and support towards achieving excellence in financial management. Additionally, this report could not have been accomplished without the hard work and dedication of the entire Finance Department with recognition to the Accounting Division. Special appreciation is extended to the D. Scott Klein, Controller, Lawrence Fan, Accounting Systems Supervisor, David Siu, Accounting and Financial Systems Analyst, Joan Louie, Information Systems Support Analyst II, Crystal Zhang, Accountant III. I would also like to thank staff members of other department for their efforts put into the preparation of this report.

Respectfully submitted,



Eric L. Sandler  
*Director of Finance*



Government Finance Officers Association

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

Presented to

**East Bay Municipal  
Utility District, California**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2012**

Executive Director/CEO

EBMUD has a seven-member Board of Directors publicly elected from wards within the EBMUD service area.

## [John A. Coleman](#)

Director Coleman represents EBMUD's Ward No. 2 which is comprised of the cities of Alamo, Lafayette and Walnut Creek, Town of Danville, communities of Blackhawk and Diablo, and portions of San Ramon and Pleasant Hill.

## [Katy H. Foulkes](#)

Director Foulkes represents EBMUD's Ward No. 3 which is comprised of the cities of Piedmont, Orinda and El Sobrante, Town of Moraga, as well as portions of Oakland, Pinole and Richmond.

## [Andy Katz](#)

Director Katz represents EBMUD's Ward No. 4 which is comprised of the cities Albany, Berkeley, Emeryville, El Cerrito and Kensington as well as a portion of Oakland.

## [Doug A. Linney](#)

Director Linney represents EBMUD's Ward No. 5 which is comprised of the cities of Alameda and San Lorenzo as well as West Oakland and the Oakland Airport Area and a portion of San Leandro.

## [Lesia R. McIntosh](#)

Director McIntosh represents EBMUD's Ward No. 1 which is comprised of the cities of Crockett, Hercules, Rodeo and San Pablo; the communities of North Richmond and Selby, as well as portions of Richmond and Pinole.

## [Frank G. Mellon](#)

Director Mellon represents EBMUD's Ward No. 7 which is comprised of the town of Castro Valley, the communities of Cherryland and Fairview, as well as portions of San Leandro, Hayward and San Ramon.

## [William B. Patterson](#)

Director Patterson represents EBMUD's Ward No. 6 which is comprised of portions of Oakland (East Oakland and south of Park Blvd/5<sup>th</sup> Ave) to the San Leandro boundary.

# Organizational Staffing

*East Bay Municipal Utility District*

## BOARD OF DIRECTORS

Andy Katz.....	President
Katy H. Foulkes.....	Vice President
John A Coleman.....	Director
Doug A Linney .....	Director
Lesa R. McIntosh .....	Director
Frank G. Mellon.....	Director
William B. Patterson.....	Director

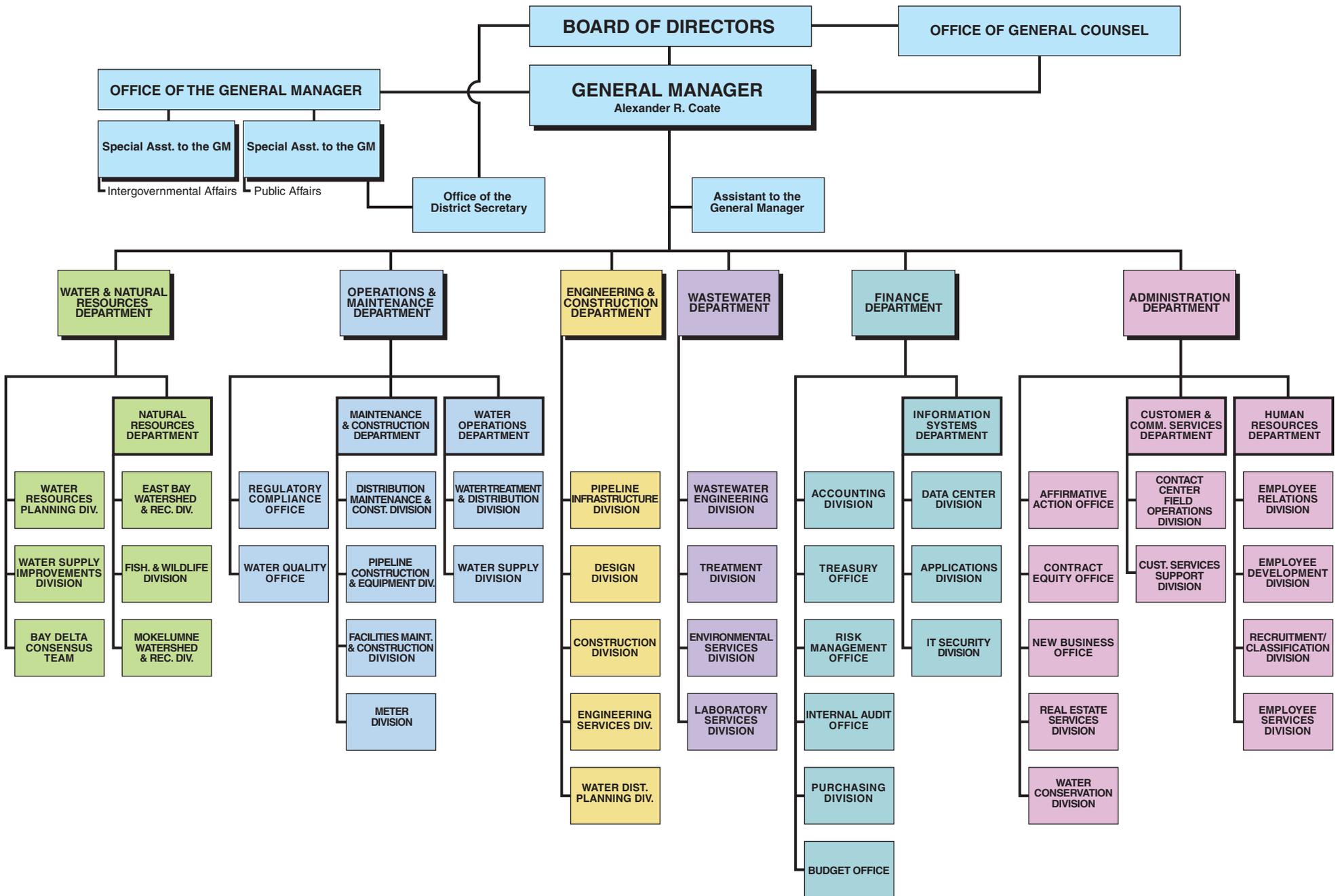
GENERAL MANAGER..... Alexander R. Coate

FINANCE DIRECTOR ..... Eric L. Sandler

CONTROLLER ..... D. Scott Klein

PREPARED..... Accounting Division of the  
Finance Department

P.O. Box 24055, Oakland, California 94623-1055  
1-866-403-2683, FAX (510) 287-0315





Independent Auditor's Report

Management's Discussion and Analysis

Basic Financial Statements

Required Supplemental Information

**EAST BAY MUNICIPAL UTILITY DISTRICT**  
**BASIC FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
East Bay Municipal Utility District  
Oakland, California

### *Report on Financial Statements*

We have audited the accompanying financial statements of each major fund and the discretely presented component unit, of the East Bay Municipal Utility District as of and for the years ended June 30, 2013 and 2012, 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 the financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audits 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 audits 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 District'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 District'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.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial positions of each major fund and the discretely presented component unit of the East Bay Municipal Utility District as of June 30, 2013 and 2012, and the respective changes in the financial positions and cash flows, where applicable, thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matters***

Management adopted the provisions of the following Governmental Accounting Standards Board Statements, which became effective during the year ended June 30, 2013 and had material effects on the financial statements:

Statement 63 - *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. See note 1D to the financial statements for relevant disclosures.

Statement 65 - *Items Previously Reported as Assets and Liabilities*. See note 6G to the financial statements for relevant disclosures.

The emphasis of these matters does not constitute a modification to our opinions.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that Management's Discussion and the schedules of employer contributions and 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 this information in accordance with generally accepted auditing standards 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 East Bay Municipal Utility District's basic financial statements as a whole. The Introductory Section, Supplemental Information, and Statistical Section as listed in the Table of Contents are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The Supplemental Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with generally accepted auditing standards in the United States of America. In our opinion, the Supplemental Information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The Introductory and Statistical Sections have 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 them.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 16, 2013 on our consideration of the East Bay Municipal Utility 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Pleasant Hill, California  
August 16, 2013

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# EAST BAY MUNICIPAL UTILITY DISTRICT

## Management's Discussion and Analysis

June 30, 2013

This section presents management's analysis of the East Bay Municipal Utility District's (the District) financial condition and activities as of and for the year ended June 30, 2013. Management's Discussion and Analysis (MDA) is intended to serve as an introduction to the District's basic financial statements. This information should be read in conjunction with the audited financial statements that follow this section. The District, as the primary governmental entity, includes within the financial statements, the financial position and activities of the District's Employees' Retirement System (Employees' Retirement System) as a component unit. The Employees' Retirement System issues its own financial statements and MDA under separate cover. Significant matters pertaining to the Employees' Retirement System have been included in the notes to the financial statements as deemed appropriate.

The information in this MDA is presented under the following headings:

Organization and Business

Overview of the Basic Financial Statements

Financial Analysis

Capital Assets

Debt Administration

Request for Information

### **ORGANIZATION AND BUSINESS**

The District provides water and wastewater services to industrial, commercial, residential and public authority users. The Water System collects, transmits, treats, and distributes high-quality water to approximately 60% (332 square miles) of the developed area within Alameda and Contra Costa counties of California and serves a population of about 1.3 million. The Wastewater System intercepts and treats wastewater from residences and industries within an 88 square miles service area including the communities of Alameda, Albany, Berkeley, Emeryville, Oakland, Piedmont, and the Stege Sanitary District and serves a population of about 650,000. The District recovers cost of service primarily through user fees.

### **OVERVIEW OF THE BASIC FINANCIAL STATEMENTS**

The District's basic financial statements are comprised of two components: (1) Fund Financial Statements and (2) Notes to Basic Financial Statements. The report also contains other required supplementary information in addition to the basic financial statements.

***Fund Financial Statements.*** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other special purpose governments, uses fund accounting to ensure and demonstrate compliance with financial-related legal requirements.

***Proprietary Funds.*** The District's proprietary funds consist of two enterprise funds, the Water System and the Wastewater System. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

## EAST BAY MUNICIPAL UTILITY DISTRICT

### Management's Discussion and Analysis

June 30, 2013

The District's proprietary fund statements include:

The *Balance Sheet* presents information on the District's assets and deferred outflows, and liabilities and deferred inflows, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

While the Balance Sheet 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 District's operations over the course of the fiscal year and information as to how the net position changed during the year. This statement can be used as an indicator of the extent to which the District has successfully recovered its costs through user fees and other charges. All changes in net position are reported during the period in which 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 periods, such as delayed collection of operating revenues and the expense of employee earned but unused vacation leave.

The *Statement of Cash Flows* presents changes in cash and cash equivalents resulting from operational, capital, noncapital, 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 and excludes noncash accounting measures of depreciation or amortization of assets.

***Fiduciary Fund.*** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The District's fiduciary fund consists of the Pension and Other Employee Benefit Trust fund, which is maintained to account for assets held by the Employees' Retirement System in a trustee capacity for vested and retired employees. The accounting used for fiduciary funds is much like that used for the proprietary funds.

**Notes to Basic Financial Statements.** The notes 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 27 to 65 of this report.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents *certain required supplementary information* concerning the District's progress in funding its obligation to provide pension and other post-employment healthcare benefits to its employees. Such required supplementary information can be found on pages 69 to 74 of this report.

## EAST BAY MUNICIPAL UTILITY DISTRICT

### Management's Discussion and Analysis

June 30, 2013

#### FINANCIAL ANALYSIS

##### *Financial Highlights*

In fiscal year 2013, EBMUD continued to effectively manage its finances overcoming many fiscal challenges. EBMUD implemented cost saving programs to offset lower water sales volumes and continued to look for ways to optimize operational efficiency. The following results of operations indicate a continuing strong and stable fiscal position.

The total assets and deferred outflows of the District exceeded the total liabilities and deferred inflows by \$1.6 billion (*net position*).

Net position increased by \$37 million or 2% during the fiscal year.

Capital assets increased by \$97 million or 2% to \$4.2 billion.

During the year, operating revenue increased by \$34 million or 9% to \$427 million.

Operating expense increased by \$13 million or 4% to \$385 million.

Non-operating net loss decreased by \$34 million or 35% to (\$63) million.

Capital contributions, consisting of capital facility fees, increased by \$9 million or 19% from the prior fiscal year.

##### *Financial Position*

In the current year, the District's total net position increased by \$37 million or 2%. Current and other assets decreased by \$18 million or 2%. Capital assets increased by \$97 million or 2%. By far the largest portion of the District's net position, 62% or \$1.0 billion, represents its investment in capital assets necessary to provide services.

- The Water System's net position increased by \$26 million or 2% during the twelve months ended June 30, 2013.
- The Wastewater System's net position increased by \$11 million or 4% during the twelve months ended June 30, 2013.

In the previous fiscal year, the District's total net position decreased by \$27 million or 2%. Current and other assets increased by \$178 million or 21%. Capital assets decreased by \$138 million or 3%. By far the largest portion of the District's net position, 61% or \$1.0 billion, represents its investment in capital assets necessary to provide services.

# EAST BAY MUNICIPAL UTILITY DISTRICT

## Management's Discussion and Analysis

June 30, 2013

Table 1 shows the District's net position for the fiscal years ended June 30, 2013, 2012 and 2011:

**Table 1**  
Net Position  
Water and Wastewater  
June 30, 2013 and 2012  
(In thousands)

	2013	2012	Variance	%
Current and other assets	\$ 800,858	818,838	(17,980)	(2)%
Capital assets	4,151,206	4,053,724	97,482	2%
Deferred outflow of resources	90,752	192,716	(101,964)	(53)%
Total assets and deferred outflow	<u>5,042,816</u>	<u>5,065,278</u>	<u>(22,462)</u>	<u>(0)%</u>
Current and other liabilities	206,553	209,587	(3,034)	(1)%
Long-term liabilities	3,092,410	3,046,800	45,610	1%
Deferred inflow of resources	115,303	217,267	(101,964)	(47)%
Total liabilities and deferred inflow	<u>3,414,266</u>	<u>3,473,654</u>	<u>(59,388)</u>	<u>(2)%</u>
Net position:				
Net investment in capital assets	1,031,360	983,487	47,873	5%
Restricted	314,519	347,554	(33,035)	(10)%
Unrestricted	282,671	260,583	22,088	8%
Total net position	<u>\$ 1,628,550</u>	<u>1,591,624</u>	<u>36,926</u>	<u>2%</u>

Net Position  
Water and Wastewater  
June 30, 2012 and 2011  
(In thousands)

	2012	2011	Variance	%
Current and other assets	\$ 818,838	745,979	72,859	10%
Capital assets	4,053,724	4,191,759	(138,035)	(3)%
Deferred outflow of resources	192,716	101,516	91,200	90%
Total assets and deferred outflow	<u>5,065,278</u>	<u>5,039,254</u>	<u>26,024</u>	<u>1%</u>
Current and other liabilities	209,587	193,837	15,750	8%
Long-term liabilities	3,046,800	3,111,477	(64,677)	(2)%
Deferred inflow of resources	217,267	101,516	115,751	114%
Total liabilities and deferred inflow	<u>3,473,654</u>	<u>3,406,830</u>	<u>66,824</u>	<u>2%</u>
Net position:				
Net investment in capital assets	983,487	1,202,772	(219,285)	(18)%
Restricted	347,554	132,173	215,381	163%
Unrestricted	260,583	297,479	(36,896)	(12)%
Total net position	<u>\$ 1,591,624</u>	<u>1,632,424</u>	<u>(40,800)</u>	<u>(2)%</u>

## EAST BAY MUNICIPAL UTILITY DISTRICT

### Management's Discussion and Analysis

June 30, 2013

#### *Results of Operations*

In the current fiscal year, the District's total operating revenue of \$427 million for the year increased by \$34 million and total operating expense of \$385 million for the year increased by \$13 million. The District's change in net position (including capital contributions) increased from negative \$27 million in the previous fiscal year to \$37 million in the current fiscal year. The District's total net position increased from \$1,592 million to \$1,629 million during the current fiscal year.

The major components of the District's results of operations were:

- Water revenues increased by \$30 million, mainly reflecting a 6% water rate increase and a 3.9% increase in consumption in the current fiscal year.
- Sewer revenues increased by \$4 million, mainly reflecting a 6% rate increase in the current fiscal year.
- Power revenues decreased by \$1 million over the previous year due to lower precipitation and run-off for power generation in the current fiscal year as compared to the previous fiscal year.
- Operating expense increased by \$13 million, primarily due to a \$15 million increase in General Administration that includes an increase of \$5 million in information services equipment, regulatory compliance, public information and emergency preparedness, no adjustment to amortization expense of \$10 million as in fiscal year 2012, offset by \$2 million reduction in expenses related to water and sewer operations because of cost containment measures based on lower projected water consumption.
- Non-operating net loss decreased by \$34 million primarily due to a \$4 million increase by a one-time state reimbursement of borrowed property taxes (Prop 1A) and one-time redevelopment agency property tax reimbursements, no \$25 million charge for swap counterparty change as in fiscal year 2012, and a \$5 million reduction in amortization of bond expenses.
- Capital contributions increased by \$9 million primarily reflecting increased funds received from state grants (\$4 million from Mokelumne Aqueducts Interconnection Project) and an increase in net funds from System Capacity Fees, mainly reflecting an 11% rate increase and a one-time major construction project in Walnut Creek. In addition, there were \$1 million fewer refunds in the current year versus last year with overall connections staying the same. Page 12 contains additional capital contributions information.
- Prior period adjustment per GASB 65 see Note 6G page 56.

## EAST BAY MUNICIPAL UTILITY DISTRICT

### Management's Discussion and Analysis

June 30, 2013

In the previous fiscal year, the District's total operating revenue of \$393 million for the year increased by \$25 million and total operating expense of \$371 million for the year increased by \$13 million. The District's change in net position (including capital contributions) decreased from \$3 million in the previous fiscal year to negative \$27 million in the current fiscal year. The District's total net position decreased from \$1,632 million to \$1,592 million during the current fiscal year.

The major components of the District's results of operations were:

- Water revenues increased by \$23 million, mainly reflecting the water rate increase in the current fiscal year.
- Sewer revenues increased by \$5 million, mainly reflecting a stable revenue base, coupled with a rate increase in the current fiscal year, and an increase of property tax based wet weather facilities charges of \$1 million, as compared to the previous fiscal period.
- Power revenues decreased by \$3 million over the previous period due to lower precipitation and run-off for power generation in the current fiscal year as compared to the previous fiscal year.
- Operating expenses increased by \$13 million, primarily reflecting increases in water treatment and distribution and depreciation on capital assets due to major assets being placed in service at the end of the previous fiscal and current fiscal years. These increases were offset by a decrease in General Administration due to the one-time re-class of an intangible Freeport asset \$10 million accumulated balance.
- Non-operating income (net of non-operating expenses) decreased by \$41 million primarily due \$1 million decrease in investment income and the recognition of \$24 million loss as required by GASB 64, when the 2002 Water System Refunding Bonds SWAP derivative instrument counterparty was changed and an increase in interest expense due to the issuance of the 2010 Series Bonds in the previous fiscal year, as well as a \$16 million increase in Bond interest and amortization.
- Capital contributions decreased by \$1 million primarily reflecting fees received in the prior fiscal year for the relocation of District facilities. Page 12 contains additional capital contributions information.
- Total net position in fiscal year 2012 was adjusted from \$1,605 million to \$1,592 million per GASB 65 see Note 6G page 56.

## EAST BAY MUNICIPAL UTILITY DISTRICT

### Management's Discussion and Analysis

June 30, 2013

Table 2 shows changes in the District's net position for the fiscal years ended June 30, 2013, 2012, and 2011:

**Table 2**

Changes in Net Position

Water and Wastewater

June 30, 2013 and 2012

(In thousands)

	<u>2013</u>	<u>2012</u>	<u>Variance</u>	<u>%</u>
<b>Operating Revenues:</b>				
Water	\$ 336,066	306,228	29,838	10%
Sewer	68,050	64,252	3,798	6%
Power	4,289	4,943	(654)	(13)%
Wet weather facilities charges	18,321	17,228	1,093	6%
Total operating revenues	<u>426,726</u>	<u>392,651</u>	<u>34,075</u>	9%
<b>Operating Expenses:</b>				
Raw water	33,076	31,777	1,299	4%
Water treatment & distribution	89,596	91,751	(2,155)	(2)%
Recreation areas, net	5,341	5,549	(208)	(4)%
Sewer lines & pumps	12,530	12,515	15	0%
Sewer treatment plant operations	28,683	30,387	(1,704)	(6)%
Customer accounting & collecting	18,518	18,903	(385)	(2)%
Financial and risk management	17,227	18,213	(986)	(5)%
Facilities management	8,829	11,814	(2,985)	(25)%
General administration	61,690	46,855	14,835	32%
Depreciation (excluding amounts reported within the Water and Wastewater operations)	109,162	103,452	5,710	6%
Total operating expenses	<u>384,652</u>	<u>371,216</u>	<u>13,436</u>	4%
Net operating income (expense)	42,074	21,435	20,639	96%
<b>Nonoperating income (expense):</b>				
Investment income	5,192	5,244	(52)	(1)%
Taxes & subventions	35,844	31,693	4,151	13%
Interest & amortization of bond expenses, net	(116,270)	(121,315)	5,045	(4)%
Hedge fund termination	—	(24,551)	24,551	N/A
Other income (expense)	12,698	12,202	496	4%
Total other income (expense), net	<u>(62,536)</u>	<u>(96,727)</u>	<u>34,191</u>	(35)%
Income (Loss) before contributions	(20,462)	(75,292)	54,830	(73)%
Capital contributions	57,388	48,034	9,354	19%
Change in net position	36,926	(27,258)	64,184	(235)%
Total net position – beginning	1,591,624	1,632,424	(40,800)	(2)%
Prior period adjustment per implementation GASB 65	—	(13,542)	13,542	N/A
Total net position – ending	<u>\$ 1,628,550</u>	<u>1,591,624</u>	<u>36,926</u>	2%

# EAST BAY MUNICIPAL UTILITY DISTRICT

## Management's Discussion and Analysis

June 30, 2013

**Table 2 (Continued)**

Changes in Net Position

Water and Wastewater

June 30, 2012 and 2011

(In thousands)

	<u>2012</u>	<u>2011</u>	<u>Variance</u>	<u>%</u>
<b>Operating Revenues:</b>				
Water	\$ 306,228	283,644	22,584	8%
Sewer	64,252	60,313	3,939	7%
Power	4,943	8,082	(3,139)	(39)%
Wet weather facilities charges	17,228	16,064	1,164	7%
Total operating revenues	<u>392,651</u>	<u>368,103</u>	<u>24,548</u>	7%
<b>Operating Expenses:</b>				
Raw water	31,777	31,081	696	2%
Water treatment & distribution	91,751	84,170	7,581	9%
Recreation areas, net	5,549	5,685	(136)	(2)%
Sewer lines & pumps	12,515	13,353	(838)	(6)%
Sewer treatment plant operations	30,387	28,767	1,620	6%
Customer accounting & collecting	18,903	17,525	1,378	8%
Financial and risk management	18,213	18,054	159	1%
Facilities management	11,814	12,184	(370)	(3)%
General administration	46,855	55,339	(8,484)	(15)%
Depreciation (excluding amounts reported within the Water and Wastewater operations)	<u>103,452</u>	<u>92,146</u>	<u>11,306</u>	12%
Total operating expenses	<u>371,216</u>	<u>358,304</u>	<u>12,912</u>	4%
Net operating income (expense)	21,435	9,799	11,636	119%
<b>Nonoperating income (expense):</b>				
Investment income	5,244	6,563	(1,319)	(20)%
Taxes & subventions	31,693	29,615	2,078	7%
Interest & amortization of bond expenses, net	(121,315)	(105,793)	(15,522)	15%
Hedge fund termination\	(24,551)	—	(24,551)	N/A
Other income (expense)	12,202	14,018	(1,816)	(13)%
Total other income (expense), net	<u>(96,727)</u>	<u>(55,597)</u>	<u>(41,130)</u>	74%
Income (Loss) before contributions	(75,292)	(45,798)	(29,494)	64%
Capital contributions	<u>48,034</u>	<u>48,910</u>	<u>(876)</u>	(2)%
Change in net position	(27,258)	3,112	(30,370)	(976)%
Total net position – beginning	1,632,424	1,629,312	3,112	0%
Prior period adjustment per implementation GASB 65	<u>(13,542)</u>	—	<u>(13,542)</u>	N/A
Total net position – ending	<u>\$ 1,591,624</u>	<u>1,632,424</u>	<u>(40,800)</u>	(2)%

## EAST BAY MUNICIPAL UTILITY DISTRICT

### Management's Discussion and Analysis

June 30, 2013

#### *Liquidity*

The District had \$201 million in cash and cash equivalent investments available as of June 30, 2013 a decrease of \$5 million compared to \$206 million as of June 30, 2012. Components of cash and cash equivalents for the year ended June 30, 2013:

- Water System decreased \$39 million to \$115 million primarily due to an increase of \$32 million in capital spending compared to the prior year and investment in longer term maturities.
- Wastewater System increased \$34 million to \$86 million primarily due to an increase in cash received from customers.

Table 3 shows the District's cash flow for the fiscal years ended June 30, 2013, 2012 and 2011:

**Table 3**  
Cash Flows  
Water and Wastewater System  
June 30, 2013 and 2012  
(In thousands)

	<b>2013</b>	<b>2012</b>	<b>Variance</b>	<b>%</b>
Net cash provided by operating activities	\$ 206,025	\$ 152,284	53,741	35%
Net cash provided by financing activities	35,844	31,693	4,151	13%
Net cash provided by (used in) capital and related financing activities	(264,665)	(347,472)	82,807	(24)%
Net cash provided by (used in) investing activities	17,528	175,686	(158,158)	(90)%
Net increase (decrease) in cash and cash equivalents	(5,268)	12,191	(17,459)	(143)%
Cash and cash equivalents:				
Beginning of year	205,955	193,764	12,191	6%
End of period	<u>\$ 200,687</u>	<u>\$ 205,955</u>	<u>(5,268)</u>	<u>(3)%</u>

Cash Flows  
Water and Wastewater System  
June 30, 2012 and 2011  
(In thousands)

	<b>2012</b>	<b>2011</b>	<b>Variance</b>	<b>%</b>
Net cash provided by operating activities	\$ 152,284	\$ 140,602	11,682	8%
Net cash provided by financing activities	31,693	29,615	2,078	7%
Net cash provided by (used in) capital and related financing activities	(347,472)	(145,444)	(202,028)	139%
Net cash provided by (used in) investing activities	175,686	(119,835)	295,521	(247)%
Net increase (decrease) in cash and cash equivalents	12,191	(95,062)	107,253	(113)%
Cash and cash equivalents:				
Beginning of year	193,764	288,826	(95,062)	(33)%
End of period	<u>\$ 205,955</u>	<u>\$ 193,764</u>	<u>12,191</u>	<u>6%</u>

# EAST BAY MUNICIPAL UTILITY DISTRICT

## Management's Discussion and Analysis

June 30, 2013

### *Capital Contributions*

Capital contributions primarily consist of Capacity Charges and seismic improvement surcharges. Additionally, the District receives contributions when the District's facilities need to be relocated during construction projects, as well as state and federal grants.

The Water System's System Capacity Charge (SCC) is a way to equitably fund the capital cost of the water system and pay for the cost of providing additional long-term water supply for new water service applicants. The charge is collected from all applicants who request a new water service connection or a larger water meter size, and varies depending on geographic region. The SCC pays for the applicant's share of the capital facilities including those that serve the entire water system such as the aqueducts and raw water facilities, regional facilities such as treatment plants and distribution facilities, and future water supply upgrades needed to meet long-term increases in water demand created by new customers. The portion of the SCC that pays for the Future Water Supply is restricted and the remainder is unrestricted.

The Wastewater System's Capacity Fee is treated as unrestricted funds and pays for the share of Wastewater facilities attributed to new customers.

The Seismic Improvement Program (SIP) Surcharge for each Single Family Residential or Multiple Family Residential account is used to pay for system-wide seismic improvements being made from 1995-2025.

Grants and other reimbursements increased from \$4 million to \$8 million primarily from state grants.

Table 4 shows the District's capital contributions received for the fiscal years ended June 30, 2013, 2012 and 2011:

**Table 4**

Capital Contributions  
Water and Wastewater  
June 30, 2013 and 2012  
(In thousands)

	Water System		Wastewater System		Total		Increase (decrease)	
	2013	2012	2013	2012	2013	2012	Amount	%
System capacity charges	\$ 22,673	16,075	1,264	2,824	23,937	18,899	5,038	27%
Earned contributions on construction	4,540	5,870	—	—	4,540	5,870	(1,330)	(23)%
Seismic improvement surcharge	20,585	19,173	—	—	20,585	19,173	1,412	7%
Grants and other reimbursements	7,993	4,092	333	—	8,326	4,092	4,234	103%
<b>Totals</b>	<b>\$ 55,791</b>	<b>45,210</b>	<b>1,597</b>	<b>2,824</b>	<b>57,388</b>	<b>48,034</b>	<b>9,354</b>	<b>19%</b>

Capital Contributions  
Water and Wastewater  
June 30, 2012 and 2011  
(In thousands)

	Water System		Wastewater System		Total		Increase (decrease)	
	2012	2011	2012	2011	2012	2011	Amount	%
System capacity charges	\$ 16,075	17,626	2,824	2,423	18,899	20,049	(1,150)	(6)%
Earned contributions on construction	5,870	6,481	—	668	5,870	7,149	(1,279)	(18)%
Seismic improvement surcharge	19,173	18,102	—	—	19,173	18,102	1,071	6%
Grants and other reimbursements	4,092	3,610	—	—	4,092	3,610	482	13%
<b>Totals</b>	<b>\$ 45,210</b>	<b>45,819</b>	<b>2,824</b>	<b>3,091</b>	<b>48,034</b>	<b>48,910</b>	<b>(876)</b>	<b>(2)%</b>

# EAST BAY MUNICIPAL UTILITY DISTRICT

## Management's Discussion and Analysis

June 30, 2013

### CAPITAL ASSETS

Table 5 shows the District's capital assets for the fiscal years ended June 30, 2013, 2012 and 2011:

**Table 5**  
Capital Assets, Net of Depreciation  
Water and Wastewater  
June 30, 2013 and 2012  
(In thousands)

	Water System		Wastewater System		Total		Increase/(decrease)	
	2013	2012	2013	2012	2013	2012	Amount	%
Structures, buildings, and equipment	\$ 3,176,727	3,135,153	546,182	545,799	3,722,909	3,680,952	41,957	1.1%
Land and rights of way	55,455	55,432	20,048	19,986	75,503	75,418	85	0.1%
Construction work in progress	252,473	209,802	100,321	87,570	352,794	297,372	55,422	18.6%
Totals	\$ <u>3,484,655</u>	<u>3,400,387</u>	<u>666,551</u>	<u>653,355</u>	<u>4,151,206</u>	<u>4,053,742</u>	<u>97,464</u>	2.4%

Capital Assets, Net of Depreciation  
Water and Wastewater  
June 30, 2012 and 2011  
(In thousands)

	Water System		Wastewater System		Total		Increase/(decrease)	
	2012	2011	2012	2011	2012	2011	Amount	%
Structures, buildings, and equipment	\$ 3,135,153	2,786,422	545,799	503,665	3,680,952	3,290,087	390,865	11.9%
Land and rights of way	55,432	52,939	19,986	19,904	75,418	72,843	2,575	3.5%
Construction work in progress	209,802	716,558	87,570	112,271	297,372	828,829	(531,457)	(64.1)%
Totals	\$ <u>3,400,387</u>	<u>3,555,919</u>	<u>653,355</u>	<u>635,840</u>	<u>4,053,742</u>	<u>4,191,759</u>	<u>(138,017)</u>	(3.3)%

The District had \$4.2 billion (net of accumulated depreciation) invested in a broad range of utility capital assets as of June 30, 2013. Total capital assets were \$4.1 billion as of June 30, 2012. The investment in capital assets includes land, buildings, improvements, water treatment plants, filter plants, aqueducts, water transmission and distribution mains, water storage facilities, pump stations, water reclamation facilities, wastewater and wet weather treatment facilities, machinery and equipment (see Table 5 above). In the current fiscal year 2013, capital assets increased by \$97 million or 2.4% over the prior fiscal year. In the previous fiscal year 2012, capital assets decreased \$138 million or 3.3% over the fiscal year 2011 value due to reclass of \$226 million from construction work in progress to JPA partnership fund in fiscal year 2012 (see Note 2J page 43). Annual changes are consistent with the District's capital improvement program.

## EAST BAY MUNICIPAL UTILITY DISTRICT

### Management's Discussion and Analysis

June 30, 2013

The Water System had \$3.5 billion (net of accumulated depreciation) invested in a broad range of utility capital assets as of June 30, 2013. The investment in capital assets includes land, buildings, improvements, water treatment plants, filter plants, aqueducts, water transmission and distribution mains, water storage facilities, power generation, pump stations, water reclamation facilities, machinery and equipment.

The Wastewater System had \$667 million (net of accumulated depreciation) invested in a broad range of utility capital assets as of June 30, 2013. The investment in capital assets includes land, buildings, improvements, power generation, wastewater and wet weather treatment facilities, machinery and equipment.

The District's net revenue, long-term debt, and contributions from customers are used to finance capital investments. More detailed information about the District's capital assets is presented in Note 3 to the basic financial statements.

This year's major capital expenditures included:

#### **Water System:**

Pipeline Infrastructure Renewals	\$29,643
Water Treatment & Transmission Improvement Program - Water Treatment Plant	27,807
Cent Oakland Hills Cascade	19,183
Reservoir Rehabilitation/Maintenance	17,686
Raw Water Studies and Improves	15,763
Pumping Plant Rehab	13,821
Raw Water Aqueduct Operations and Maintenance Improvements	9,324
Treatment Plant Upgrades	8,106
San Ramon Valley Recycled Water Program	8,011
Large Diameter Pipelines	7,951
Administration Building Modifications	7,921
Mokelumne Aqueduct Recoating	6,270
Round Hill Pressure Zone Improvements	6,074
Summit Pressure Zone Improvements	5,210
Water Conservation	5,036
Additional Supplemental Supply Projects	4,999
Distrib Sys Wtr Quality Improv	3,309
Rate Control Station Rehab	3,263
Pipeline System Improvements	3,069

#### **Wastewater System:**

Digester Upgrade	58,451
Power Generation Station Expansion	13,088
Treatment Plant Infrastructure	8,777
Concrete Rehabilitation at SD1	4,534
Routine Capital Equipment Replacement	3,418
PGS Engine Replacement	2,264
Main Wastewater Treatment Plant Master Plan	1,793
Wood Street Sewer Interceptor	1,676
Resource Recovery Project	1,655
Distributed Control System Upgrade	1,403

# EAST BAY MUNICIPAL UTILITY DISTRICT

## Management's Discussion and Analysis

June 30, 2013

### DEBT ADMINISTRATION

The District had total long-term debt outstanding of \$3.1 billion as of June 30, 2013 or a 1% increase from June 30, 2012. Total long-term debt outstanding was \$3.1 billion as of June 30, 2012 or 2% decrease from June 30, 2011. Components of the District's long-term debt portfolio as of June 30, 2013 are:

- The Water System had total long-term debt outstanding of \$2.7 billion. During the fiscal year 2013, the District issued \$60 million of commercial paper and \$599 million of Water System Revenue Refunding Bonds to refund Water System Subordinated Revenue Refunding Bond Series 2003, 2005A, 2007A, 2008A, 2008B-3 and 2009A. The Wastewater System had total long-term debt outstanding of \$469 million. During the fiscal year 2013, the District issued \$20 million of Wastewater System Revenue Refunding Bonds to refund Water System Subordinated Revenue Refunding Bond Series 2007A.

Table 6 shows the District's long-term debt outstanding for the fiscal years ended June 30, 2013, 2012 and 2011:

**Table 6**

Long -Term Debt

(Net of Unamortized Costs)

Water and Wastewater

June 30, 2013 and 2012

(In thousands)

	Water System		Wastewater System		Total		Increase (decrease)	
	2013	2012	2013	2012	2013	2012	Amount	%
General obligation bonds	\$ —	—	18,812	21,847	18,812	21,847	(3,035)	(14)%
Revenue bonds	2,266,515	2,294,115	435,337	444,366	2,701,852	2,738,481	(36,629)	(1)%
Extendable commercial paper	372,900	312,900	15,000	15,000	387,900	327,900	60,000	18%
Loans	17,902	17,970	—	—	17,002	17,970	(968)	(5)%
<b>Totals</b>	<b>\$ 2,656,417</b>	<b>2,624,985</b>	<b>469,149</b>	<b>481,213</b>	<b>3,125,566</b>	<b>3,106,198</b>	<b>19,368</b>	<b>1%</b>

Long -Term Debt

(Net of Unamortized Costs)

Water and Wastewater

June 30, 2012 and 2011

(In thousands)

	Water System		Wastewater System		Total		Increase (decrease)	
	2012	2011	2012	2011	2012	2011	Amount	%
General obligation bonds	\$ —	—	21,847	24,681	21,847	24,681	(2,834)	(11)%
Revenue bonds	2,294,115	2,334,475	444,366	454,285	2,738,481	2,788,760	(50,279)	(2)%
Extendable commercial paper	312,900	312,900	15,000	15,000	327,900	327,900	—	0%
Loans	17,970	26,501	—	—	17,970	26,501	(8,531)	(32)%
<b>Totals</b>	<b>\$ 2,624,985</b>	<b>2,673,876</b>	<b>481,213</b>	<b>493,966</b>	<b>3,106,198</b>	<b>3,167,842</b>	<b>(61,644)</b>	<b>(2)%</b>

# EAST BAY MUNICIPAL UTILITY DISTRICT

## Management's Discussion and Analysis

June 30, 2013

It is the policy of the District to maintain a reasonable balance between debt and current revenue financing of capital projects. The following targets provide the framework for financing capital projects:

*Debt Service Coverage Ratio:* Maintain an annual revenue bond debt coverage ratio of at least 1.6 times coverage. As of 6/30/2013, the coverage ratio for Water was 1.71 and for Wastewater was 1.59; the overall District's ratio was 1.69.

*Debt-Funded Capital Spending:* Limit debt-funded capital to no more than 65% of the total capital program over each five-year planning period. As of 6/30/2013, the percentage of debt-funded capital spending for Water was 62.4% and for Wastewater was 77.7%; the overall District's percentage was 64.8%.

*Extended Commercial Paper and Un-hedged Variable Rate Debt:* Limit to 25% of outstanding long-term debt. As of 6/30/2013, the percentage of extended commercial paper and un-hedged variable rate debt compare to total outstanding long-term debt for Water was 14.9% and for Wastewater was 3.2%; the overall District's percentage was 13.2%.

The District's credit ratings are outlined in Table 7.

**Table 7**  
Credit Ratings  
Water and Wastewater  
June 30, 2013

District debt by type	Standard & Poor's	Rating by Moody's Investors Service	Fitch
<b>Water system:</b>			
Fixed Rate Revenue Bonds	AAA*	Aa1	AA+
Variable Rate Revenue Bonds			
Long-term Underlying Rating	AAA	Aa1	AA+
SIFMA-Based Index Bonds	A-1+	VMIG-1	F1+
Extendable Commercial Paper	A-1+	P-1	F1+
<b>Wastewater system:</b>			
General Obligation Bonds	AAA	Aa2	-
Fixed Rate Revenue Bonds	AAA	Aa2	AA+
Variable Rate Revenue Bonds			
Long-term Underlying Rating	AAA	Aa2	AA+
SIFMA-Based Index Bonds	A-1+	VMIG-1	F1+
Extendable Commercial Paper	A-1+	P-1	F1+

Revenue-supported debt authorization for the District can be approved by the District's board of directors, subject to a referendum process. At June 30, 2013, the Water System had \$602.3 million and the Wastewater System had \$204.3 million in authorized but unissued revenue bonds.

Additional information on the District's long-term debt can be found in Note 6 to the financial statements.

\*The District's long-term debt credit rating was put on a negative watch by Standard & Poor's as of October 16, 2012.

**EAST BAY MUNICIPAL UTILITY DISTRICT**

Management's Discussion and Analysis

June 30, 2013

**REQUEST FOR INFORMATION**

This financial report is designed to provide ratepayers and creditors with a general overview of the District's finances and demonstrate the District's accountability for the monies it receives. If you have any questions about this report or need additional information, please contact: the Controller, Accounting Division, P.O. Box 24055, Oakland, CA 94623-1055 or visit our website at <http://www.ebmud.com>.

EAST BAY MUNICIPAL UTILITY DISTRICT  
BALANCE SHEETS  
JUNE 30, 2013 AND 2012  
(DOLLARS IN THOUSANDS)

	Water System		Wastewater System		Total	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
<b>Current assets:</b>						
Cash and investments (Note 2)	\$303,247	\$279,970	\$73,622	\$56,838	\$376,869	\$336,808
Receivables:						
Customer	47,566	41,183	6,504	5,871	54,070	47,054
Interest and other	5,002	6,618	2,905	1,628	7,907	8,246
Materials and supplies	6,641	6,773	-	-	6,641	6,773
Prepaid Insurance	1,115	1,083	-	-	1,115	1,083
<b>Total current assets</b>	<b>363,571</b>	<b>335,627</b>	<b>83,031</b>	<b>64,337</b>	<b>446,602</b>	<b>399,964</b>
<b>Noncurrent assets:</b>						
Restricted cash and investments (Note 2):						
Bond construction fund	-	411	5,720	35,532	5,720	35,943
Capitalized interest fund	-	-	1,582	3,327	1,582	3,327
Bond interest and redemption fund	139	24,210	19	-	158	24,210
Debt service reserve fund	34,175	46,730	2,538	2,538	36,713	49,268
Funds received for construction	26,081	23,492	-	-	26,081	23,492
FERC partnership fund	2,232	2,238	-	-	2,232	2,238
Monetary reserve	605	722	-	-	605	722
<b>Total restricted cash and investments</b>	<b>63,232</b>	<b>97,803</b>	<b>9,859</b>	<b>41,397</b>	<b>73,091</b>	<b>139,200</b>
Unrestricted investments (Note 2):						
Reserve funded CIP	-	-	14,390	14,288	14,390	14,288
Vehicle/equipment replacement fund	5,067	7,844	7,525	8,674	12,592	16,518
<b>Total unrestricted cash and investments</b>	<b>5,067</b>	<b>7,844</b>	<b>21,915</b>	<b>22,962</b>	<b>26,982</b>	<b>30,806</b>
<b>Other assets:</b>						
JPA partnership fund	253,720	248,406	-	-	253,720	248,406
Other	135	180	328	264	463	444
<b>Total other assets</b>	<b>253,855</b>	<b>248,586</b>	<b>328</b>	<b>264</b>	<b>254,183</b>	<b>248,850</b>
<b>Capital assets (Note 3):</b>						
Structures, buildings, and equipment	4,600,402	4,473,086	899,906	877,664	5,500,308	5,350,750
Less accumulated depreciation	(1,423,675)	(1,337,933)	(353,724)	(331,865)	(1,777,399)	(1,669,798)
Subtotal	3,176,727	3,135,153	546,182	545,799	3,722,909	3,680,952
Land and rights-of-way	55,455	55,432	20,048	19,986	75,503	75,418
Construction in progress	252,473	209,802	100,321	87,570	352,794	297,372
<b>Total capital assets, net</b>	<b>3,484,655</b>	<b>3,400,387</b>	<b>666,551</b>	<b>653,355</b>	<b>4,151,206</b>	<b>4,053,742</b>
<b>Total noncurrent assets</b>	<b>3,806,809</b>	<b>3,754,620</b>	<b>698,653</b>	<b>717,978</b>	<b>4,505,462</b>	<b>4,472,598</b>
<b>Total assets</b>	<b>4,170,380</b>	<b>4,090,247</b>	<b>781,684</b>	<b>782,315</b>	<b>4,952,064</b>	<b>4,872,562</b>
<b>Deferred outflow of resources</b>						
Accumulated decrease in fair value of hedging derivatives	74,848	168,317	15,904	24,399	90,752	192,716
<b>Total deferred outflows</b>	<b>74,848</b>	<b>168,317</b>	<b>15,904</b>	<b>24,399</b>	<b>90,752</b>	<b>192,716</b>
<b>Total assets and deferred outflow</b>	<b>\$4,245,228</b>	<b>\$4,258,564</b>	<b>\$797,588</b>	<b>\$806,714</b>	<b>\$5,042,816</b>	<b>\$5,065,278</b>

(Continued)

EAST BAY MUNICIPAL UTILITY DISTRICT  
BALANCE SHEETS  
JUNE 30, 2013 AND 2012  
(DOLLARS IN THOUSANDS)

	Water System		Wastewater System		Totals	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
<b>Current liabilities:</b>						
Current maturities of long-term debt and Commercial Paper (Note 5 & 6)	\$19,576	\$46,378	\$13,580	\$13,020	\$33,156	\$59,398
Accounts payable and accrued expenses (Note 4)	60,616	59,425	9,198	9,405	69,814	68,830
Current reserve for claims	6,498	6,437	845	703	7,343	7,140
Accrued interest	8,930	8,754	1,854	1,907	10,784	10,661
<b>Total current liabilities</b>	<b>95,620</b>	<b>120,994</b>	<b>25,477</b>	<b>25,035</b>	<b>121,097</b>	<b>146,029</b>
<b>Noncurrent liabilities:</b>						
<b>Other liabilities:</b>						
Advances for construction	6,571	4,109	-	-	6,571	4,109
OPEB liabilities (Note 8G)	16,367	13,508	2,965	2,435	19,332	15,943
Reserve for claims	30,130	31,017	4,728	5,466	34,858	36,483
Other liabilities	18,543	1,416	6,152	5,607	24,695	7,023
<b>Total other liabilities</b>	<b>71,611</b>	<b>50,050</b>	<b>13,845</b>	<b>13,508</b>	<b>85,456</b>	<b>63,558</b>
<b>Long-term liabilities, net of current maturities (Note 5 &amp; 6)</b>	<b>2,636,841</b>	<b>2,578,608</b>	<b>455,569</b>	<b>468,192</b>	<b>3,092,410</b>	<b>3,046,800</b>
<b>Total noncurrent liabilities</b>	<b>2,708,452</b>	<b>2,628,658</b>	<b>469,414</b>	<b>481,700</b>	<b>3,177,866</b>	<b>3,110,358</b>
<b>Total liabilities</b>	<b>2,804,072</b>	<b>2,749,652</b>	<b>494,891</b>	<b>506,735</b>	<b>3,298,963</b>	<b>3,256,387</b>
<b>Deferred inflow of resources</b>						
Derivative instrument (Note 6)	74,848	168,317	15,904	24,399	90,752	192,716
Swap Novation (Note 6F)	24,551	24,551	-	-	24,551	24,551
<b>Total deferred inflows</b>	<b>99,399</b>	<b>192,868</b>	<b>15,904</b>	<b>24,399</b>	<b>115,303</b>	<b>217,267</b>
<b>Total liabilities and deferred inflows</b>	<b>2,903,471</b>	<b>2,942,520</b>	<b>510,795</b>	<b>531,134</b>	<b>3,414,266</b>	<b>3,473,654</b>
<b>Net position (Note 7):</b>						
Net investment in capital assets	828,238	775,812	203,122	207,675	1,031,360	983,487
Restricted for construction	19,510	19,383	1,582	3,327	21,092	22,710
Restricted for debt service	34,314	70,940	2,557	2,538	36,871	73,478
Restricted - other	256,556	251,366	-	-	256,556	251,366
Unrestricted	203,139	198,543	79,532	62,040	282,671	260,583
<b>Total net position</b>	<b>1,341,757</b>	<b>1,316,044</b>	<b>286,793</b>	<b>275,580</b>	<b>1,628,550</b>	<b>1,591,624</b>
<b>Total liabilities and net position</b>	<b>\$4,245,228</b>	<b>\$4,258,564</b>	<b>\$797,588</b>	<b>\$806,714</b>	<b>\$5,042,816</b>	<b>\$5,065,278</b>

EAST BAY MUNICIPAL UTILITY DISTRICT  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012  
(DOLLARS IN THOUSANDS)

	Water System		Wastewater System		Total	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Operating revenue:						
Water	\$336,066	\$306,228	-	-	\$336,066	\$306,228
Sewer	-	-	\$68,050	\$64,252	68,050	64,252
Power	3,596	4,609	693	334	4,289	4,943
Wet weather facilities charges	-	-	18,321	17,228	18,321	17,228
Total operating revenue	339,662	310,837	87,064	81,814	426,726	392,651
Operating expense:						
Raw water	33,076	31,777	-	-	33,076	31,777
Water treatment and distribution	89,596	91,751	-	-	89,596	91,751
Recreation areas, net	5,341	5,549	-	-	5,341	5,549
Sewer lines and pumping	-	-	12,530	12,515	12,530	12,515
Sewer treatment plant operations	-	-	28,683	30,387	28,683	30,387
Customer accounting and collecting	16,140	16,394	2,378	2,509	18,518	18,903
Financial and risk management	16,637	17,568	590	645	17,227	18,213
Facilities management	8,829	11,814	-	-	8,829	11,814
General administration	53,339	40,409	8,351	6,446	61,690	46,855
Depreciation on utility plant and vehicles	87,303	83,732	21,859	19,720	109,162	103,452
Total operating expense	310,261	298,994	74,391	72,222	384,652	371,216
Net operating income	29,401	11,843	12,673	9,592	42,074	21,435
Nonoperating income (expense):						
Investment income	2,608	4,671	2,584	573	5,192	5,244
Taxes and subventions	26,436	23,386	9,408	8,307	35,844	31,693
Interest and amortization of bond expenses, net of capitalized interest of \$7,836 and \$13,295 for the Water System and \$2,934 and \$3,808 for the Wastewater System in 2013 and 2012, respectively	(97,865)	(103,358)	(18,405)	(17,957)	(116,270)	(121,315)
Hedge fund termination	-	(24,551)	-	-	0	(24,551)
Other income	9,342	11,007	3,356	1,195	12,698	12,202
Total Nonoperating income (expense), net	(59,479)	(88,845)	(3,057)	(7,882)	(62,536)	(96,727)
Income (loss) before capital contributions	(30,078)	(77,002)	9,616	1,710	(20,462)	(75,292)
Capital contributions	55,791	45,210	1,597	2,824	57,388	48,034
Change in net position	25,713	(31,792)	11,213	4,534	36,926	(27,258)
Total net position - beginning	1,316,044	1,358,612	275,580	273,812	1,591,624	1,632,424
Prior period adjustment per implementation GASB 65 (Note 6G)		(10,776)		(2,766)		(13,542)
Total net position - ending	\$1,341,757	\$1,316,044	\$286,793	\$275,580	\$1,628,550	\$1,591,624

EAST BAY MUNICIPAL UTILITY DISTRICT  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012  
(DOLLARS IN THOUSANDS)

	Water System		Wastewater System		Total	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Cash flows from operating activities						
Cash received from customers	\$333,279	\$294,806	\$86,431	\$79,728	\$419,710	\$374,534
Cash received from other income	9,342	11,007	3,356	1,195	12,698	12,202
Cash payments for judgments and claims	(5,669)	(4,985)	(131)	(1,966)	(5,800)	(6,951)
Cash payments to suppliers for goods and services	(22,678)	(36,907)	(24,492)	(20,837)	(47,170)	(57,744)
Cash payments to employees for services	(146,076)	(143,095)	(27,337)	(26,662)	(173,413)	(169,757)
Net cash provided by operating activities	168,198	120,826	37,827	31,458	206,025	152,284
Cash flows from noncapital financing activities:						
Tax receipts	26,436	23,386	9,408	8,307	35,844	31,693
Net cash provided by financing activities	26,436	23,386	9,408	8,307	35,844	31,693
Capital and related financing activities:						
Capital contributions	55,791	45,210	1,597	2,824	57,388	48,034
Proceeds from advances for construction	2,462	(364)	-	-	2,462	(364)
Proceeds from sale of capital assets	439	802	-	-	439	802
Net proceeds and premiums from sale of bonds	102,657	159,789	1,240	(97)	103,897	159,692
Acquisition and construction of capital assets	(204,500)	(172,734)	(36,230)	(38,370)	(240,730)	(211,104)
Principal retirement on long-term debt and commercial paper	(943)	(48,890)	(13,303)	(12,754)	(14,246)	(61,644)
Amount paid to refunding bond escrow agent	(57,455)	(162,820)	-	-	(57,455)	(162,820)
Costs and discounts from issuance on long-term debt	(273)	(21)	-	-	(273)	(21)
Interest paid on long-term debt	(97,689)	(102,291)	(18,458)	(17,756)	(116,147)	(120,047)
Net cash provided by (used in) capital and related financing activities	(199,511)	(281,319)	(65,154)	(66,153)	(264,665)	(347,472)
Cash flows from investing activities:						
Proceeds from securities	232,939	368,590	64,291	70,758	297,230	439,348
Purchases of securities	(271,118)	(229,363)	(14,065)	(40,033)	(285,183)	(269,396)
Interest received on investments	3,361	4,693	2,120	1,041	5,481	5,734
Net cash provided by (used in) investing activities	(34,818)	143,920	52,346	31,766	17,528	175,686
Net increase (decrease) in cash and cash equivalents	(39,695)	6,813	34,427	5,378	(5,268)	12,191
Cash and cash equivalents:						
Beginning of year	154,680	147,867	51,275	45,897	205,955	193,764
End of year	\$114,985	\$154,680	\$85,702	\$51,275	\$200,687	\$205,955

(Continued)

EAST BAY MUNICIPAL UTILITY DISTRICT  
 STATEMENTS OF CASH FLOWS  
 FOR THE YEARS ENDED JUNE 30, 2013 AND 2012  
 (DOLLARS IN THOUSANDS)

	Water System		Wastewater System		Total	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Reconciliation of net operating income to net cash provided by operating activities:						
Net operating income	\$29,401	\$11,843	\$12,674	\$9,592	\$42,075	\$21,435
Adjustments to reconcile net operating income to net cash provided by operating activities:						
Depreciation on utility plant and vehicle	87,303	83,732	21,859	19,720	109,162	103,452
Depreciation within recreation areas	1,537	1,556	-	1,135	1,537	2,691
Amortization	25,639	16,371	1,176	1,195	26,815	17,566
Other income	9,342	11,007	3,356	-	12,698	11,007
Changes in assets/liabilities:						
Materials and supplies	132	(611)	-	-	132	(611)
Prepaid insurance	(32)	(9)	-	-	(32)	(9)
Customer receivables	(6,383)	(16,031)	(633)	(2,086)	(7,016)	(18,117)
Other assets	908	1,014	(877)	317	31	1,331
OPEB liability	2,859	3,104	530	580	3,389	3,684
Reserve for claims	(826)	1,565	(596)	284	(1,422)	1,849
Accounts payable and accrued expenses	18,318	7,285	338	721	18,656	8,006
Net cash provided by operating activities	<u>\$168,198</u>	<u>\$120,826</u>	<u>\$37,827</u>	<u>\$31,458</u>	<u>\$206,025</u>	<u>\$152,284</u>
Cash as presented on the Statement of Net Position as follows:						
Cash and investments included in current assets	\$303,247	\$279,970	\$73,622	\$56,838	\$376,869	\$336,808
Cash and investments included in restricted assets	63,232	97,803	9,859	41,397	73,091	139,200
Cash and investments included in unrestricted assets	5,067	7,844	21,915	22,962	26,982	30,806
Total Districts cash and investments	371,546	385,617	105,396	121,197	476,942	506,814
Less investments	(256,561)	(230,937)	(19,694)	(69,922)	(276,255)	(300,859)
District cash and cash equivalents	<u>\$114,985</u>	<u>\$154,680</u>	<u>\$85,702</u>	<u>\$51,275</u>	<u>\$200,687</u>	<u>\$205,955</u>
Schedule of Non-Cash Activities						
Change in Fair Market Value	<u>(\$968)</u>	<u>\$163</u>	<u>(\$97)</u>	<u>(\$1,815)</u>	<u>(\$1,065)</u>	<u>(\$1,652)</u>

EAST BAY MUNICIPAL UTILITY DISTRICT  
STATEMENTS OF FIDUCIARY NET POSITION  
FIDUCIARY FUND - PENSION AND OTHER EMPLOYEE BENEFIT TRUST  
(COMPONENT UNIT)  
JUNE 30, 2013 AND 2012  
(DOLLARS IN THOUSANDS)

	2013	2012
<b>Assets:</b>		
Cash and investments (Note 2)	\$34,397	\$33,068
Invested securities lending collateral (Note 1.L and 2)	101,523	100,577
Receivables:		
Contributions	2,973	2,602
Interest and other	14,405	10,312
Prepaid insurance	459	434
Retirement system investments, at fair value (Note 2):		
U.S. government obligations	86,483	121,790
Municipal bonds	5,774	2,840
Domestic corporate bonds	123,929	84,499
International bonds	13,877	7,077
Domestic stocks	604,676	515,957
International stocks	208,130	177,166
Real estate	53,222	48,876
Total Investments	1,096,091	958,205
Total assets	1,249,848	1,105,198
<b>Liabilities:</b>		
Accounts payable and accrued expenses	1,472	1,365
Retirement system liabilities	22,525	16,284
Securities lending collateral (Note 1.L.)	101,523	100,577
Total liabilities	125,520	118,226
<b>Net position:</b>		
Held in trust for pension benefits	1,107,628	973,403
Held in trust for post-employment healthcare benefits	16,700	13,569
Total net position	\$1,124,328	\$986,972

See accompanying notes to basic financial statements

EAST BAY MUNICIPAL UTILITY DISTRICT  
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUND - PENSION AND OTHER EMPLOYEE BENEFIT TRUST  
(COMPONENT UNIT)  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012  
(DOLLARS IN THOUSANDS)

	2013	2012
Additions:		
Contributions (Note 8)		
Employer	\$61,567	\$59,651
Plan members	10,566	10,723
	72,133	70,374
Total contributions		
Investment income:		
Net appreciation (depreciation) in fair value of investments		
Traded securities	120,223	(1,387)
Real estate	877	1,160
Interest	7,794	8,278
Dividends	12,348	10,698
Real estate operating income, net	1,144	981
	142,386	19,730
Total investment income		
Less:		
Investment expense	(3,729)	(3,380)
Borrowers' rebates and other agent fees on securities lending transactions	(122)	(63)
	138,535	16,287
Net investment income		
Total additions, net	210,668	86,661
Deductions:		
Benefits paid	71,760	66,254
Refund of contributions	335	589
Administrative expenses	1,217	1,085
	73,312	67,928
Total deductions		
Change in net position	137,356	18,733
Net position:		
Beginning of year	986,972	968,239
End of year	\$1,124,328	\$986,972

See accompanying notes to basic financial statements

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012  
(Dollars in Thousands)**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*A. Description of the Primary Government*

The East Bay Municipal Utility District (the District) was formed in May 1923 under the provisions of the Municipal Utility District Act of 1921, as amended in 1941. The District is comprised of two financially independent entities: the Water System and the Wastewater System. These two entities are governed by the same elected seven-member board of directors which determines such matters as rates and charges for services, approval of contracts, and District policies. The Water System provides administrative and other support services to the Wastewater System. These costs are charged to the Wastewater System.

*B. Description of the Component Unit*

The District's Employees' Retirement System (the Employees' Retirement System or the Plan) has been reported as if it was part of the District's operations as a Pension and Other Employee Benefit Trust fund (a fiduciary fund) in the accompanying basic financial statements and is discretely presented. The District appoints the voting majority of the governing body of the Employees' Retirement System and provides for its funding.

Copies of the audited financial statements of the Employees' Retirement System may be obtained by writing to the Controller, P.O. Box 24055, Oakland, CA 94623 or visit our website at <http://www.ebmud.com>.

*C. Basis of Presentation*

The accounts of the District are organized and operated on a fund basis. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows, liabilities, deferred inflows, net position, revenues, and expenses.

The basic financial statements include prior year comparative information. A complete presentation of the prior year information can be found in the District's financial statements for the year ended June 30, 2012.

The District reports the following major proprietary (enterprise) funds:

The **Water System** is engaged in the collection, transmission, and distribution of water to communities within Alameda and Contra Costa counties of California.

The **Wastewater System** is engaged in the interception and treatment of wastewater from residences and industries in the California communities of Alameda, Albany, Berkeley, Emeryville, Oakland, Piedmont, and the Stege Sanitary District.

Additionally, the District reports the following fiduciary fund:

The **Pension and Other Employee Benefit Trust** is used to account for the resources held by the Employees' Retirement System which provides retirement, disability, and survivorship benefits for eligible directors, officers, and employees of the District.

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012  
(Dollars in Thousands)**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The Pension and Other Employee Benefit Trust fund is maintained to account for assets held by the Employees' Retirement System in a trustee capacity.

***D. Basis of Accounting***

Proprietary funds and the Pension and Other Employee Benefit Trust fund are accounted for on a flow of economic resources measurement focus, using the accrual basis of accounting. Under this method, all assets, deferred outflows, liabilities and deferred inflows associated with operations are included on the balance sheet, and revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District are charges to customers for sales and services. The District also recognizes wet weather facilities charges as operating revenue. 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 non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

In addition, the accounting policies of the District conform to accounting policies generally accepted in the United States of America for water utilities. The accounts are maintained substantially in accordance with the Uniform System of Accounts for Water Utilities followed by investor-owned and major municipally owned water utilities.

***Balance Sheet*** – The balance sheet is designed to display the financial position of the District. The District's fund equity is reported as net position, which is broken down into three categories defined as follows:

- Net investment in capital assets – This component of net position consists of 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 and related deferred inflows and outflows.
- Restricted – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or law or regulations of other governments. It also pertains to constraints imposed by law or constitutional provisions or enabling legislation.

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012  
(Dollars in Thousands)**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- Unrestricted – This component of net position consists of net assets that do not meet the definition of “restricted” or “net investment in capital assets.”

*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 non-operating revenues and expenses and presents a separate subtotal for operating revenues, operating expenses, and other income.

**E. Use of Estimates and Assumptions**

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**F. Capital Assets**

**Utility Plant – at Original Cost**

The cost of additions to utility plant and replacement of retired units of property are capitalized. 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 depreciated cost of capital assets, plus removal costs, less salvage, is charged to expense upon retirement.

**Water Supply Management Program**

Costs incurred in this program are debt funded and capitalized in construction in progress. These costs are transferred to utility plant upon completion of the project and depreciated over their useful life. Debt service costs on the debt used to finance the program are recovered in future periods through rates and charges for service to those benefiting from the program.

**Preliminary Survey and Investigation Costs**

The District capitalizes initial costs incurred to study and evaluate certain potential long-term capital projects. These costs are transferred to property, plant and equipment upon completion of the project and are depreciated over the life of the asset. In the event the project is abandoned, these costs are expensed.

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012  
(Dollars in Thousands)**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Contract Water Rights**

The District has contracted with the U.S. Bureau of Reclamation for water deliveries from the Central Valley Project (CVP) through February 2046 (Long Term Renewal Contract), with the anticipation of subsequent renewals of 40 year terms. Payments under the contract include reimbursement based on the amounts of water delivered to EBMUD of capital costs for CVP storage and conveyance facilities (EBMUD's current allocation is \$7,712,257) and the Operation & Maintenance Deficit (EBMUD's current balance is \$8,539,404).

The Water Enterprise Fund capitalizes the two components and amortizes, using the straight-line method, over the remaining entitlement period starting in fiscal year 2013 with the completion of the Freeport and Folsom South Canal Projects in fiscal year 2012.

**G. Depreciation**

Depreciation of capital assets is computed on a straight-line basis using the estimated service lives of the related assets (5 to 100 years). The aggregate provision for depreciation was 1.99% and 2.06% average net book value of capital assets for the years ended June 30, 2013 and 2012.

**H. Restricted Assets**

The District segregates certain cash and investments which have legal or other external restrictions.

The Bond Construction Fund is used to report proceeds of bond issuances that are restricted for use in the capital program. Funds received for construction represent capital contributions restricted to fund specific construction projects or amounts received by the District from applicants and developers to cover the cost of extending water and wastewater service to new customers or to fund large wastewater treatment equipment replacements.

**Bond Reserve Fund:** In connection with certain series of the District's outstanding bonds, a Bond Reserve Fund is created and required to be maintained at a specified level. Amounts in a Bond Reserve Fund may only be used for the payment of principal of and interest on the related series of Bonds in the event the District fails to transfer the required payment from the related system Revenue Fund (the respective designated part of the General Fund) or for the payment of redemption of all of the related series of Bonds then outstanding or for the payment of the final principal and interest payments on the related series of Bonds.

**Bond Interest and Redemption Fund:** Under the District's bond indentures, the District is required to transfer funds to the Trustee for the payment of principal and interest on the outstanding bonds one business day prior to the date such payment is due. The District uses the Bond Interest and Redemption Fund to segregate funds accumulated for such payments. In addition, under certain of the interest rate swap agreements related to the District's outstanding bonds, the District is required to post collateral to the swap counterparty to the extent that the District's total exposure for termination payments under the swap agreement exceeds the threshold amount specified in the applicable swap agreement. The District also uses the Bond Interest and Redemption Fund to segregate District funds held by the applicable custodian to satisfy this collateral posting obligation.

**EAST BAY MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**  
**(Dollars in Thousands)**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***I. Deferred Amount on Bond Refundings***

Gains and losses incurred in connection with debt refunding transactions are deferred and amortized over the shorter of the life of the refunded debt or the new debt.

***J. Cash and Cash Equivalents***

For purposes of the statement of cash flows, the District considers all highly liquid investments with original maturities of three months or less at the date of purchase to be cash equivalents.

***K. District Investments***

Investments are stated at fair value. Included in investment income (loss) is the net change in the fair value of investments, which consists of the realized gains or losses and the unrealized appreciation (depreciation) of those investments.

Measurement of the fair value of investments is based upon quoted market prices, if available. The estimated fair value of investments that have no quoted market price is determined based on equivalent yields for such securities or for securities of comparable maturity, quality, and type as obtained from market makers.

Each of the financial instruments invested in by the District represents a potential concentration of credit risk. However, as the portfolio and the components of the various instruments are diversified, and issuers of securities are dispersed throughout many industries and geographic locations, the concentrations of credit risk are limited.

***L. Retirement System Investments***

Investments are reported at fair value. Securities and bonds traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that have no quoted market price are reported at estimated fair value, which is determined based on yields equivalent for such securities or for securities of comparable maturity, quality, and type as obtained from market makers. Measurement of the fair value of real estate investments is estimated by the investment managers and reflects both internal and independent appraisals of real estate properties.

The System presents in the Statements of Changes in Plan Net Position the net change in the fair value of its investments, which consists of the realized gains or losses and the unrealized appreciation (depreciation) on those investments. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Each of the financial instruments invested in by the System represents a potential concentration of credit risk. However, as the portfolio and the components of the various instruments are diversified and issuers of securities are dispersed throughout many industries and geographical locations, the concentrations of credit risk are limited.

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012  
(Dollars in Thousands)**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Retirement Board policies permit the Employees' Retirement System to use investments of the pension plan to enter into securities lending transactions, which are loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return collateral for the same securities in the future. The System's securities custodian is an agent in lending the Plan's securities for cash collateral, U.S. government securities, and irrevocable letters of credit of 102% for domestic securities lent and 105% for international securities lent. As of June 30, 2013, the Employees' Retirement System had no credit risk exposure to borrowers because the amounts the Employees' Retirement System owes the borrowers exceed the amounts the borrowers owe the Employees' Retirement System.

Contracts with the lending agent require them to indemnify the Employees' Retirement System under certain circumstances if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the System for income distributions by the securities issuers while the securities are on loan. The risk of any loss of collateral or investment of cash collateral (including a loss of income or principal, or loss of market value thereon) lies with the System, except for losses resulting from negligence or intentional misconduct of the agent in performing the duties allocated under the securities lending agreement with respect to collateral. During the year ended June 30, 2013, there were no violations of legal or contractual provisions, and no borrower or lending agent default losses known to the securities lending agent.

In lending securities, cash collateral is invested in the lending agent's short-term investment pool, which as of June 30, 2013, had a weighted average maturity of 43 days. The relationship between the maturities of the investment pool and the System's loans is affected by the maturities of the securities loans made by other entities that use the agent's pool, which the System cannot determine. Cash collateral may also be invested separately in term loans, in which collateral cannot be pledged or sold unless the borrower defaults. All securities loans can be terminated on demand by either the lender or the borrower, although the average term of overall loans for the System was approximately 67 days. There are no dividends or coupon payments owing on the securities lent. Cash received as collateral on securities lending transactions is reported as an asset of the System with a corresponding liability.

As of June 30, 2013, the fair value of securities on loan was \$101,522. The total cash and non-cash collateral held by the System's custodian to secure these securities on loan was valued at \$98,870, all of which are collateral.

***M. Material and Supplies***

Material and supplies inventories are valued at cost, which approximates market, using the average-cost method.

***N. Compensated Absences***

Compensated absences as of June 30, 2013, are included on the balance sheet in accounts payable and accrued expenses. In previous years, trends have shown that the District employees utilize the accruals annually, therefore, amounts payable are accrued and reported as a current liability on the financial statements.

**EAST BAY MUNICIPAL UTILITY DISTRICT  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED JUNE 30, 2013 AND 2012  
 (Dollars in Thousands)**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The changes in compensated absences were as follows:

Beginning Balance	\$28,770
Additions	28,666
Payments	(29,918)
Ending Balance	\$27,518

***O. Revenue***

Customer water meters are read on a cyclical basis throughout a monthly or bimonthly period. Bills are rendered and revenue is recognized in the period that meters are read.

Wastewater treatment billings are a combination of flow, strength charges, and a monthly service charge. Customer bills are rendered on a cyclical basis throughout a monthly or bimonthly period, and revenue is recognized in the period in which bills are rendered.

Wet weather facilities charges are designed to finance the operating and capital costs related to wet weather sewage flows.

***P. Interest Rate Swap***

The District enters into interest rate swap agreements to modify interest rates on some outstanding debt. The net interest is recorded in the financial statements annually. In the current year, the hedge fund termination has been recorded, see Note 6F for further details.

In June 2008, GASB issued Statement No. 53, Accounting and Financial Reporting for Derivative Instruments (GASB 53). The statement specifically requires governments to measure and report most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The requirement of reporting the derivative instruments at fair value on the face of the basic financial statements gives the users of those statements a clearer look into the risks their governments are sometimes exposed to when they enter into these transactions and how those risks are managed. The statement also addresses hedge accounting requirements and improves disclosures, providing a summary of the government's derivative instrument activity, its objectives for entering into derivative instruments, and their significant terms and risks. The District implemented GASB 53 in fiscal 2010.

***Q. Deferred Outflows/Inflows of Resources***

In addition to assets, the statement of financial position or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012  
(Dollars in Thousands)**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

In addition to liabilities, the statement of financial position or balance sheet 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 or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

**NOTE 2 - CASH AND INVESTMENTS**

**A. Classification**

Reconciliations of cash and investments reported on the financial statements as of June 30, 2013, are as follows:

	Water System	Wastewater System	Total
<b><i>District Enterprise Funds:</i></b>			
Cash and investments included in current assets	\$303,247	\$73,622	\$376,869
Cash and investments included in unrestricted investments	5,067	21,915	26,982
Total District unrestricted cash and investments	308,314	95,537	403,851
Cash and investments included in restricted assets	63,232	9,859	73,091
Total District cash and investments	371,546	105,396	476,942
Less investments	(256,561)	(19,694)	(276,255)
Cash and cash equivalents	\$114,985	\$85,702	\$200,687
<b><i>System Pension Trust Funds:</i></b>			
Cash and investments			\$34,397
Invested securities lending collateral			101,523
Retirement system investments			1,096,091
Total System cash and investments			\$1,232,011

**B. District Enterprise Fund Investments Authorized by the California Government Code and the District's Investment Policy**

The District's Investment Policy and the California Government Code allow the District to invest in the following, provided the credit ratings of the issuers are acceptable to the District; and approved percentages and maturities are not exceeded. The table below also identifies certain provisions of the California Government Code, or the District's Investment Policy where the District's Investment Policy is more restrictive and provides information as to the limitations as they relate to interest rate risk, credit risk and concentration risk.

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012  
(Dollars in Thousands)**

**NOTE 2 - CASH AND INVESTMENTS (Continued)**

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum in Portfolio	Maximum Investment In One Issuer
Repurchase Agreements	270 Days	N/A	20%	10%
State of California Local Agency Investment Fund (LAIF Pool)	Upon Demand	N/A	\$50,000 per account	N/A
U. S. Treasury Bonds, Notes and Bills	5 Years	N/A	0 to 100%	N/A
U.S. Government Agency and U.S. Government-Sponsored Enterprise Obligations	5 Years	N/A	0 to 100%	40% in each Agency
Bankers' Acceptances	180 Days	N/A	40%	10%
Commercial Paper	270 Days	A1, P1 or F1	25%	10%
Negotiable Certificates of Deposit	5 Years	AA	30%	10%
Time Certificates of Deposit – Banks or Savings and Loans	5 Years	N/A	30%	10%
Medium Term Corporate Notes	5 Years	AA	30%	10%
Municipal Bonds	5 Years	AA	40%	10%
Calif Asset Management Pgm (CAMP)	Upon Demand	Highest Rating	10%	10%

The District does not enter into reverse repurchase agreements.

**C. District Enterprise Fund Investments Authorized by Debt Agreements**

The District must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if the District fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with District resolutions, bond indentures or State statutes. The table below identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements:

Authorized Investment Type	Minimum Credit Quality
Repurchase Agreements	Top Four Short term Rating Category
U.S. Treasury Bonds, Notes and Bills	N/A
U.S. Government Agency and U.S. Government-Sponsored Enterprise Obligation	N/A
State Obligations	Not lower than District's bond rating
Commercial Paper	Top Rating Category
Negotiable Certificates of Deposit	FDIC insured or collateralised
Time Certificates of Deposits - Banks or Savings and Loans	FDIC insured or collateralised
Corporate Notes and Bonds	Not lower than District's bond rating
Variable Rate Obligations	Not lower than District's bond rating
Cash Swap Agreements	Top Rating Category
Guaranteed Investment Contract	Not lower than District's bond rating
Shares of Beneficial Interest	Top Rating Category

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012  
(Dollars in Thousands)**

**NOTE 2 - CASH AND INVESTMENTS (Continued)**

***D. Employees Retirement System Authorized Investment Strategy***

The System's investment policies authorize the System to invest in financial instruments in three broad investment categories: equity, fixed income, and real estate. These financial instruments can include, but are not limited to, corporate bonds, commercial paper, U.S. government securities, common and preferred stock, real estate investment trusts, and mutual funds. Fixed income investments may include futures and options contracts in order to provide added flexibility in managing the fixed income portfolio. The following is a summary of the System investment policy adopted by the System with *Resolution No. 6713*.

The Retirement Board shall designate multiple investment managers to manage the assets under their supervision subject to the laws of the State of California and the Investment Guidelines established by the Retirement Board. Allocation of assets to the investment managers shall be determined by the Retirement Board to accommodate changing conditions and laws. The long-range asset allocation goal is as follows:

Fixed Income	25%
Domestic Equity	50%
International Equity	20%
Real Estate	5%
Allocation to Cash	0%

The composite asset allocation goal will be pursued by the Retirement System on a long-term basis and be revised if significant changes occur within the economic and/or capital market environment. Progress toward the goal will be reviewed at least annually.

The Director of Finance is authorized to transfer assets from any asset class which exceeds the long-term asset allocation goal by more than 3% at the end of two or more consecutive quarters, allocating the excess assets to a manager or group of managers with the exception of real estate managers. The Director of Finance is further authorized to withdraw assets from assigned managers as necessary to efficiently meet operating needs.

The equity and fixed income asset allocations may vary by up to  $\pm 5\%$  from the long-range asset allocation goals.

The fixed income target allocation (25% of the total portfolio) will primarily consist of U.S. denominated fixed income securities. Individual managers may invest up to 20% of their assets in international fixed income securities.

The domestic equity allocation target (50% of the total portfolio) will consist of approximately 45% in large cap market related growth and value (average risk) securities, 5% in small capitalized securities, and 20% in international securities. The international equity allocation target will consist of approximately 17% international equities and 3% emerging markets. It is expected this allocation will allow for exposure to mid cap securities based on tactical decisions by the Retirement Fund's large cap and small cap domestic equity managers.

The international equity target allocation (20% of the total portfolio) will consist of approximately 17% in international equities and 3% in emerging markets equities.

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012  
(Dollars in Thousands)**

**NOTE 2 - CASH AND INVESTMENTS (Continued)**

The real estate target allocation (5% of the total portfolio) will consist of either equity (ownership) and/or fixed income participation in commercial, industrial, or residential properties. Investments may include interests in mortgage pools secured by loans of underlying properties.

The allocation goal recognizes that at any time equity and fixed income managers may have transactional cash on hand and the District will maintain enough cash as working capital to effectively meet cash flow demands on the system. However, there is no specific allocation for cash as all investable cash is allocated to specific investment disciplines.

Holdings of securities issued by the United States Government or any of its agencies need not be diversified. Securities of any one issuer with maturities of more than one year, other than the United States Government or any of its agencies, shall not exceed 5% of the value of the total portfolio. Securities of any one issuer of foreign government issues shall not exceed 10% of the value of the total portfolio at the time of purchase. Fixed income managers have the authority to make international investments, not to exceed 20% of their total portfolio.

The use of futures and options in the fixed income accounts may be used as part of their portfolio management strategy and will be incidental to their securities trading activities. The resulting aggregate risk profile (volatility) of the portfolio will not be different from that permissible by using securities only.

Short (sold) options positions will generally be hedged, either with current portfolio security holdings, other options or futures options. Mortgage derivatives with significant short option characteristics will not exceed 5% of the portfolio, and will generally be a) offset by positions in other mortgage derivatives, or b) offset by other portfolio positions.

No derivatives will be executed which will increase the value at risk of the portfolio by more than 25 basis points of the portfolio's market value.

Structured notes with significant short options positions or increasing leverage will not be purchased, and in no case will structured notes exceed 5% of portfolio value. Structured notes issued by the U.S. Government (treasuries and agencies) will be considered allowable investments, and are restricted to 25%.

Fixed income managers are authorized to use futures and options contracts to supplement their investment capabilities to provide flexibility in managing the fixed income portfolios and reduce the cost of implementing strategies to respond to changing market conditions without incurring the higher transaction costs associated with buying and selling specific securities. These transactions are authorized to enable the manager to reduce the exposure of the portfolio to interest rate changes by reducing or increasing the duration of the portfolio without selling any of the actual holdings.

No more than 5% of the portfolio will be invested in original futures margin and options premiums, exclusive of any in-the-money portion of the premiums.

Each equity portfolio shall be diversified. When fully invested in equities or at its normal level of investment, a minimum of 20 securities should be held. At no time may a single equity investment exceed 5% of the value of the total retirement fund.

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012  
(Dollars in Thousands)**

**NOTE 2 - CASH AND INVESTMENTS (Continued)**

Each international equity portfolio shall be diversified. When fully invested in international equities or at its normal level of investment, a minimum of 20 securities should be held. At no time may a single international equity investment exceed 5% of the value of the total retirement fund.

***E. Interest Rate Risk***

Interest rate risk is the risk that changes in market interest rates will adversely affect the market value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its market value to changes in market interest rates. The District generally manages its interest rate risk by holding investments to maturity.

Information about the sensitivity of the market values of the District's and System's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity or earliest call date.

***District Enterprise Funds:***

Investment Type	12 Months or less	13 to 24 Months	25 to 60 Months	Total
U.S. Government-Sponsored Enterprise Agencies:				
Non-callable	\$121,476		\$2,799	\$124,275
Callable		\$10,000	43,500	53,500
Corporate Securities:	19,170	8,534	8,691	36,395
Municipal Bonds	9,181	7,786	5,744	22,711
Guaranteed Investment Contracts	12,000			12,000
Demand Deposits and Certificate of Deposit	10,945			10,945
Mutual Funds (U.S. Securities)	146,913			146,913
California Local Agency Investment Fund	48,627			48,627
Total Investments	<u>\$368,312</u>	<u>\$26,320</u>	<u>\$60,734</u>	455,366
Cash in banks				<u>21,576</u>
Total District Cash and Investments				<u>\$476,942</u>

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012  
(Dollars in Thousands)**

**NOTE 2 - CASH AND INVESTMENTS (Continued)**

*System Pension Trust Fund:*

Investment Type	Less than 12 Months	12 to 72 Months	72 to 120 Months	More than 120 Months	Maturity not Determined	Total
Asset Backed Securities		\$773	\$164	\$2,548		\$3,485
Equity Securities	\$795,944					795,944
Commercial Mortgage - Backed Securities				10,704		10,704
Corporate Bonds	1,180	30,902	28,881	11,699	\$6,360	79,022
Government Agencies	51	5,315	9,324	12,967		28,125
Government Bonds		1,284	8,797	2,528		12,609
Government Mortgage - Backed Securities	3	9	25	26,551	9,740	36,641
Government Issued Commercial Mortgage-Backed Securities		11	27			38
Index Linked Government Bonds	1,362	4,347	95	3,465		10,133
Short Term Investment Funds	57				16,859	17,429
Municipal Bonds		1,926	1,862	1,986		5,774
Mutual Funds				4,639		4,639
Real Estate					53,221	53,221
Other Fixed Income		26,298	4,350		7,332	37,980
Total System Investments	<u>\$799,578</u>	<u>\$71,05</u>	<u>\$54,86</u>	<u>\$77,087</u>	<u>\$93,512</u>	<u>\$1,096,091</u>

The District and System are participants in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. They report their investment in LAIF at the market value amount provided by LAIF, which is the same as the value of the pool share. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. On June 30, 2013, these investments matured in an average of 278 days.

The System's investments include the following investments that are highly sensitive to interest rate fluctuations to a greater degree than already indicated above:

Highly Sensitive Investments	Fair Value at Year End
Commercial Mortgage - Backed Securities	\$10,704
Government Mortgage - Backed Securities	36,641
Government Issued Commercial Mortgage - Backed Securities	385

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012  
(Dollars in Thousands)**

**NOTE 2 - CASH AND INVESTMENTS (Continued)**

**F. 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 credit rating organization. Presented below is the actual rating as of June 30, 2013, for each investment type as provided by Moody's.

*District Enterprise Funds:*

Investment Type	Aaa	Aa1	Aa2	Aa3	A1	A2	Total
U.S. Government-Sponsored Enterprise Agencies Non-Callable	\$124,275						\$124,275
Callable	53,500						53,500
Corporate Securities	8,115		\$8,625	\$5,125	\$14,530		36,395
Municipal Bonds		\$8,916	1,661	1,998	\$2,921		15,496
Guaranteed Investment Contracts						\$12,000	12,000
Mutual Funds (U.S. Securities)	146,913						146,913
Totals	<u>\$332,803</u>	<u>\$8,916</u>	<u>\$10,286</u>	<u>\$7,123</u>	<u>\$17,451</u>	<u>\$12,000</u>	<u>\$388,579</u>
<i>Not rated:</i>							
Demand Deposits and Certificate of Deposit							10,945
Mutual Funds (U.S. Securities)							
Municipal Bonds							7,215
California Local Agency Investment Fund							48,627
Cash in Banks							21,576
Total District Cash and Investment							<u>\$476,942</u>

*System Pension Trust Fund:*

Investment Type	Aaa	Aa	A	Baa	Ba	B	Caa	Ca	C	U.S. Government Guaranteed	Not Rated	Total
Asset Backed Securities	\$1,267	\$142	\$22	\$262		\$324	\$359	\$1,095			\$14	\$3,485
Equity Securities											795,944	795,944
Commercial Mortgage - Backed Securities	6,447	811	220	32							3,194	10,704
Corporate Bonds	726	15,495	36,665	15,707	\$1,000	10					9,419	79,022
Government Agencies	26,628	519		91						\$887		28,125
Government Bonds	11,241			1,368								12,609
Government Mortgage - Backed Securities										36,297	344	36,641
Government Issued												
Commercial Mortgage-Backed Securities	10									375		385
Index Linked Government Bonds	10,133											10,133
Short Term Investment Funds										570	16,859	17,429
Municipal Bonds		5,194	580									5,774
Mutual Funds	6		141	644	556	258	1,332	55	\$65		1,582	4,639
Real Estate											53,221	53,221
Other Fixed Income											37,980	37,980
Total System Investments	<u>\$56,458</u>	<u>\$22,161</u>	<u>\$37,628</u>	<u>\$18,104</u>	<u>\$1,556</u>	<u>\$592</u>	<u>\$1,691</u>	<u>\$1,150</u>	<u>\$65</u>	<u>\$38,129</u>	<u>\$918,557</u>	<u>\$1,096,091</u>

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012  
(Dollars in Thousands)**

**NOTE 2 - CASH AND INVESTMENTS (Continued)**

***G. Concentration Risk***

Significant District investments in the securities of any individual issuers, other than U. S. Treasury securities, LAIF, and mutual funds, are set forth below:

***District Enterprise Funds:***

<u>Reporting Unit</u>	<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
District-Wide	FHLB	Federal Agency Securities	\$124,882
	FNMA	Federal Agency Securities	42,893
Major Funds:			
Water System	FHLB	Federal Agency Securities	124,882
	FHLB	Federal Agency Securities	41,409
Wastewater System	General Electric Credit Corp	Corporate Securities	5,044

***System Pension Trust Fund:***

Significant System Pension Trust Fund investments are:

<u>Nature of Investment</u>	<u>Fair Value at Year End</u>
Northern Trust Collective Daily Russell 1000 Equity Index Fund	\$273,451

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012  
(Dollars in Thousands)**

**NOTE 2 - CASH AND INVESTMENTS (Continued)**

**H. Foreign Currency Risk**

***System Pension Trust Fund:***

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair values of an investment or deposit. Presented below in US dollars is the fair market value of the System's foreign investments at June 30, 2013:

Foreign Currency	Equity Securities Investment Type
Euro	\$63,107
British Pound Sterling	36,732
Japanese Yen	18,303
Hong Kong Dollar	16,057
Swiss Franc	14,760
South Korean Won	7,501
Norwegian Krone	3,800
Canadian Dollar	3,715
Danish Krone	3,616
Swedish Krona	3,492
Singapore Dollar	3,409
Mexican Peso	2,763
Brazilian Real	2,426
Australian Dollar	1,927
Indonesian Rupiah	1,435
Turkish Lira	1,184
Thai Baht	970
South African Rand	0
Malaysia Ringgit	432
Total	\$185,629

The Fund's investment policy permits it to invest up to 20% of total investment on foreign currency-denominated investments. The Fund's current position is 18%.

**I. Custodial Credit Risk**

Custodial credit risk for *cash on 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 the failure of the counterparty (e.g., broker-dealer) to a transaction, the District or System will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012  
(Dollars in Thousands)**

**NOTE 2 - CASH AND INVESTMENTS (Continued)**

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the District's cash on deposit, or first trust deed mortgage notes with a market value of 150% of the deposit, as collateral for these deposits. Under California Law this collateral is held in a separate investment pool by another institution in the District's name and places the District ahead of general creditors of the institution.

The District and System invest in individual investments and in investment pools. Individual investments are evidenced by specific identifiable *securities instruments*, or by an electronic entry registering the owner in the records of the institution issuing the security, called the *book entry* system. In order to increase security, the District and System employ the Trust Department of a bank or trustee as the custodian of certain District and System managed investments, regardless of their form.

As of June 30, 2013 and 2012, the System's brokers/dealers held \$117 and \$89, respectively, in cash and US government bonds exposed to custodial credit risk.

**J. Joint Powers Authority**

**DSRSD/EBMUD Regional Water Authority** - On June 28, 1995, the Dublin San Ramon Service District (DSRSD) and East Bay Municipal Utility District (District) entered into a Joint Powers Agreement (JPA) and established the DSRSD/EBMUD Recycled Water Authority (DERWA) with the purpose of creating a recycle water program in the San Ramon and Livermore-Amador Valleys. The JPA governing body is not substantially the same at the District and its independent Board consists of two directors from the DSRSD and District. The JPA books and records are being maintained separately from DSRSD and the District. The DSRSD and District make member contribution to fund the JPA start-up and capital projects at the request of the JPA on an as needed basis. Although DERWA has a significant relationship with the District, DERWA does not provide services solely to the District, and therefore, is presented discretely.

**Freeport Regional Water Authority** - The Freeport Regional Water Project (FRWP) is a regional water supply project undertaken by the District in partnership with the Sacramento County Water Agency (SCWA). In February 2002, with the support of the United States Bureau of Reclamation, the District and SCWA formed the Freeport Regional Water Authority (FRWA) under a joint powers agreement to develop the FRWP. The FRWP provides the permanent infrastructure to allow the District to receive water deliveries pursuant to the Long-Term Renewal Central Valley Project Contract at a new point of diversion along the Sacramento River. In addition to providing the District up to 100 MGD of supplemental water in dry years as described above, the FRWP can provide up to 85 MGD to SCWA in all years. The District's \$225,805 share of the facilities was booked in FY 2012.

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012  
(Dollars in Thousands)**

**NOTE 3 – CAPITAL ASSETS**

*A. Summary*

The District capitalizes all assets with a historical cost of at least \$5 and a useful life of at least three years. Contributed property is recorded at estimated fair market value at the date of donation.

The purpose of depreciation is to spread the cost of capital assets equitably among all customers over the life of these assets, so that each customer’s bill includes a pro rata share of the cost 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 asset is fully depreciated. The District has assigned the useful lives listed below to capital assets:

Utility plant:	Years
Source of supply	25-100
Raw water transmission and storage	20-100
Interception and outfall	60-75
Pumping	25-75
Treatment	20-75
Distribution	25-75
Power Generation	25-75
Equipment	5-20
Plant Structures	25-75
Other	5-40

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012  
(Dollars in Thousands)**

**NOTE 3 – CAPITAL ASSETS (Continued)**

**B. Additions and Retirements**

Capital assets activity for all business-type activities for the year ended June 30, 2013, was as follows:

	Balance at June 30, 2012	Additions and Transfers, net	Retirements and Transfers, net	Balance at June 30, 2013
<b>Water System:</b>				
Capital assets, not being depreciated:				
Land	\$52,477	\$11		\$52,488
Rights-of-way	2,955	12		2,967
Construction in progress - Land	422	90	(\$23)	489
Construction in progress	209,380	200,283	(157,679)	251,984
Total capital assets, not being depreciated	<u>265,234</u>	<u>200,396</u>	<u>(157,702)</u>	<u>307,928</u>
Capital assets, being depreciated:				
Buildings and improvements	215,809	1,758		217,567
System and improvements	4,179,957	151,437	(28,891)	4,302,503
Machinery and equipment	77,320	4,486	(1,474)	80,332
Total capital assets, being depreciated:	<u>4,473,086</u>	<u>157,681</u>	<u>(30,365)</u>	<u>4,600,402</u>
Less accumulated depreciation for:				
Buildings and improvements	(81,886)	(4,870)		(86,756)
System and improvements	(1,196,491)	(81,069)	1,819	(1,275,741)
Machinery and equipment	(59,556)	(2,901)	1,279	(61,178)
Total accumulated depreciation	<u>(1,337,933)</u>	<u>(88,840)</u>	<u>3,098</u>	<u>(1,423,675)</u>
Total capital assets, being depreciated, net	<u>3,135,153</u>	<u>68,841</u>	<u>(27,267)</u>	<u>3,176,727</u>
Water System capital assets, net	<u>\$3,400,387</u>	<u>\$269,237</u>	<u>(\$184,969)</u>	<u>\$3,484,655</u>
<b>Wastewater System:</b>				
Capital assets, not being depreciated:				
Land	\$19,795	\$62		\$19,857
Rights-of-way	191			191
Construction in progress - Land	242	79	(\$62)	259
Construction in progress	87,328	36,391	(23,657)	100,062
Total capital assets, not being depreciated	<u>107,556</u>	<u>36,532</u>	<u>(23,719)</u>	<u>120,369</u>
Capital assets, being depreciated:				
Buildings and improvements	75,141	332		75,473
System and improvements	793,668	22,715	(1,415)	814,968
Machinery and equipment	8,855	610		9,465
Total capital assets, being depreciated	<u>877,664</u>	<u>23,657</u>	<u>(1,415)</u>	<u>899,906</u>
Less accumulated depreciation for:				
Buildings and improvements	(30,116)	(1,702)		(31,818)
System and improvements	(296,335)	(19,681)		(316,016)
Machinery and equipment	(5,414)	(476)		(5,890)
Total accumulated depreciation	<u>(331,865)</u>	<u>(21,859)</u>		<u>(353,724)</u>
Total capital assets, being depreciated, net	<u>545,799</u>	<u>1,798</u>	<u>(1,415)</u>	<u>546,182</u>
Wastewater System capital assets, net	<u>\$653,355</u>	<u>\$38,330</u>	<u>(\$25,134)</u>	<u>\$666,551</u>
Business-type activities capital assets, net	<u>\$4,053,742</u>	<u>\$307,567</u>	<u>(\$210,103)</u>	<u>\$4,151,206</u>

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012  
(Dollars in Thousands)**

**NOTE 3 – CAPITAL ASSETS (Continued)**

**C. Construction in Progress**

Construction in Progress in fiscal 2012-2013 comprises:

	<u>Expended to Date</u>
<b>Water System:</b>	
Pipeline Infrastruct Renewals	\$ 29,643
WTTIP WTP Improvements	27,807
Cent Oakland Hills Cascade PZI	19,183
Reservoir Rehab/Maintenance	17,686
Raw Water Studies and Improves	15,763
Pumping Plant Rehabilitation	13,821
Raw Wtr Aq O&M Imprvmts	9,324
Treatment Plant Upgrades	8,106
SRV Recycled Water Program	8,011
Large Diameter Pipelines	7,950
Adm Bldg Modifications	7,921
Mokelumne Aqueduct Recoating	6,270
Round Hill Pressure Zone Imprv	6,074
Summit Pressure Zone Improve	5,210
Water Conservation Project	5,036
Addl Supplemental Supply Projs	4,999
Open Cut Reservoir Rehab	3,595
Distrib Sys Wtr Quality Imprv	3,309
Rate Control Station Rehab	3,263
Pipeline System Improvements	3,069
Other Construction Projects	46,433
	\$ 252,473
<b>Wastewater System:</b>	
Digester Upgrade	\$ 58,451
Infiltration/Inflow Contrl Prj	13,088
Treatment Plant Infrastructure	8,777
Concrete Rehab at SD1	4,534
Routine Cap Equip Replacement	3,418
PGS Engine Overhaul	2,264
MWWTP Master Plan	1,793
Wood St Sewer Intercept Rehab	1,676
Resource Recovery Project	1,655
DCS Upgrades	1,403
Wet Weather Plant Imprmts	765
So Interceptor Reloc High St	540
Interceptor Corrosion Prevent	491
MWWTP Pwr Dist Sys Upgrade	390
Priority Manhole Intercept Prj	349
Other Construction Projects	727
	\$ 100,321
Total District Construction in Progress	\$ 352,794

At June 30, 2013, the District's remaining current major project commitments are estimated to be \$19,372 for the Water System and \$19,922 for the Wastewater System.

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012  
(Dollars in Thousands)**

**NOTE 4 – ACCOUNTS PAYABLE & ACCRUED EXPENSES**

Accounts payable and accrued expenses at June 30, 2013 and 2012 consist of:

	Water System		Wastewater System		Total	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Accounts payable	\$13,848	\$16,059	\$3,537	\$2,723	\$17,385	\$18,782
Accrued salaries	2,800	5,288	492	969	3,292	6,257
Accrued compensated absences	23,452	24,399	4,066	4,371	27,518	28,770
Other	20,516	13,679	1,103	1,342	21,619	15,021
Total	\$60,616	\$59,425	\$9,198	\$9,405	\$69,814	\$68,830

**NOTE 5 – EXTENDABLE COMMERCIAL PAPER NOTES**

The District's Board of Directors has authorized a short-term commercial paper borrowing program of up to the lesser of either (1) the average of the total annual revenue for the three preceding years or (2) 25% of the District's total outstanding bonds. As of June 30, 2013, the District had \$475 million authorized for this program. The proceeds from the issuance of commercial paper are restricted as to use. Under this program, which must be authorized by the Board of Directors every seven years and is subject to the right of referendum, the Water System or the Wastewater System may issue commercial paper and bank notes at prevailing interest rates for periods not more than 270 days from the date of issuance. The program was last authorized on March 10, 2009.

The District replaced the commercial paper program with an extendable commercial paper program in March 2009. Under the extendable commercial paper program, no liquidity support agreement (line of credit) with a commercial bank is needed. Instead, the District limits the term of the extendable commercial paper to 120 days, and the investor agrees to extend the maturity of their investment by 150 days at a higher interest rate in the event of a failed remarketing which gives the District sufficient time to find a replacement investor or refund the extendable commercial paper with a different form of debt (e.g. fixed or variable rate revenue bonds) to repay the investor.

As of June 30, 2013, \$372.9 million in Water Series and \$15.0 million in Wastewater Series extendable commercial paper notes were outstanding under this program. The Water Series included terms of 51 to 119 days and interest rates ranging from 0.14% to 0.2% as of June 30, 2013, and terms of 34 to 120 days and interest rates ranging from 0.2% to 0.26% as of June 30, 2012. The Wastewater Series included the term of 97 days and an interest rate of 0.17% as of June 30, 2013, and terms of 93 days and interest rates of 0.25% as of June 30, 2012. There were no unused proceeds as of June 30, 2013. It is the District's practice to use extendable commercial paper as a portion of the District's long-term variable rate debt exposure.

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012  
(Dollars in Thousands)**

**NOTE 6 – LONG-TERM DEBT**

**A. Composition and Changes**

The District generally incurs long-term debt to finance projects or purchase assets which will have useful lives equal to or greater than the related debt. The District's debt issues and transactions are summarized below and discussed in detail thereafter.

	Original Issue Amount	Balance June 30, 2012	Additions	Retirements	Balance June 30, 2013	Amount due within one year
<b>Water System Revenue Bonds:</b>						
<b>Subordinated Series 2003</b>						
2.00 - 5.00%, due 6/1/21	115,730	56,080		56,080		
<b>Subordinated Series 2005 A</b>						
5.00%, due 6/1/35	300,000	300,000		71,750	228,250	
<b>Subordinated Series 2007 A</b>						
5.00%, due 6/1/37	450,000	450,000		120,000	330,000	
<b>Subordinated Series 2007 B</b>						
3.75 - 5.00%, due 6/1/19	54,790	40,750		5,050	35,700	5,250
<b>Subordinated Series 2008 A</b>						
.05% variable rate, due 6/1/38	322,525	315,650		115,100	200,550	
<b>Subordinated Series 2008 B</b>						
.06% variable rate, due 6/1/35	160,000	58,450		43,350	15,100	
<b>Subordinated Series 2009 A</b>						
.06% variable rate, due 6/1/26	331,155	310,800		228,725	82,075	
<b>Subordinated Series 2010 A</b>						
3.00 - 5.00%, due 6/1/36	192,830	192,830		2,260	190,570	2,435
<b>Subordinated Series 2010 B</b>						
5.87%, due 6/1/40	400,000	400,000			400,000	
<b>Series 2011 A</b>						
.41% variable rate, due 6/1/25	79,605	148,530		360	148,170	600
<b>Series 2012 A</b>						
5.00% , due 6/1/25	191,750		191,750		191,750	
<b>Series 2012 B</b>						
1.00 -5.00%, due 6/1/26	358,620		358,620	18,625	339,995	7,155
<b>Series 2013 A</b>						
5.00%, due 6/1/21	48,670		48,670		48,670	3,145
Total water long-term bonds		2,273,090	599,040	661,300	2,210,830	18,585

(Continued)

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012  
(Dollars in Thousands)**

**NOTE 6 - LONG TERM DEBT (Continued)**

	Original Issue Amount	Balance June 30, 2012	Additions	Retirements	Balance June 30, 2013	Amount due within one year
<b><i>Wastewater System General</i></b>						
<b><i>Obligation Bonds:</i></b>						
<b>Series F</b>						
2.5 % - 5.00%, due 4/1/18	41,730	21,650		3,095	18,555	3,300
<b><i>Wastewater System Revenue Bonds:</i></b>						
<b>Subordinated Series 2007 A</b>						
5.00%, due 6/1/37	80,630	80,630		20,000	60,630	
<b>Subordinated Series 2007 B</b>						
3.75 - 5.00%, due 6/1/26	46,670	37,890		2,600	35,290	2,700
<b>Subordinated Series 2008 C</b>						
.06% variable rate, due 6/1/27	65,300	54,140		2,450	51,690	2,590
<b>Subordinated Series 2010 A</b>						
2.00 - 5.00%, due 6/1/29	58,095	54,855		3,150	51,705	3,240
<b>Subordinated Series 2010 B</b>						
5.03 - 5.18%, due 6/1/40	150,000	150,000			150,000	
<b>Series 2011 A</b>						
.38% variable rate, due 6/1/38	65,905	62,570		1,725	60,845	1,750
<b>Series 2012 A</b>						
5.00% , due 6/1/37	20,000		20,000		20,000	
Total wastewater long-term bonds		461,735	20,000	33,020	448,715	13,580
<b>Total long-term bonds</b>		<b>2,734,825</b>	<b>619,040</b>	<b>694,320</b>	<b>2,659,545</b>	<b>32,165</b>
<b><i>Water Loans:</i></b>						
<b><i>State Water Resources Control Board</i></b>						
<b>2004 Upper San Leandro Reservoir Project</b>						
2.51%, due 1/1/24	2,188	1,390		107	1,283	108
<b>2008 East Bayshore, Recycled Water Project</b>						
2.40%, due 4/1/28	20,100	16,580		861	15,719	883
Total water loans		17,970		968	17,002	991
<b>Total long-term loans</b>		<b>17,970</b>		<b>968</b>	<b>17,002</b>	<b>991</b>
<b><i>Commercial Paper (see Note 5)</i></b>						
Water System Commercial Paper		312,900	1,352,200	(1,292,200)	372,900	
Wastewater System Commercial Paper		15,000	60,000	(60,000)	15,000	
Total commercial paper		327,900	1,412,200	(1,352,200)	387,900	
Amount due within one year		(59,398)		(26,242)	(33,156)	
Less: Unamortized discount, net		25,503	\$35,616		61,119	
<b>Total long-term liabilities, net</b>		<b>\$2,718,900</b>	<b>\$2,066,856</b>	<b>(\$683,154)</b>	<b>\$3,092,410</b>	<b>\$33,156</b>

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012  
(Dollars in Thousands)**

**NOTE 6 - LONG TERM DEBT (Continued)**

***B. Description of the District's Long-Term Debt Issues***

General obligation and revenue bonds are generally callable at future dates. The general obligation bonds are backed by the assessed values of real property within the District.

Revenue-supported debt can be authorized by the District's Board of Directors, subject to a referendum process.

The net revenues of the Water System are pledged toward the repayment of the Water Revenue Bonds and the State Water Resources Control Board Parity Loans of the Water System. The net revenues of the Wastewater System are pledged toward the repayment of the Wastewater Revenue Bonds and the State Water Resources Control Board Parity Loans of the Wastewater System.

The District is subject to certain revenue bond covenants on outstanding debt, the most restrictive of which requires the setting of rates and charges to yield net revenue, as defined, equal to at least 110% of the current annual debt service requirements of the combined senior and subordinated Water System and Wastewater System Revenue Bonds, respectively. The District has designated \$65 million (\$50 million for the Water System and \$15 million for the Wastewater System) in net revenues as a rate stabilization fund, which is available to satisfy the coverage requirements for debt service in future years. There have never been any draws for this purpose.

***Water Issuance During the Year***

**2012 Water System Revenue Refunding Bonds, Series 2012A** – The District issued \$191.8 million principal amount of Series 2012A Bonds on October 10, 2012, to refund \$71.8 million principal amount of the District's Water System Subordinated Revenue Bonds, Series 2005A and \$120 million principal amount of the District's Water System Subordinated Revenue Bonds, Series 2007A. The Series 2012A Bonds are special obligations of the District and are payable solely from and secured by a pledge of Subordinated Water Revenues. Principal payments commence on June 1, 2028 and are payable annually on June 1 thereafter. Interest payments are payable on June 1<sup>st</sup> and December 1<sup>st</sup> of each year, commencing December 1, 2012.

The refunding of 2005A and 2007A creates an economic gain of \$15 million. The 2012A Bonds follow the same maturity schedule of the 2005A and 2007A Bonds.

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012  
(Dollars in Thousands)**

**NOTE 6 – LONG-TERM DEBT (Continued)**

**2012 Water System Revenue Refunding Bonds, Series 2012B** - The District issued \$358.6 million principal amount of Series 2012B Bonds on November 13, 2012. A portion of the proceeds of the Series 2012B Bonds was applied to refund and defease on such date \$228.7 million principal amount of the District's Water System Subordinated Revenue Refunding Bonds, Series 2009A Bonds as well \$115.1 million principal amount of the District's Water System Subordinated Revenue Refunding Bonds variable rate Series 2008A Bonds and \$43.4 million principal amount of the District's Water System Subordinated Revenue Refunding Bonds variable rate Series 2008B-3 Bonds, which have been called for redemption on December 3, 2012, and to pay the costs of terminating a portion of certain interest rate swap agreements related to the Water System Revenue Bonds to being refunded. The Series 2012B Bonds are special obligations of the District and are payable solely from and secured by a pledge of Subordinated Water Revenues. Principal payments commence on June 1, 2013, and are payable annually on June 1 thereafter. Interest payments are payable on June 1<sup>st</sup> and December 1<sup>st</sup> of each year, commencing June 1, 2013.

The advance refunding of 2008A, 2008B-3 and 2009A Water Bonds reduced debt service payments in fiscal year 2013 by approximately \$16 million. This refunding created an economic loss of \$1 million.

**2013 Water System Revenue Refunding Bonds, Series 2013A** – The District issued \$48.7 million principal amount of Series 2013A Bonds on March 5, 2013 to refund \$56.1 million principal amount of the District's Water System Subordinated Revenue Bonds, 2003. The Series 2013A Bonds are special obligations of the District and are payable solely from and secured by a pledge of Subordinated Water Revenues. Principal payments commence on June 1, 2014 and are payable annually on June 1 thereafter. Interest payments are payable on June 1<sup>st</sup> and December 1<sup>st</sup> of each year, commencing June 1, 2013.

The advance refunding of 2003 Water Bonds reduced debt service payments in fiscal year 2013 by approximately \$5 million. This refunding created an economic gain of \$7 million.

***Wastewater Issuance During the Year***

**2012 Wastewater System Revenue Refunding Bonds, Series 2012A** – The District issued \$20 million principal amount of Series 2012A Bonds on October 10, 2012 to refund \$20 million principal amount of the District's Wastewater System Subordinated Revenue Bonds, 2007A. The Series 2012A Bonds are special obligations of the District and are payable solely from and secured by a pledge of Subordinated Wastewater Revenues. Principal payments commence on June 1, 2027 and are payable annually on June 1 thereafter. Interest payments are payable on June 1<sup>st</sup> and December 1<sup>st</sup> of each year, commencing December 1, 2012.

The refunding of 2007A creates an economic gain of \$1 million. The 2012A Bonds follow the same maturity schedule of the 2007A Bonds.

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012  
(Dollars in Thousands)**

**NOTE 6 - LONG TERM DEBT (Continued)**

**C. Debt Service Requirements**

Annual debt service requirements, including the swap payments discussed in F., are shown below for the above debt issues:

For the Year Ending June 30	Water System		Wastewater System		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$19,576	\$93,587	\$13,580	\$15,463	\$33,156	\$109,050
2015	35,920	92,956	12,770	15,886	48,690	108,842
2016	49,520	91,717	13,680	15,466	63,200	107,183
2017	53,259	89,517	14,405	15,022	67,664	104,539
2018	59,429	87,272	14,560	14,159	73,989	101,431
2019 - 2023	337,812	398,673	60,595	68,310	398,407	466,983
2024 - 2028	402,612	344,234	62,270	62,648	464,882	406,882
2029 - 2033	484,120	262,544	94,440	49,900	578,560	312,444
2034 - 2038	611,975	142,428	69,525	31,433	681,500	173,861
2039 - 2040	173,609	11,431	92,890	4,808	266,499	16,239
Totals	<u>\$2,227,832</u>	<u>\$1,614,359</u>	<u>\$448,715</u>	<u>\$293,095</u>	<u>\$2,676,547</u>	<u>\$1,907,454</u>

Interest payments on debt subject to swap agreements were calculated using the variable rates at June 30, 2013.

**D. Prior-Year Defeasances**

In prior years, the District defeased certain debt issues by placing proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the defeased debt are not included in the District's financial statements. On June 30, 2013, none of the bonds outstanding are considered defeased.

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012  
(Dollars in Thousands)**

**NOTE 6 - LONG TERM DEBT (Continued)**

***E. Variable Rate Debt***

The District has several bond issues with variable interest rates. The bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest and delivery to the District's remarketing agent. The remarketing agent is authorized to use its best efforts to sell the repurchased bonds at a price equal to 100 percent of the principal amount by adjusting the interest rate. Under Standby Purchase Agreements issued by banks for each variable rate debt issue, the trustee or the remarketing agent is entitled to draw an amount sufficient to pay the purchase price of bonds delivered to it. The District is required to pay to the Banks an initial take out agreement fee and an annual commitment fee. In addition, the remarketing agent receives an annual fee of seven basis points of the outstanding principal amount of the bonds. Terms of these arrangements are presented below by debt issue.

Issue	Standby Purchase Agreement Terms		
	Expiration Date	Interest Rate	Rate Swap Swap Rate
Water System Revenue			
Subordinated Bonds:			
Series 2008A-1	7/3/2014	Reset Weekly	See below
Series 2008A-2	7/1/2015	Reset Weekly	See below
Series 2008A-3	7/1/2015	Reset Weekly	See below
Series 2008A-4	1/10/2014	Reset Weekly	See below
Series 2008B-3	1/10/2014	Reset Weekly	See below
Series 2009A-1	12/3/2013	Weekly SIFMA	See below
Series 2009A-2	2/28/2014	Weekly SIFMA	See below
Series 2011A-1	7/1/2014	Weekly SIFMA	See below
Series 2011A-2	7/1/2014	Weekly SIFMA	See below
Wastewater System Revenue			
Subordinated Bonds:			
Series 2008C	1/10/2014	Reset Weekly	See below
Series 2011A	7/8/2015	Weekly SIFMA	See below

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012  
(Dollars in Thousands)**

**NOTE 6 – LONG-TERM DEBT (Continued)**

***F. Interest Rate Swap Agreements***

The District has entered into a number of matched interest rate swap contracts with providers in which the District contracted to pay a fixed rate on the nominal amount of outstanding Bonds, in exchange for a floating rate payment, set monthly, two business days prior to the end of each month. The combination of variable rate bonds and a floating swap creates synthetic fixed-rate debt for the District. The transactions allow the District to create a synthetic fixed rate on the Bonds, protecting the District against increases in short-term interest rates. The terms, fair value, and credit risk of each of the swap agreements are disclosed below.

*Term and credit risks.* The terms and credit ratings of the outstanding swaps, as of June 30, 2013, are included below. The District's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to follow scheduled reductions in the associated bonds.

Related Bond Issue	Notional Amount	Effective Date	Counterparty	Counterparty Credit Ratings	Issuer Pays	Issuer Receives	Maturity/Termination Date
2011A Water System Refunding Bonds	\$98,780	12/11/2011	The Bank of New York Mellon	Aa1	3.835%	65% of 30-day LIBOR	6/1/2025
2011A Water System Refunding Bonds	49,390	3/6/2002	JP Morgan Chase & Co.	Aa3	3.835%	65% of 30-day LIBOR	6/1/2025
2008A Water System Refunding Bonds	70,965	6/2/2005	JP Morgan Chase & Co.	Aa3	3.115%	62.3% of 30-day LIBOR	6/1/2038
2008A Water System Refunding Bonds	70,965	6/1/2011	Bank of America, National Association	A3	3.115%	62.3% of 30-day LIBOR	6/1/2038
2008A Water System Refunding Bonds	30,850	6/1/2012	Merrill Lynch Capital Services	Baa2	3.115%	62.3% of 30-day LIBOR	6/1/2038
2008A Water System Refunding Bonds	27,770	9/25/2008	The Bank of New York Mellon	Aa1	3.115%	62.3% of 30-day LIBOR	6/1/2038
2008B-3/2009A Water System Refunding Bonds	61,050	6/1/2012	Deutsche Bank	A2	3.407%	91.0% of USD-SIFMA Municipal Swap Index	6/1/2026
2008B-3/2009A Water System Refunding Bonds	15,675	5/23/2007	Citi Bank, N.A. New York	A3	3.407%	91.0% of USD-SIFMA Municipal Swap Index	6/1/2026
2008B-3/2009A Water System Refunding Bonds	20,350	5/23/2007	Merrill Lynch Capital Services	Baa2	3.407%	91.0% of USD-SIFMA Municipal Swap Index	6/1/2026
2011A Wastewater System Refunding Bonds	61,725	12/16/2008	Dexia Credit Local	Baa2	3.098%	62.3% of 3-month LIBOR	6/1/2038
2008C Wastewater System Refunding Bonds	25,845	3/5/2003	Citigroup Financial Products, Inc.	Baa2	3.468%	65% of 30-day LIBOR	6/1/2027
2008C Wastewater System Refunding Bonds	25,845	3/5/2003	JP Morgan Chase & Co.	Aa3	3.468%	65% of 30-day LIBOR	6/1/2027

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012  
(Dollars in Thousands)**

**NOTE 6 – LONG-TERM DEBT (Continued)**

The effect of these transactions is structured to result in the approximate equivalent of the District paying a fixed rate on the Bonds, since the inflow of payments from the swaps are anticipated to approximate the outflow of payments on the variable rate Bonds. Only the net difference in interest payments to the swap providers is made under the swap contracts.

*Fair value.* The fair value of the swaps takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction and any upfront payments that may have been received. The fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the LIBOR swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps. The fair values of each swap at June 30, are included below:

Related Bond Issuance	Fair Value	
	2013	2012
<b>Water</b>		
2011A Water System Refunding Bonds	(\$28,005)	(\$38,689)
2008A Water System Refunding Bonds	(33,768)	(74,568)
2008B-3/2009 Water System Refunding Bonds	(13,075)	(55,060)
Total Water	<u>(74,848)</u>	<u>(168,317)</u>
<b>Wastewater</b>		
2011A Wastewater System Refunding Bonds	(8,417)	(13,550)
2008C Wastewater System Refunding Bonds	(7,487)	(10,849)
Total Wastewater	<u>(15,904)</u>	<u>(24,399)</u>
Totals	<u>(\$90,752)</u>	<u>(\$192,716)</u>

*Credit risk.* As of June 30, 2013, the District was not exposed to credit risk on its outstanding swaps because the swaps had a negative fair value of \$91 million. The District faces a maximum possible loss equivalent to the swaps' fair value. However, if interest rates increase and the fair value of the swaps were to become positive, the District would be exposed to credit risk.

The District will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated. The swap agreements contain provisions determining if and when the District or the counterparty must provide collateral. The agreements require full collateralization of the fair value of the swap should the counterparty's credit rating fall below a certain threshold. At June 30, 2013, the District provided no collateral between all SWAP counterparties.

*Basis risk.* Basis risk is the risk that the interest rate paid by the District on underlying variable rate bonds to bondholders temporarily differs from the variable swap rate received from the applicable counterparty. The District bears basis risk on its swaps. The swaps have basis risk since the District receives a percentage of LIBOR and/or SIFMA Municipal Swap Index to offset the actual variable bond rate the District pays on its bonds. The District is exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate the District pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost of the basis risk may vary. Currently, the District has basis difference on its swaps ranging from a positive 12 basis points (the District receives more from its swap floating rate payment than it pays out on its variable rate debt) to negative basis difference of 29 basis points.

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012  
(Dollars in Thousands)**

**NOTE 6 – LONG-TERM DEBT (Continued)**

*Termination risk.* The District or the counterparty may terminate if the other party fails to perform under the terms of the respective contracts. The District will be exposed to variable rates if the providers to the swap contracts default or if the swap contracts are terminated. A termination of the swap contracts may also result in the District's making or receiving a termination payment based on market interest rates at the time of the termination. If at the time of termination the swap has a negative fair value, the District would be liable to the counterparty for a payment equal to the swap's fair value.

The District exchanged the counterparty of the 2002 Water System Refunding Bonds swap counterparty from Citigroup Financial Products Inc. to The Bank of New York Mellon by executing a swap novation transaction for \$113,550 on December 14, 2011. In accordance with GASB Statement Number 64, the fair value of the swap at the date of novation is recorded as a \$24,551 deferred liability and loss. The fair value of the swap with The Bank of New York Mellon is reported at the fair value similar to existing swaps. The elimination of the \$24,551 liability and booking of the associated gain will be made at the maturity/termination date of the bonds and underlying swap on June 1, 2025.

*Swap payments and associated debt.* Using rates as of June 30, 2013, debt service requirements of the District's outstanding variable-rate debt and net swap payments are as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary. These payments below are included in the Debt Service Requirements at C. above:

For the Year Ending June 30	Variable-Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest	Interest	
2014	4,940	975	18,021	18,996
2015	5,400	964	17,847	18,811
2016	5,845	953	17,658	18,611
2017	12,965	912	17,206	18,118
2018	13,475	870	16,736	17,606
2019 - 2023	128,275	3,448	73,391	76,839
2024 - 2028	238,240	1,023	31,131	32,154
2029 - 2033	67,825	488	16,217	16,705
2034 - 2038	81,465	159	5,055	5,214
Totals	<u>\$558,430</u>	<u>\$9,792</u>	<u>\$213,262</u>	<u>\$223,054</u>

**G. GASB 65**

With the early implementation of GASB 65, *Items Previously Reported as Assets and Liabilities*, the District has restated the deferred bond issuance costs previously recognized. The net impact to the ending balance of net position is shown on the Statement of Revenue, Expenses and Changes in Net Position.

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012  
(Dollars in Thousands)**

**NOTE 7 – NET POSITION**

Net Position is the excess of all the District's assets and deferred outflows over all its liabilities and deferred inflows, regardless of fund. Net Position is divided into three captions. These captions apply only to Net Position and are described below:

*Net Investment in Capital Assets* describes the portion of Net Position which is represented by the current net book value of the District's capital assets, less the outstanding balance of any debt issued to finance these assets and any related deferred outflows and inflows.

*Restricted* describes the portion of Net Position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the District cannot unilaterally alter. These principally include developer fees received for use on capital projects, debt service requirements, and fees charged for the provision of future water resources.

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

**NOTE 8 – EMPLOYEES' RETIREMENT PLAN**

**A. Description**

The Employees' Retirement System is a single-employer, contributory, defined benefit pension plan (the Plan) which provides retirement, disability, survivorship, and post-employment healthcare benefits for eligible directors, officers, and employees of the District. The Plan is administered by a Retirement Board composed of three members appointed by the District's Board of Directors and two members elected by and from the active membership of the Plan, and a nonvoting member elected by the retirees of the Plan. Retirement Ordinance No. 40 assigns the authority to establish Plan benefit provisions to the District's Board of Directors.

All regular full-time employees of the District are members of the Plan. In accordance with the ordinance governing the Plan, eligible employees become members on the first day they are physically on the job. District-defined benefits vest in part with members after completion of five years of continuous, full-time employment.

The Plan is funded by contributions from its members and from the District. District contribution percentages are recommended by the Retirement Board; employee contribution rates are established by the Board of Directors pursuant to the Ordinance, giving consideration to actuarial recommendations and prospective changes in factors which affect funding.

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012  
(Dollars in Thousands)**

**NOTE 8 – EMPLOYEES’ RETIREMENT PLAN (Continued)**

***B. Post-employment Healthcare Cost***

In addition to retirement benefits, the District provides post-employment health benefits assistance (administered by the Employees’ Retirement System) for employees who retire from the District or their surviving spouses. As of June 30, 2013, there were 1,318 participants receiving these health care benefits.

Effective July 1, 1996, a 20-year vesting schedule for full benefits was implemented for all new participants. Effective January 1, 1999, retired members who had separated from the District prior to their retirement and who had at least 10 years of service also became eligible for the post-employment health benefits based on the same sliding scale. The scale provides for 25% of healthcare benefits for service from 5 through 10 years, 50% of healthcare benefits for service from 10 through 15 years, 75% of healthcare benefits for service from 15 through 20 years, and 100% of healthcare benefits for service of 20 years or more. Effective July 1, 2003, the District reimbursed up to \$450 per month (\$550 per month effective July 1, 2004, for membership of a spouse or registered domestic partner) for any health, dental, or long-term care insurance premiums paid by the retiree for themselves, current spouse, or domestic partner, or any health, dental, or long-term care insurance premiums paid by the eligible surviving spouse of a retiree. These benefits are paid from a separate post-employment healthcare benefits fund which up until June 17, 2002, was advance funded entirely by the District on an actuarially determined basis. Cash reimbursement of these benefits totaled \$6,668 in the year ended June 30, 2013. Effective June 18, 2002, a portion of the post-employment healthcare benefit costs is recovered through employee contributions.

Through June 30, 1999, the medical premium subsidy was not a vested benefit and the District reserved the right to modify or terminate the benefit at any time. If the medical subsidy were terminated, assets accumulated from contributions made for the subsidy would be used to provide other pension benefits. Effective July 1, 1999, the medical premium subsidy became a vested benefit to a maximum of \$200 per month, was changed effective October 1, 2000, to a maximum of \$250 per month, and was changed effective July 1, 2002, to a maximum of \$400 per month, and was changed effective July 1, 2003, to a maximum of \$450 per month, and was changed again effective July 1, 2004, to a maximum of \$450 per month for a single retiree or survivor and \$550 per month for retiree and a spouse or a registered domestic partner.

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012  
(Dollars in Thousands)**

**NOTE 8 – EMPLOYEES’ RETIREMENT PLAN (Continued)**

*C. Actuarial Assumptions and Funding Policy*

The Plan’s funding policy provides for periodic District contributions at actuarially determined amounts sufficient to accumulate the necessary assets to pay benefits when due as specified by ordinance. The individual-entry-age-normal method is used to determine the normal cost, and the unfunded actuarial accrued liability (past service liability) is amortized as a level percentage of future covered payroll on a closed basis over 30 years for the pension plan and the post-employment healthcare benefit plan. Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. District contributions for the year to cover normal cost and to amortize the unfunded actuarial liability approximated a total of 42.1% of covered payroll inclusive of post-employment health care benefits. Calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing the costs between the employer and plan members to that point.

Significant assumptions used to compute contribution requirements from the latest unaudited actuarial are as follows:

Valuation date	June 30, 2012
Actuarial cost method	Entry Age Normal Cost Method
Amortization method	Level percent of payroll
Remaining amortization period	Plan changes are amortized over separate decreasing 15-year periods; assumptions changes are amortized over separate decreasing 25-year periods; and experience gains/losses are amortized over separate decreasing 20-year periods.
Assets valuation method	Market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual market return and the expected return on the market value, and is recognized over a five year period, further adjusted, if necessary, to be within 30% of the market value.
Actuarial assumptions:	
Investment rate of return	7.75%
Average projected salary increases	0.50%
Inflation rate	3.25%
Cost-of-living adjustments	3.15%
Annual healthcare cost trend rates	8.25% reduced by increments to a rate of 5.00% after 10 years.

All assumptions are the same for the post-employment health care benefits except for the discount rate, assumed at a rate of 7% for the funded and unfunded portions.

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012  
(Dollars in Thousands)**

**NOTE 8 – EMPLOYEES’ RETIREMENT PLAN (Continued)**

***D. Contributions Required and Contributions Made***

Contributions for the years ended June 30, based on the actuarial valuation, were as follows:

	2013		2012	
	Pension	Healthcare Benefit Plan	Totals	
Regular contributions:				
District contributions	\$53,795	\$7,772	\$61,567	\$59,651
Member contributions	10,391	139	10,530	10,700
	<u>64,186</u>	<u>7,911</u>	<u>72,097</u>	<u>70,351</u>
Other contributions:				
Member buybacks	36		36	23
	<u>\$64,222</u>	<u>\$7,911</u>	<u>\$72,133</u>	<u>\$70,374</u>

Regular District and member contributions in fiscal 2013 represent an aggregate of 42.1% and 6.86% of covered payroll, respectively. The District’s contributions include amounts for post-employment healthcare benefits at a rate of 5.34% of covered payroll, determined by an actuarial dated June 30, 2012. The actual payroll for the District employees covered by the Plan for the year ended June 30, 2013, was \$154,126 which was 90.48% of the total District payroll of \$170,336.

The total District contribution of \$61,849 as of June 30, 2013, consisted of \$61,567 in regular contributions (\$24,294 of normal cost and \$37,273 of amortization of the unfunded actuarial accrued liability) and \$280 interest on contributions to Northern Trust.

Regular District and member contributions in fiscal 2012 represent an aggregate of 38.07% and 6.86% of covered payroll, respectively. The District’s contributions include amounts for post-employment healthcare benefits at a rate of 5.1% of covered payroll, determined by an actuarial dated June 30, 2011. The actual payroll for the District employees covered by the Plan for the year ended June 30, 2012, was \$156,668, which was 90.95% of the total District payroll of \$172,259.

The total District contribution of \$59,989 as of June 30, 2012, consisted of \$59,651 in regular contributions (\$24,499 of normal cost and \$35,152 of amortization of the unfunded actuarial accrued liability) and \$338 interest on contributions to Northern Trust.

Member buyback contributions relate to prior years’ service credits for Plan participants. The Plan was amended in 1998 for limited temporary construction workers and in 2003 for intermittent employees to allow current members, who previously worked for the District in a status that did not qualify for membership in the Employees’ Retirement System, to establish retirement service credit for prior service with payments over a period of two to eight years.

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012  
(Dollars in Thousands)**

**NOTE 8 – EMPLOYEES’ RETIREMENT PLAN (Continued)**

***E. Schedule of Employer Contributions***

The District’s annual pension and OPEB costs and schedules of contributions for the past three years are as follows:

***Retirement Plan:***

	Actual contribution	Annual pension cost	Percentage contributed	Net pension obligation
Fiscal year ended June 30:				
2011	\$50,987	\$50,987	100%	\$0
2012	52,156	52,156	100%	0
2013	53,795	53,795	100%	0

***Health Insurance Benefit Plan:***

	Actual contribution	Annual OPEB cost	Percentage contributed	Net OPEB obligation
Fiscal year ended June 30:				
2011	\$7,802	\$11,037	71%	\$12,259
2012	7,833	11,517	68%	15,943
2013	8,054	11,443	70%	19,332

The annual required contributions for fiscal years ended June 30, 2013, 2012 and 2011, include amounts for the pay-as-you-go amounts for post-employment healthcare benefits.

***F. Funding Progress and Funded Status***

***Retirement Plan:***

The schedule of funding progress for the retirement plan is as follows for the fiscal years ended June 30:

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) - entry age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
6/30/2010	\$915,845	\$1,396,003	\$480,158	65.6%	\$164,085	292.6%
6/30/2011	954,719	1,446,039	491,320	66.0%	159,505	308.0%
6/30/2012	1,021,546	1,556,696	535,150	65.6%	158,847	336.9%

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012  
(Dollars in Thousands)**

**NOTE 8 – EMPLOYEES’ RETIREMENT PLAN (Continued)**

***Health Insurance Benefit Plan:***

During the fiscal year ended June 30, 2013, the District made contributions to the Health Insurance Benefit Plan toward the Annual Required Contribution (ARC) amounting to \$7,772, which represented 4.56% of the total \$170,335 total District payroll. During the fiscal year ended June 30, 2012, the District made contributions toward the ARC amounting to \$7,495 to the plan which represented 4.35% of the \$172,295 total District payroll. As a result, the District has recorded the Net OPEB Obligation (NOO), representing the difference between the ARC and actual contributions, as presented below:

Net OPEB obligation at June 30, 2011		\$12,259
Annual required contribution (ARC)	\$11,289	
Interest on net OPEB obligation	892	
Adjustments to the ARC	(664)	
Annual OPEB cost - fiscal year 2011/2012	11,517	
Less contributions made during fiscal year:		
Contributions to Northern Trust	(7,495)	
Interest on Contributions to Northern Trust	(338)	
	(7,833)	
Contributions less than ARC		3,684
Net OPEB obligation at June 30, 2012		15,943
Annual required contribution (ARC)	11,145	
Interest on net OPEB obligation	1,164	
Adjustments to the ARC	(866)	
Annual OPEB cost - fiscal year 2012/2013	11,443	
Less contributions made during fiscal year:		
Contributions to Northern Trust	(7,772)	
Interest on Contributions to Northern Trust	(282)	
Contributions to Northern Trust	(8,054)	
Increase in net OPEB obligations		3,389
<b>Net OPEB obligation at June 30, 2013</b>		<b>\$19,332</b>

A schedule of funding progress for the retirement and post-employment healthcare plans presenting multiple-year trend information as to whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time is presented immediately following the notes to basic financial statements in the Required Supplementary information section.

***G. Public Employees’ Pension Reform Act (PEPRA)***

Assembly Bill 340 (AB 340) created the Public Employees’ Pension Reform Act (PEPRA) that implemented new benefit formulas and final compensation periods, as well as new contribution requirements for new employees hired on or after January 1, 2013, who meet the definition of new member under PEPRA.

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012  
(Dollars in Thousands)**

**NOTE 8 – EMPLOYEES’ RETIREMENT PLAN (Continued)**

The table below provides the details of the new provisions.

Benefit Formula	2.5% at Age 67
Final Compensation Period	Average of last 3 years
Employer Contribution Rate as a percentage payroll	7.55% of Reportable Compensation
Member Contribution Rate as a percentage of payroll	7.75% of Reportable Compensation

The employer contribution rate listed above is in effect until June 30, 2013. In accordance with the provisions of AB 340, the member contribution rate shown above was set at 50 percent of the expected total normal cost rate for the benefits that will apply to new members on January 1, 2013. The total normal cost rate used for this calculation is 15.30 percent of payroll for new members.

**NOTE 9 – RISK MANAGEMENT**

The District has purchased commercial insurance for general, property, public officials’ liability and workers’ compensation. During the fiscal year ended June 30, 2013, the District paid \$1,583 for current year coverage.

The District’s liability, property, and workers’ compensation risks are insured by commercial insurance carriers, all of which are subject to the District’s self-insurance retentions, which vary by type of coverage.

Selected other coverages are:

<u>Coverage</u>	<u>Policy Limit</u>	<u>Self-insurance retention</u>
Workers' Compensation	Statutory Limit	\$5,000
All risk property (except flood)	\$200,000	500
Flood	25,000	1,500
Liability	90,000	10,000 Water/ 10,000 Wastewater
Crime	10,000	25
Boiler and Machinery	10,000	25
Pardee and Camanche Dams	10,000	50
Main Wastewater Treatment Plant	10,000	50

Settled claims have not exceeded the District’s policy limits in any of the past five fiscal years.

Claim expenses and liabilities are recorded when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. As of June 30, 2013, the amount of these liabilities was \$42,200. This amount (which has not been discounted) has been actuarially determined and includes an estimate of incurred but not reported losses. Changes in the reported liability are as follows:

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012  
(Dollars in Thousands)**

**NOTE 9 – RISK MANAGEMENT (Continued)**

	2013	2012
Liability at beginning of year	\$43,623	\$41,774
Current year claims and changes in estimates	4,378	8,801
Payments of claims	(5,800)	(6,952)
Liability at end of year	\$42,201	\$43,623
Estimated liability:		
Due within one year	\$7,343	\$7,140
Due in more than one year	34,858	36,483
	\$42,201	\$43,623

**NOTE 10 – KNOWN ENVIRONMENTAL MATTERS**

Following is a summary of the District’s known environmental matters as of June 30, 2013, that meets the requirements of GASB Statement No. 49:

- Under a NPDES permit issued by the San Francisco Regional Water Quality Control Board, discharges from the District’s wet weather facilities are prohibited. Under an accompanying Cease and Desist Order, there is recognition of continued discharge while working toward full compliance. In 2009, the District also signed a Federal Stipulated Order on this matter that focuses on the excess wet weather flow entering the District’s system. The Order requires the District to do a range of work including working with property owners to address leaks in their private sewer laterals. The cost to meet the requirements in the Order is approximately \$5 million a year. The District, along with the seven satellite collection system agencies, is currently in negotiations with the Federal and State governments on a long-term Consent Decree. The Consent Decree will require the District and satellite agencies to undertake actions to reduce wet weather flows sufficient to cease discharges from the wet weather facilities under defined conditions. Upon lodging of the Consent Decree, which is expected in 2014, the Stipulated Order will sunset.
  
- The District submitted a Best Practicable Treatment and Control Evaluation Report to the Central Valley Regional Water Quality Control Board (CVRWQCB) on June 22, 2010 to address potential groundwater impacts from the wastewater treatment facility at Camanche North Shore Recreation Area. Based on the results of this evaluation, the no-action alternative was selected as the preferred alternative because the constituents of concern only slightly exceed recommended target groundwater concentrations and there are no significant impacts upon beneficial uses. Uncertainty exists as to whether or not the CVRWQCB will concur with this recommendation as they have not provided any response to the District’s evaluation. If the CVRWQCB does not concur, it is possible that the District will be required to construct wastewater treatment pond upgrades. At this preliminary planning stage, it is estimated that the cost would be approximately \$6.6 million to upgrade the existing facilities, or alternatively, approximately \$7.8 million to construct a joint wastewater project with Amador County.

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012  
(Dollars in Thousands)**

**NOTE 10 – KNOWN ENVIRONMENTAL LIABILITIES (Continued)**

- The CVRWQCB has requested that the District and U.S. Bureau of Land Management (BLM) address three abandoned ponds near Camanche Reservoir that contain mine wastes. The District and BLM have both been named as Potential Responsible Parties and are jointly completing this site investigation/remediation project. An Engineering Evaluation/Cost Analysis will be completed in 2013 to present remediation alternatives. The final site remedy and cost allocations between the District and BLM have yet to be determined.
- The CVRWQCB has requested that the District address elevated concentrations of petroleum hydrocarbons in soil and groundwater associated with former underground storage tanks (USTs) at the District's Bixler facility. The District has completed site investigation work, including groundwater and soil gas monitoring. However, the CVRWQCB has not officially closed the site or required further actions to be taken.
- The Alameda County Health Care Services Agency requested that the District conduct additional site investigations at the Adeline Maintenance Center Shops to further define the extent of petroleum hydrocarbons in soil and groundwater associated with former USTs. The District completed additional site investigations in accordance with an approved work plan. The results indicate that elevated concentrations of petroleum hydrocarbons still remain in onsite soil and groundwater in localized areas near the former USTs. The scope of additional work remaining at this site, if any, depends on the county's reaction to the submitted results.
- The District operates many facilities throughout Northern California that have NPDES permits, waste discharge requirements, and air permits. The total estimated liability for all known violations is less than \$250 thousand.

**NOTE 11 - CONTINGENT LIABILITIES**

The District is a defendant in a number of lawsuits which have arisen in the normal course of business including challenges over certain rates and charges. The ultimate outcome of these matters is not presently determinable. In the opinion of the District, these actions when finally adjudicated will not have a material adverse effect on the financial position of the District.

**NOTE 12 – COMMITMENTS AND CONTINGENCIES**

***Central Valley Project***

In December 1970, the District entered into a contract with the US Bureau of Reclamation for access to up to 150,000 acre feet per year of Central Valley Project (CVP) water from a diversion point on the American River. The successor contract, the Long Term Renewal Contract, was executed in April 2006 with a 40 year term. The Long Term Renewal Contract provides for delivery of up to 133,000 acre feet per year of CVP water in dry years to supplement the District's surface water supplies. Deliveries to the District are limited to a 165,000 acre foot total over any three successive dry years. In years in which the District takes delivery of CVP water, the District's allocated CVP capital cost and the District's operations and maintenance deficit balance will be paid down commensurately with the quantity of water delivered. For example, if the District had to take delivery of 80,000 acre feet in fiscal year 15, the District's CVP capital and deficit balances would each be reduced by approximately 20%. The balances must be paid off by 2030.

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**REQUIRED SUPPLEMENTAL INFORMATION**

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**EAST BAY MUNICIPAL UTILITY DISTRICT**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**FOR THE YEAR ENDED JUNE 30, 2013**  
(Dollars in thousands)

**(1) Pension Plan**

Schedule of funding progress for the pension plan (in thousands):

<b>Actuarial valuation date</b>	<b>Actuarial value of assets (a)</b>	<b>Actuarial liability (AAL) – entry age (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded ratio (a/b)</b>	<b>Covered payroll (c)</b>	<b>UAAL as a Percentage of covered payroll ((b-a)/c)</b>
06/30/01	\$606,896	\$663,763	\$56,867	91.4%	\$125,313	45.4%
06/30/02	631,700	719,660	87,960	87.8%	129,791	67.8%
06/30/03	639,382	838,385	199,003	76.3%	133,678	148.9%
06/30/04	662,387	886,663	224,276	74.7%	137,138	163.5%
06/30/05	692,945	946,616	253,671	73.2%	139,514	181.8%
06/30/06	740,622	1,039,750	299,128	71.2%	142,373	210.1%
06/30/07	827,098	1,126,106	299,008	73.4%	153,394	194.9%
06/30/08	900,917	1,244,993	344,076	72.4%	158,499	217.1%
06/30/09	862,021	1,323,555	461,534	65.1%	161,893	285.1%
06/30/10	915,845	1,396,003	480,158	65.6%	164,085	292.6%
06/30/11	954,719	1,446,039	491,320	66.0%	159,505	308.0%
06/30/12	1,021,546	1,556,696	535,150	65.6%	158,847	336.9%

Unaudited

**EAST BAY MUNICIPAL UTILITY DISTRICT**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**FOR THE YEAR ENDED JUNE 30, 2013**  
(Dollars in thousands)

(2) **Post-Employment Healthcare Plan**

Schedule of funding progress for the post-employment healthcare plan (in thousands):

<b>Actuarial valuation date</b>	<b>Actuarial value of assets (a)</b>	<b>Actuarial liability (AAL) – entry age (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded ratio (a/b)</b>	<b>Covered payroll (c)</b>	<b>UAAL as a Percentage of covered payroll ((b-a)/c)</b>
06/30/01	\$841	\$30,971	\$30,130	2.7%	\$125,313	24.0%
06/30/02	1,265	50,358	49,093	2.5%	129,791	37.8%
06/30/03	2,113	58,752	56,639	3.6%	133,678	42.4%
06/30/04	2,715	62,357	59,642	4.4%	137,138	43.5%
06/30/05	3,409	71,892	68,483	4.7%	139,514	49.1%
06/30/06	3,608	71,409	67,801	5.1%	142,373	47.6%
06/30/07	4,208	105,409	101,201	4.0%	153,394	66.0%
06/30/08	7,010	137,055	130,045	5.1%	158,499	82.0%
06/30/09	7,354	130,245	122,891	5.6%	161,893	75.9%
06/30/10	10,061	135,379	125,318	7.4%	164,085	76.4%
06/30/11	12,048	135,360	123,312	8.9%	159,505	77.3%
06/30/12	14,240	138,240	123,999	10.3%	158,847	78.1%

Unaudited

## **SUPPLEMENTAL INFORMATION**

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EAST BAY MUNICIPAL UTILITY DISTRICT  
EMPLOYEES' RETIREMENT SYSTEM TRUST FUND  
STATEMENTS OF PLAN NET POSITION

June 30, 2013

(With summarized comparative financial information as of June 30, 2012)

(DOLLARS IN THOUSANDS)

	2013			2012 Total
	Pension plan benefits	Post- employment healthcare benefits	Total	
<b>Assets:</b>				
Cash and cash equivalents, at fair value	\$33,908	\$489	\$34,397	\$33,068
Invested securities lending collateral	100,080	1,443	101,523	100,577
Prepaid expenses		459	459	434
<b>Receivables:</b>				
Brokers, securities sold	11,955	172	12,127	8,036
Employer	2,260	312	2,572	2,220
Plan members	401		401	382
Interest and dividends	2,246	32	2,278	2,276
Total receivables	16,862	516	17,378	12,914
<b>Investments, at fair value:</b>				
U.S. government obligations	85,270	1,213	86,483	121,790
Municipal bonds	5,676	98	5,774	2,840
Domestic corporate bonds	122,168	1,761	123,929	84,499
International bonds	13,680	197	13,877	7,077
Domestic stocks	596,083	8,593	604,676	515,957
International stocks	205,172	2,958	208,130	177,166
Real estate	52,465	757	53,222	48,876
Total investments	1,080,514	15,577	1,096,091	958,205
Total assets	1,231,364	18,484	1,249,848	1,105,198
<b>Liabilities:</b>				
Accounts payable and accrued expenses	1,451	21	1,472	1,365
Payables to brokers, securities purchased	22,205	320	22,525	16,284
Securities lending collateral	100,080	1,443	101,523	100,577
Total liabilities	123,736	1,784	125,520	118,226
<b>Net position held in trust for pension benefits and post-employment healthcare benefits.</b>				
	<u>\$1,107,628</u>	<u>\$16,700</u>	<u>\$1,124,328</u>	<u>\$986,972</u>

See accompanying notes to financial statements

EAST BAY MUNICIPAL UTILITY DISTRICT  
EMPLOYEES' RETIREMENT SYSTEM TRUST FUND  
STATEMENTS OF CHANGES IN PLAN NET POSITION

For the Year Ended June 30, 2013

(With summarized comparative financial information for the year ended June 30, 2012)

(DOLLARS IN THOUSANDS)

	2013			2012 Total
	Pension plan benefits	Post- employment healthcare benefits	Total	
<b>Additions:</b>				
<b>Contributions:</b>				
Employer	\$53,795	\$7,772	\$61,567	\$59,651
Plan members	\$10,427	139	10,566	10,723
<b>Total contributions</b>	<u>64,222</u>	<u>7,911</u>	<u>72,133</u>	<u>70,374</u>
<b>Investment income:</b>				
Net (depreciation) in fair value of investments:				
Traded securities	118,570	1,653	120,223	(1,387)
Real estate	865	12	877	1,160
Interest	7,687	107	7,794	8,278
Dividends	12,178	170	12,348	10,698
Real estate operating (loss), net	1,128	16	1,144	981
	<u>140,428</u>	<u>1,958</u>	<u>142,386</u>	<u>19,730</u>
<b>Less:</b>				
Investment expense	(3,677)	(52)	(3,729)	(3,380)
Borrowers' rebates and other agent fees on securities lending transactions	(121)	(1)	(122)	(63)
<b>Net investment (loss)</b>	<u>136,630</u>	<u>1,905</u>	<u>138,535</u>	<u>16,287</u>
<b>Total additions, net</b>	<u>200,852</u>	<u>9,816</u>	<u>210,668</u>	<u>86,661</u>
<b>Deductions:</b>				
Benefits paid	65,092	6,668	71,760	66,254
Refund of contributions	335		335	589
Administrative expenses	1,200	17	1,217	1,085
<b>Total deductions</b>	<u>66,627</u>	<u>6,685</u>	<u>73,312</u>	<u>67,928</u>
<b>Change in net position</b>	<u>134,225</u>	<u>3,131</u>	<u>137,356</u>	<u>18,733</u>
<b>Net position:</b>				
Beginning of year	<u>973,403</u>	<u>13,569</u>	<u>986,972</u>	<u>968,239</u>
<b>End of year</b>	<u>\$1,107,628</u>	<u>\$16,700</u>	<u>\$1,124,328</u>	<u>\$986,972</u>

See accompanying notes to financial statements

**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***

Board of Directors  
East Bay Municipal Utility District  
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 East Bay Municipal Utility District, as of and for the year ended June 30, 2013 and the related notes to the financial statements, and have issued our report thereon dated August 16, 2013. Our report included an emphasis of a matter paragraph disclosing the implementation of new accounting principles.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 District'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 may exist that have not been identified.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the District'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 determination of financial statement amounts. 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 August 16, 2013 which is an integral part of our audit and should be read in conjunction with this report.

### ***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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Maze & Associates". The signature is written in black ink and is positioned above the typed name and date.

Pleasant Hill, California  
August 16, 2013

## **Financial Trends**

These schedules contain trend information to help 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 District's revenue sources and rate structures.

## **Debt Capacity**

These schedules contain 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, economic and District indicators to help the reader understand the environment within which the District financial activities take place.

## **Operating Information**

These schedules contain service and infrastructure data to help the reader understand how the information in the District's financial report relates to the services the District provides and the activities it performs.

## **Financial Trends Section**

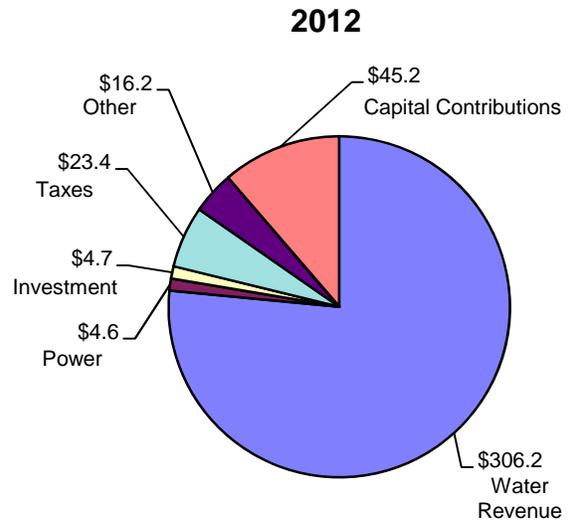
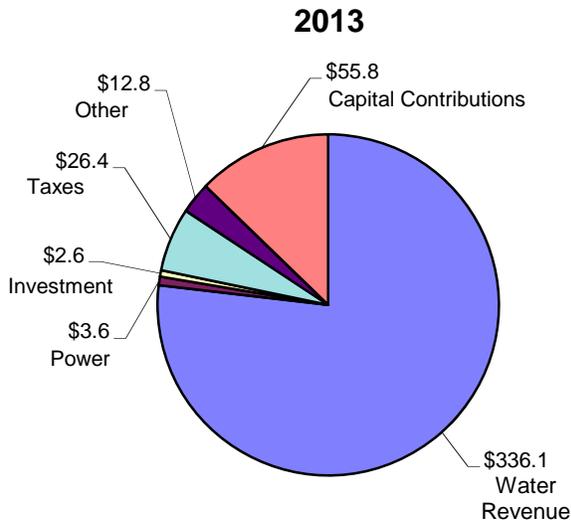
- Comparative Highlights
- Ten-Year Summary of Financial Data
- Changes in Net Position
- Net Position by Component

**Financial Trends  
Comparative Highlights**

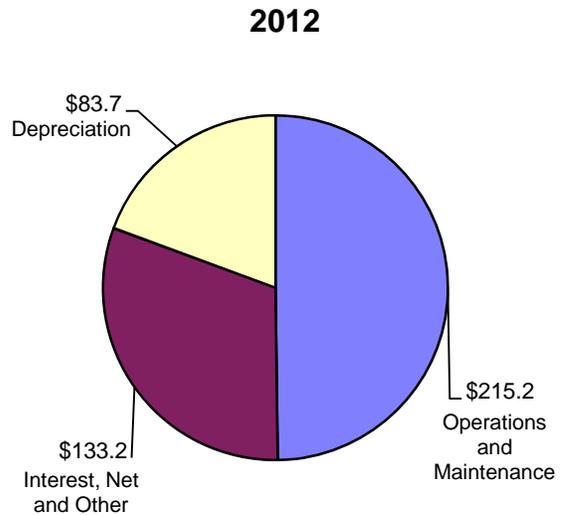
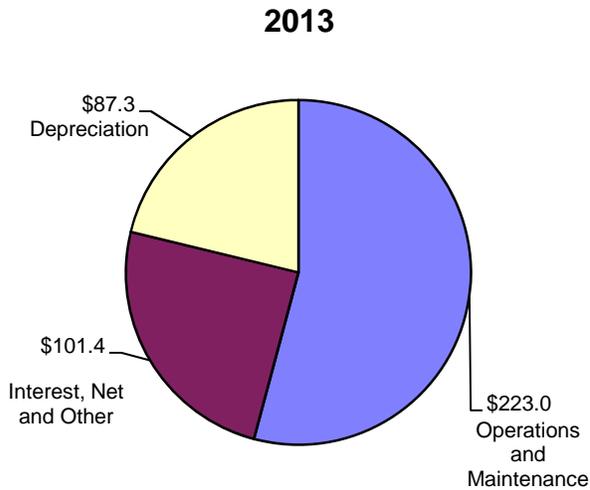
Fiscal Year 2013 and 2012

**Water System**

**What We Received:  
(In Millions)**



**How It Was Used:  
(In Millions)**



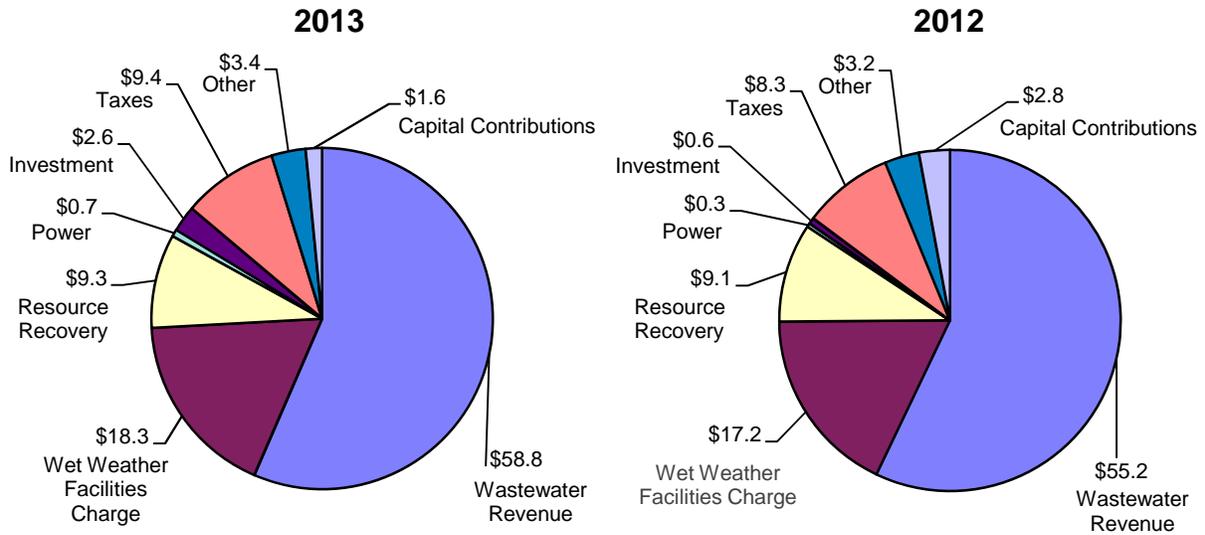
Sources: Financial Statements

**Financial Trends**  
**Comparative Highlights(continued)**

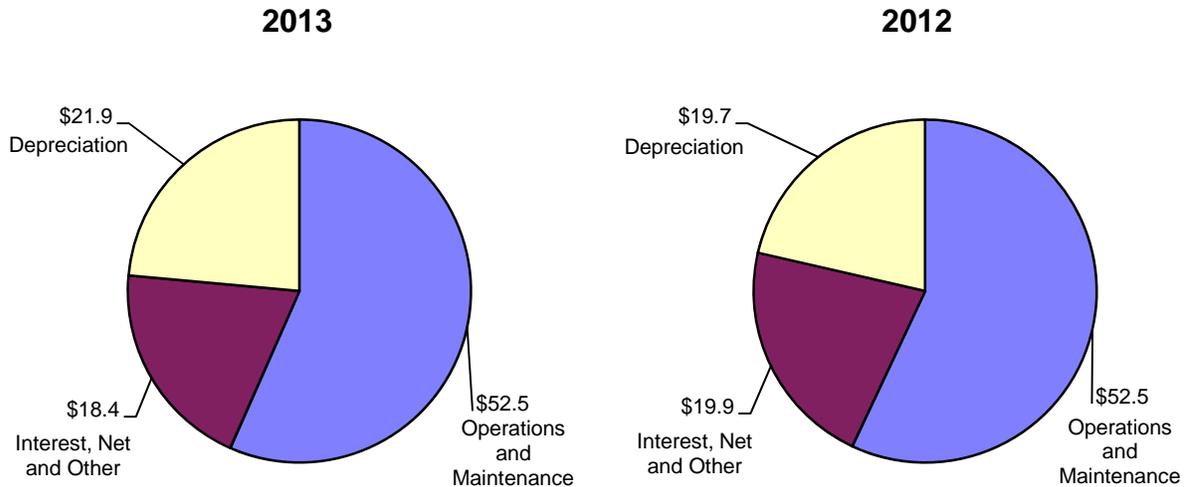
Fiscal Year 2013 and 2012

**Wastewater System**

**What We Received:**  
**(In Millions)**



**How It Was Used:**  
**(In Millions)**



Sources: Financial Statements

**Financial Trends**  
**Ten-Year Summary of Financial Data**

Fiscal Years 2004 to 2013  
(in Millions)

	Fiscal Year Ended June 30									
	2013	2012	2011	2010*	2009*	2008*	2007*	2006*	2005*	2004*
<b>Water System</b>										
Revenues										
Water Revenue	\$ 336.1	\$ 306.2	\$ 283.6	\$ 271.0	\$ 287.3	\$ 270.6	\$ 260.7	\$ 244.3	\$ 235.8	\$ 241.9
Taxes	26.4	23.4	22.2	22.9	23.4	22.7	21.7	19.1	18.3	17.4
Investment	2.6	4.7	5.3	10.8	25.6	40.4	21.8	18.4	7.7	11.1
Power	3.6	4.6	8.1	6.2	4.3	3.1	4.2	11.0	7.0	2.8
Capital Contributions	55.8	45.2	45.8	39.9	38.3	50.5	64.1	67.3	44.9	39.3
Other <sup>(1)</sup>	12.8	16.2	68.3	7.7	6.2	29.4	7.8	5.3	6.2	2.7
<b>Total Revenues</b>	<b>437.3</b>	<b>400.3</b>	<b>433.3</b>	<b>358.5</b>	<b>385.1</b>	<b>416.7</b>	<b>380.2</b>	<b>365.4</b>	<b>319.9</b>	<b>315.2</b>
Expenses										
Operations and										
Maintenance	223.0	215.2	211.2	206.5	224.5	209.9	179.2	174.9	160.9	153.0
Depreciation	87.3	83.7	76.2	74.5	71.5	70.7	71.7	64.3	67.8	58.0
Interest, Net and Other <sup>(2)(3)</sup>	101.3	133.2	146.5	69.9	81.8	93.2	77.2	76.5	69.3	64.4
<b>Total Expenses</b>	<b>411.6</b>	<b>432.1</b>	<b>433.9</b>	<b>350.9</b>	<b>377.8</b>	<b>373.8</b>	<b>328.1</b>	<b>315.7</b>	<b>298.0</b>	<b>275.4</b>
<b>Changes in Net Position</b>	<b>\$ 25.7</b>	<b>\$ (31.8)</b>	<b>\$ (0.6)</b>	<b>\$ 7.6</b>	<b>\$ 7.3</b>	<b>\$ 42.9</b>	<b>\$ 52.1</b>	<b>\$ 49.7</b>	<b>\$ 21.9</b>	<b>\$ 39.8</b>

\* Restated to meet current formatting.

<sup>(1)</sup> Other revenue in 2011 includes receipts of \$53 million from Chevron for the RARE facilities.

<sup>(2)</sup> Other expense in 2011 includes the \$53 million sales of the RARE facilities to Chevron.

<sup>(3)</sup> Other expense in 2012 includes \$25 million GASB 64 expense due to changing SWAP counter parties. See Note 6F.

Sources: Financial Statements

**Financial Trends**  
**Ten-Year Summary of Financial Data**

Fiscal Years 2004 to 2013  
 (in Millions)

	Fiscal Year Ended June 30									
	2013	2012	2011	2010	2009	2008*	2007*	2006*	2005*	2004*
<b>Wastewater System</b>										
Revenues										
Wastewater Revenue	\$ 58.8	\$ 55.2	\$ 50.9	\$ 48.8	\$ 47.1	\$ 46.2	\$ 44.6	\$ 42.6	\$ 42.2	\$ 42.8
Wet Weather										
Facilities Charges	18.3	17.2	16.1	15.3	14.3	13.7	13.7	13.8	13.9	13.9
Resource Recovery	9.3	9.1	9.4	7.6	7.7	6.9	5.8	4.5	3.4	-
Power	0.7	0.3								
Taxes	9.4	8.3	7.4	7.4	7.4	7.2	6.8	5.3	4.7	6.3
Investment	2.6	0.6	1.3	0.8	3.1	5.8	2.7	2.1	1.9	2.6
Capital Contributions	1.6	2.8	3.1	2.9	9.0	2.8	7.0	2.5	1.7	2.1
Other	3.4	3.1	2.4	1.2	0.9	0.7	1.4	0.7	0.7	(0.9)
<b>Total Revenues</b>	<b>104.1</b>	<b>96.6</b>	<b>90.6</b>	<b>84.0</b>	<b>89.5</b>	<b>83.3</b>	<b>82.0</b>	<b>71.5</b>	<b>68.5</b>	<b>66.8</b>
Expenses										
Operations and Maintenance	52.5	52.5	51.8	46.2	50.1	47.6	42.2	40.0	38.4	36.8
Depreciation	21.9	19.7	19.1	19.4	18.3	16.4	16.8	16.4	16.4	15.9
Interest, Net and Other	18.5	19.9	16.0	13.0	13.6	15.1	12.6	13.5	15.7	13.8
<b>Total Expenses</b>	<b>92.9</b>	<b>92.1</b>	<b>86.9</b>	<b>78.6</b>	<b>82.0</b>	<b>79.1</b>	<b>71.6</b>	<b>69.9</b>	<b>70.5</b>	<b>66.5</b>
<b>Changes in Net Position</b>	<b>\$ 11.2</b>	<b>\$ 4.5</b>	<b>\$ 3.7</b>	<b>\$ 5.4</b>	<b>\$ 7.5</b>	<b>\$ 4.2</b>	<b>\$ 10.4</b>	<b>\$ 1.6</b>	<b>\$ (2.0)</b>	<b>\$ 0.3</b>

\* Restated to meet current formatting.

**Financial Trends**  
**Changes in Net Position**

Fiscal Years 2004 to 2013  
(In Millions)

	<b>Fiscal Year Ended June 30</b>									
	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008*</b>	<b>2007*</b>	<b>2006*</b>	<b>2005*</b>	<b>2004*</b>
<b>Operating Revenues</b>										
Charges for services:										
Water	\$ 336.1	\$ 306.2	\$ 283.6	\$ 271.0	\$ 287.3	\$ 270.6	\$ 260.7	\$ 244.3	\$ 235.8	\$ 241.9
Wastewater	86.4	81.5	76.4	71.7	69.1	66.7	64.1	60.9	59.5	56.7
Power	4.3	4.9	8.1	6.2	4.3	3.1	4.2	11.0	7.0	2.8
<b>Total Operating Revenues</b>	<b>426.8</b>	<b>392.6</b>	<b>368.1</b>	<b>348.9</b>	<b>360.7</b>	<b>340.4</b>	<b>329.0</b>	<b>316.2</b>	<b>302.3</b>	<b>301.4</b>
<b>Operating Expenses</b>										
Water	310.3	299.0	287.4	281.1	296.0	280.5	250.9	239.2	228.7	211.0
Wastewater	74.4	72.2	70.9	65.5	68.4	64.0	59.0	56.4	54.8	52.7
<b>Total Operating Expenses</b>	<b>384.7</b>	<b>371.2</b>	<b>358.3</b>	<b>346.6</b>	<b>364.4</b>	<b>344.5</b>	<b>309.9</b>	<b>295.6</b>	<b>283.5</b>	<b>263.7</b>
 Operating Activities	 42.1	 21.4	 9.8	 2.3	 (3.7)	 (4.1)	 19.1	 20.6	 18.8	 37.7

\* Restated to meet current formatting.

**Financial Trends**  
**Changes in Net Position (continued)**

Fiscal Years 2004 to 2013  
(In Millions)

	Fiscal Year Ended June 30									
	2013	2012	2011	2010	2009	2008*	2007*	2006*	2005*	2004*
<b>General Revenues and Other Changes in Net Position</b>										
Non-Operating Activities										
Investment income	5.2	5.2	6.6	11.6	28.6	46.3	24.4	20.5	9.6	13.7
Taxes and subventions	35.8	31.7	29.6	30.3	30.8	29.9	28.5	24.5	22.9	23.7
Interest and amortization of bond expenses	(116.3)	(121.3)	(105.8)	(80.9)	(92.3)	(106.7)	(88.9)	(88.9)	(84.1)	(72.2)
Other income (expense)	12.7	(12.3)	14.0	6.9	4.1	28.4	8.3	4.8	6.0	(4.2)
Capital grants and contributions	57.4	48.0	48.9	42.8	47.3	53.3	71.0	69.8	46.5	41.4
Total Non-Operating Activities	(5.2)	(48.7)	(6.7)	10.7	18.5	51.2	43.3	30.7	0.9	2.4
<b>Changes in Net Position<sup>(1)</sup></b>	\$ 36.9	\$ (27.3)	\$ 3.1	\$ 13.0	\$ 14.8	\$ 47.1	\$ 62.4	\$ 51.3	\$ 19.7	\$ 40.1

\* Restated to meet current formatting.

<sup>(1)</sup> Fiscal year 2012 of \$(27.3) is for operating items only and does not include the GASB 65 adjustment. See Note 6G in the financial statements for details.

**Financial Trends  
Net Position by Component**

Fiscal Years 2004 to 2013  
(In Millions)

	Fiscal Year Ended June 30									
	2013	2012*	2011	2010	2009	2008	2007	2006	2005	2004
<b><u>Business-type activities</u></b>										
Net investment in capital assets	\$ 1,031.4	\$ 983.5	\$ 1,202.7	\$ 1,293.5	\$ 1,304.6	\$ 1,182.8	\$ 1,174.5	\$ 1,226.1	\$ 1,213.2	\$ 1,090.0
Restricted for construction	21.1	22.7	42.9	66.8	84.5	85.4	89.6	78.6	54.0	64.4
Restricted for debt service	36.9	73.5	63.8	66.5	58.8	55.1	38.1	37.7	35.2	0.1
Restricted-other	256.5	251.4	25.5	3.0	3.1	3.0	2.9	2.9	2.9	2.9
Unrestricted	282.7	260.5	297.5	199.5	165.3	275.2	249.2	146.5	135.3	263.4
 Total business-type activities net position	 \$ 1,628.6	 \$ 1,591.6	 \$ 1,632.4	 \$ 1,629.3	 \$ 1,616.3	 \$ 1,601.5	 \$ 1,554.3	 \$ 1,491.8	 \$ 1,440.6	 \$ 1,420.8

\*Restated for GASB 65

## Revenue Capacity Section

- Ten-Year Summary of Revenue by Source
- Rate History
- Ten-Year Summary of Net Revenue and Debt Service Coverage

**Revenue Capacity  
Ten-Year Summary of Revenue by Source**

Fiscal Years 2004 to 2013

**Water System**  
(In Millions)

	Fiscal Year Ended June 30									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Water	\$336.1	\$306.2	\$283.6	\$271.0	\$287.3	\$270.6	\$260.7	\$244.3	\$235.8	\$241.9
Taxes	26.4	23.4	22.2	22.9	23.4	22.7	21.7	19.1	18.3	17.5
Construction from SCC	0.0	0.0	0.0	0.0	0.0	0.0	19.7	13.7	12.8	12.9
Interest	3.7	6.4	5.7	9.7	24.5	40.6	20.3	16.5	7.6	11.1
Power	3.6	4.6	8.1	6.2	4.3	3.1	4.2	11.0	7.0	2.8
Rental & Other <sup>(1)</sup>	11.7	14.5	67.9	7.0	4.1	27.7	8.4	6.3	5.5	(2.6)
<b>Total</b>	<b>\$381.5</b>	<b>\$355.1</b>	<b>\$387.5</b>	<b>\$316.8</b>	<b>\$343.6</b>	<b>\$364.7</b>	<b>\$335.0</b>	<b>\$310.9</b>	<b>\$287.0</b>	<b>\$283.6</b>

<sup>(1)</sup> Includes revenue of \$53 million from the sale of the RARE facilities to Chevron in 2011.

**Note:** Interest is exclusive of the change in fair market value of investments in the year, which was included in Rental & Other on this page.

**Revenue Capacity  
Ten-Year Summary of Revenue by Source**

Fiscal Years 2004 to 2013

**Wastewater System**

(In Millions)

	Fiscal Year Ended June 30									
	2013	2012	2011	2010	2009	2008*	2007*	2006*	2005*	2004*
Wastewater	\$ 58.8	\$ 55.2	\$ 50.9	\$ 48.8	\$ 47.1	\$ 46.2	\$ 44.6	\$ 42.6	\$ 42.2	\$ 42.8
Wet Weather Facilities	18.3	17.2	16.1	15.3	14.3	13.7	13.7	13.8	13.9	13.9
Resource Recovery	9.3	9.1	9.4	7.6	7.7	6.9	5.8	4.5	3.4	-
Power	0.7	0.3	-	-	-	-	-	-	-	-
Taxes	9.4	8.3	7.4	7.4	7.4	7.2	6.8	5.3	4.7	6.2
Interest	0.9	1.7	2.0	1.2	2.9	5.7	2.1	1.8	2.1	2.6
Other	5.0	2.1	1.6	0.6	1.2	0.8	2.0	0.7	0.5	(1.6)
<b>Total</b>	<b>\$ 102.4</b>	<b>\$ 93.9</b>	<b>\$ 87.4</b>	<b>\$ 80.9</b>	<b>\$ 80.6</b>	<b>\$ 80.5</b>	<b>\$ 75.0</b>	<b>\$ 68.7</b>	<b>\$ 66.8</b>	<b>\$ 63.9</b>

\* Restated to meet current formatting.

**Note:** Interest is exclusive of the change in fair market value of investments in the year, which was included in Other on this page.

**Revenue Capacity  
Rate History**

Fiscal Years 2004 to 2013

Fiscal Year	Water		Wastewater	
	Monthly Base Rate	Rate per 748 (1ccf) Gallons	Monthly Base Rate	Rate per 748 (1ccf) Gallons
2004	7.75	1.47	8.23	0.44
2005	8.04	1.53	8.56	0.46
2006	8.34	1.59	8.93	0.47
2007	8.65	1.65	9.27	0.49
2008	9.08	1.73	9.64	0.51
2009	9.53	1.82	10.02	0.53
2010	10.13	2.00	10.42	0.56
2011	10.89	2.15	10.95	0.59
2012	11.54	2.28	11.61	0.63
2013	12.23	2.42	12.30	0.66

**Notes:** Rates are based on a 5/8" meter, which is the standard household meter size. The District charges an excess-use rate above normal demand.

**Revenue Capacity**
**Ten-Year Summary of Net Revenue and Debt Service Coverage**

Fiscal Years 2004 to 2013

**Water System**

(In Millions)

<b>Fiscal Year</b>	<b>Total Revenue (1)</b>	<b>Operations &amp; Maintenance Expense (2)</b>	<b>Net Revenue Available for Debt Service</b>	<b>Debt Service</b>	<b>Coverage Ratio</b>
2004*	285.5	131.1	154.4	81.4	1.90
2005*	283.6	136.1	147.5	81.7	1.81
2006*	305.0	143.9	161.1	96.9	1.66
2007*	327.1	141.2	185.9	98.6	1.89
2008*	378.2	154.9	223.3	119.5	1.87
2009*	353.8	176.2	177.6	121.3	1.46
2010*	351.7	156.1	195.6	126.6	1.54
2011*	374.7	159.5	215.2	143.7	1.50
2012*	381.4	174.4	207.0	130.7	1.58
2013	399.4	170.8	228.6	133.7	1.71

(1) Gross Revenues include operating revenue, investment earnings, facilities reserve charges, grant revenues, rent and other revenues, and rate stabilization fund withdrawals.

(2) Operating & Maintenance Costs include operating expenses and rate stabilization fund deposits before depreciation, amortization, debt service, and expenses paid with property tax revenues.

\* Restated to meet current formatting.

**Revenue Capacity**
**Ten-Year Summary of Net Revenue and Debt Service Coverage**

Fiscal Years 2004 to 2013

**Wastewater System**

(In Millions)

<b>Fiscal Year</b>	<b>Total Revenue (1)</b>	<b>Operations &amp; Maintenance Expense (2)</b>	<b>Net Revenue Available for Debt Service</b>	<b>Debt Service</b>	<b>Coverage Ratio</b>
2004*	58.4	34.3	24.1	15.5	1.55
2005*	62.2	37.0	25.2	15.9	1.58
2006*	63.3	38.0	25.3	15.8	1.60
2007*	67.6	39.1	28.5	16.0	1.78
2008*	75.3	41.6	33.7	20.2	1.67
2009*	74.6	44.6	30.0	20.4	1.47
2010*	74.7	41.3	33.4	19.6	1.70
2011*	82.3	46.3	36.0	21.4	1.68
2012	88.7	48.8	39.9	26.4	1.51
2013	92.0	47.0	45.0	28.3	1.59

\* Restated to match current format which includes capacity fees

(1) Gross Revenues include operating revenue, investment earnings, facilities reserve charges, capacity fees,

(2) Operating & Maintenance Costs include operating expenses and rate stabilization fund deposits before depreciation, amortization, debt service, and expenses paid with property tax revenues.

## Debt Capacity Section

- Debt Ratings
- Outstanding Debt by Type
- Authorized but Unissued Revenue Bonds and Outstanding Short-Term Debt
- Ratio of Net General Obligation Bonded Debt to Annual Billings and Net General Bonded Debt per Account
- Assessed Valuation of Taxable Property
- Summary of Debt Outstanding

**Debt Capacity  
Debt Ratings**

June 30, 2013

District Debt by Type	Rating by		
	Standard & Poor's	Moody's Investors Service	Fitch
<b>Water System</b>			
Fixed Rate Revenue Bonds	AAA	Aa1	AA+
Variable Rate Revenue Bonds			
Long-term Underlying Rating	AAA	Aa1	AA+
SIFMA-Based Index Bonds	A-1+	VMIG-1	F1+
Extendable Commercial Paper	A-1+	P-1	F1+
<b>Wastewater System</b>			
General Obligation Bonds	AAA	Aa2	-
Fixed Rate Revenue Bonds	AAA	Aa2	AA+
Variable Rate Revenue Bonds			
Long-term Underlying Rating	AAA	Aa2	AA+
SIFMA-Based Index Bonds	A-1+	VMIG-1	F1+
Extendable Commercial Paper	A-1+	P-1	F1+

**Debt Capacity  
Outstanding Debt by Type**

Fiscal Years 2004 to 2013

**Water System**

(In thousands)

<b>Fiscal Year</b>	<b>General Obligation Bonds</b>	<b>Revenue Bonds</b>	<b>Loans Payable</b>	<b>Total</b>
2004	4,757	1,141,046	22,054	1,167,857
2005	3,922	1,540,834	20,476	1,565,232
2006	0	1,516,562	18,855	1,535,417
2007	0	1,970,254	17,189	1,987,443
2008	0	1,935,620	15,480	1,951,100
2009	0	1,899,360	32,769	1,932,129
2010	0	2,354,095	29,028	2,383,123
2011	0	2,314,425	26,501	2,340,926
2012	0	2,273,090	17,970	2,291,060
2013	0	2,210,830	17,002	2,227,832

**Wastewater System**

(In thousands)

<b>Fiscal Year</b>	<b>General Obligation</b>	<b>Revenue</b>	<b>Loans</b>	
2004	41,380	238,373	46,668	326,421
2005	40,031	238,237	42,668	320,936
2006	38,252	234,345	38,539	311,136
2007	34,298	315,863	34,277	384,438
2008	32,165	343,235	29,879	405,279
2009	29,785	305,165	25,338	360,288
2010	27,255	298,215	20,652	346,122
2011	24,545	449,680	0	474,225
2012	21,650	440,085	0	461,735
2013	18,555	430,160	0	448,715

Sources: Financial Summary

**Debt Capacity  
Authorized but Unissued Revenue Bonds  
and Outstanding Short-Term Debt**

As of June 30, 2013  
(In Thousands)

**Water System**

Authorized but unissued revenue bonds	\$	602,300
Outstanding short-term debt (due within one year)	\$	18,585

**Wastewater System**

Authorized but unissued revenue bonds	\$	204,300
Outstanding short-term debt (due within one year)	\$	13,580

**Debt Capacity**
**Ratio of Net General Obligation Bonded Debt to Annual Billings  
and Net General Bonded Debt per Account**

 Fiscal Years 2004 to 2013  
(In Millions)

<b>Water System</b>					
<b>Fiscal Year</b>	<b>Accounts (1)</b>	<b>General Obligation Bonded Debt (2)</b>	<b>General Bonded Debt Per Account (In Dollars)</b>	<b>Annual Billings (2)</b>	<b>Percentage of General Bonded Debt To Annual Billings</b>
2004	375,000	4,757	13	241,927	1.62%
2005	376,000	3,922	10	235,790	0.00%
2006	379,000	0	0	244,280	0.00%
2007	381,000	0	0	260,678	0.00%
2008	382,000	0	0	270,564	0.00%
2009	382,000	0	0	287,313	0.00%
2010	382,000	0	0	271,022	0.00%
2011	383,000	0	0	283,644	0.00%
2012	378,000	0	0	306,228	0.00%
2013	379,000	0	0	336,066	0.00%

<b>Wastewater System</b>					
<b>Fiscal Year</b>	<b>Accounts (1)</b>	<b>General Obligation Bonded Debt (2)</b>	<b>General Bonded Debt Per Account (In Dollars)</b>	<b>Annual Billings (2)</b>	<b>Percentage of General Bonded Debt To Annual Billings</b>
2004*	175,000	41,380	226	42,822	93.48%
2005*	175,000	40,031	216	42,244	90.55%
2006*	175,000	38,252	219	42,581	89.83%
2007*	176,000	34,298	195	44,593	76.91%
2008*	176,000	32,165	183	46,161	69.68%
2009*	176,000	29,785	169	47,085	63.26%
2010*	176,000	27,255	155	48,764	55.89%
2011*	177,000	24,545	139	50,910	48.21%
2012	174,000	21,650	124	55,191	39.23%
2013	175,000	18,555	106	58,784	31.56%

\* Restated due to report duplication of certain accounts in previous years.

Source: (1) CIS

(2) Financial and Statistical Reports

**Debt Capacity  
Assessed Valuation of Taxable Property**

Fiscal Year 2013

**EAST BAY MUNICIPAL UTILITY DISTRICT, SPECIAL DISTRICT NO. 1**

**2012-13 Assessed Valuation: \$ 76,150,842,951**

<u>Direct and Overlapping Tax and Assessment Debt:</u>	<u>% Applicable</u>	<u>Debt 6/30/13</u>
Bay Area Rapid Transit District	15.150 %	\$ 62,219,535
Peralta Community College District	100.000	415,480,000
Alameda Unified School District	100.000	67,730,326
Albany Unified School District	100.000	38,640,000
Berkeley Unified School District	100.000	252,619,222
Oakland Unified School District	100.000	740,425,000
Piedmont Unified School District	100.000	76,383,510
West Contra Costa Unified School District	17.830	141,885,815
Other School Districts	Various	92,208,035
City of Alameda	100.000	8,925,000
City of Albany	100.000	17,005,000
City of Berkeley	100.000	75,905,000
City of Oakland	99.981	235,937,079
<b>East Bay Municipal Utility District, Special District No. 1</b>	<b>100.000</b>	<b>18,555,000</b>
East Bay Regional Park District	23.413	31,739,833
West Contra Costa Healthcare District Parcel Tax Obligations	16.188	9,849,589
City of El Cerrito Parcel Tax Obligations	99.858	2,426,549
City of Alameda Community Facilities District Nos. 1 and 2	100.000	9,450,000
City of Berkeley Community Facilities District No. 1	100.000	5,555,000
1915 Act bonds	100.000	<u>27,362,400</u>
<b>Sub-total Direct Tax and Assessment Debt</b>		\$ 18,555,000
<b>Sub-total Overlapping Tax and Assessment Debt</b>		2,311,746,893
<b>Total Direct and Overlapping Tax and Assessment Debt</b>		\$ 2,330,301,893
<u>Ratios to 2012-13 Assessed Valuation:</u>		
<b>Direct Debt (\$18,555,000)</b>	<b>0.02 %</b>	
Total Direct and Overlapping Tax and Assessment Debt	3.06 %	

(continued)

Sources: California Municipal Statistics, Inc.

**Table 18 (Continued)**  
**Assessed Valuation of Taxable Property**

Fiscal Year 2013

<u>Overlapping General Fund Debt:</u>	<u>(1) % Applicable</u>	<u>Debt 6/30/13</u>
Alameda County General Fund Obligations	36.387 %	\$ 232,498,375
Alameda County Pension Obligations	36.387	39,762,841
Contra Costa County General Fund Obligations	2.973	8,402,917
Contra Costa County Pension Obligations	2.973	9,219,570
Alameda-Contra Costa Transit District Certificates of Participation	44.990	14,117,862
Peralta Community College District Pension Obligations	100.000	160,149,090
Oakland Unified School District Certificates of Participation	100.000	46,815,000
Other School District Certificates of Participation	Various	2,533,522
City of Alameda Cetificates of Participation	100.000	10,700,000
City of Berkeley General Fund Obligations and Pension Obligations	100.000	34,395,000
City of Oakland General Fund Obligations	99.981	281,441,516
City of Oakland Pension Obligations	99.981	367,323,699
Other City General Fund Obligations	Various	<u>22,696,992</u>
<b>Total Overlapping General Fund Debt</b>		<b>\$ 1,230,056,384</b>
Less: Contra Costa County Obligations supported from revenue funds		3,121,434
City of Richmond obligations supported from port revenues		<u>1,873,992</u>
<b>Total Net Overlapping General Fund Debt</b>		<b>\$ 1,225,060,958</b>
 <u>Overlapping Tax Increment Debt (Successor Agencies):</u>	 .656-100.000 %	 \$ 724,117,396
<b>Total Direct Debt</b>		<b>\$ 18,555,000</b>
<b>Gross Overlapping Debt</b>		<b>\$ 4,265,920,673</b>
<b>Net Overlapping Debt</b>		<b>\$ 4,260,925,247</b>
Gross Combined Total Debt		\$ 4,284,475,673
Net Combined Total Debt		\$ 4,279,480,247

(1) Percentage of overlapping agency's assessed valuation located within boundaries of the district.

Ratios to Adjusted Assessed Valuation:

Gross Combined Total Debt	5.63 %
Net Combined Total Debt	5.62 %

Ratios to Redevelopment Incremental Valuation (\$15,274,303,335)

Total Overlapping Tax Increment Debt	4.74 %
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Sources: California Municipal Statistics, Inc.

**Debt Capacity  
Summary of Debt Outstanding\***

As of June 30, 2013  
(Thousands of Dollars)

**Water System**

**Revenue Bonds**

Series 2005A	\$	228,250
Series 2007A		330,000
Series 2007B		35,700
Series 2008A		200,550
Series 2008B		15,100
Series 2009A		82,075
Series 2010A		190,570
Series 2010B		400,000
Series 2011A		148,170
Series 2012A		191,750
Series 2012B		339,995
Series 2013A		48,670

<b>Total Water System Debt Outstanding</b>	<b>\$</b>	<b>2,210,830</b>
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**Wastewater System**

**General Obligation Bonds**

Series F	\$	18,555
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**Revenue Bonds**

Series 2007A		60,630
Series 2007B		35,290
Series 2008C		51,690
Series 2010A		51,705
Series 2010B		150,000
Series 2011A		60,845
Series 2012A		20,000

<b>Total Wastewater System Debt Outstanding</b>	<b>\$</b>	<b>448,715</b>
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\*Debt outstanding does not include State low interest loans, commercial paper or outstanding refunded but not yet called debt.

## **Demographic and Economic Information Section**

- District Information
- Principal Water Rate Payers
- Water Sold by Type of Customer
- Consumption and Account Comparative Highlights
- Area Employment Information

## Demographic and Economic Information

### District Information

Fiscal Year 2013

		<u>Water System</u>	<u>Wastewater System</u>
<b>Established</b>		1923	1944
<b>Service Area</b>	(square miles)	332	88
<b>Population Served</b>	(in thousands)	1,350	650
<b>Unemployment Rate</b>	(Alameda County - %)	7.4	7.4
<b>Facilities:</b>			
Miles of aqueducts		91.5	
Miles of pipeline		4,110	
Miles of tunnels		23.6	
Miles of interceptors			29
Number of treatment plants*		6	
Number of pumping stations		135	24
Number of treated water reservoirs		130	
Number of reservoirs		134	
Total District untreated water reservoir capacity	(acre feet)	766,740	
<b>Water demand per fiscal year</b>			
District-provided water	(acre feet)	205,889	
<b>Water recycling per day</b>	(in million gallons)		9.6
<b>Wastewater treatment capacity</b>			
Primary treatment			320
Secondary treatment			168
<b>Energy Recovery</b>	(%)		126
<b>Number of employees</b>		1,473	252
<b>Average years of service of employees</b>		14.2	14.3

\* Includes one standby treatment plant

Sources: State of California, Environmental Compliance, Urban Water Management Plan, Engineering, Finance, Water Consumption Report and Human Resources

**Demographic and Economic Information**

**Principal Water Rate Payers**

Fiscal Years 2005 to 2013  
(In Thousands)

2013		2012		2011		2010		2009		2008		2007		2006		2005	
Billings	%																

REDACTED JUNE 18, 2019, PER CALIFORNIA GOVERNMENT CODE SECTION 6254.16.

Total annual billing	\$ 37,478	11.15%	\$ 28,960	9.53%	\$ 27,820	9.84%	\$ 29,635	11.11%	\$ 30,792	11.69%	\$ 29,434	10.88%	\$ 28,265	10.84%	\$ 27,136	11.11%	\$ 25,823	11.50%
<b>Total annual billings</b>	<u>\$336,066</u>		<u>\$303,901</u>		<u>\$279,567</u>		<u>\$264,828</u>		<u>\$261,411</u>		<u>\$270,564</u>		<u>\$260,678</u>		<u>\$244,280</u>		<u>\$224,631</u>	

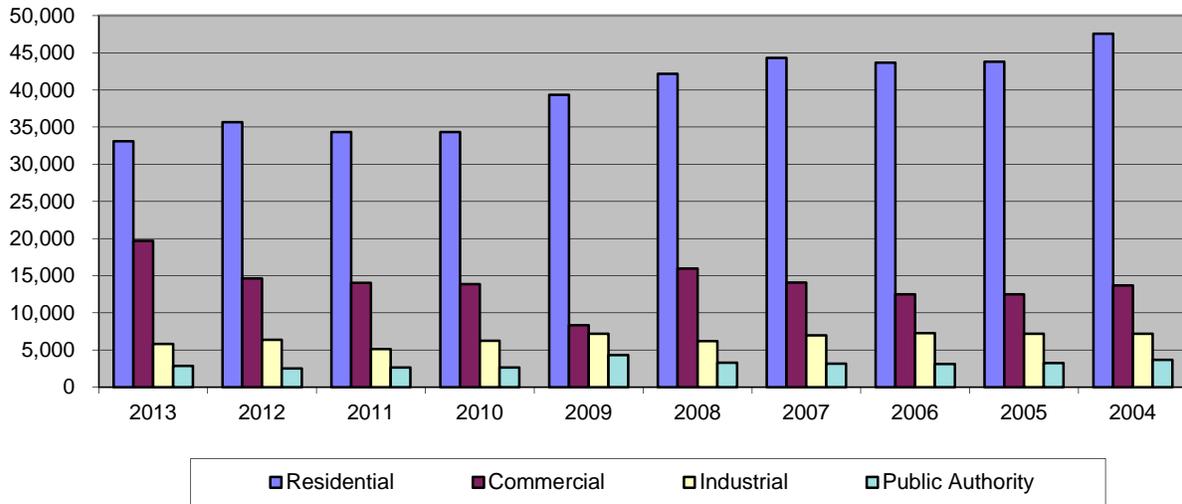
\* Chevron USA decreased in 2011 due to completion of RARE Project. \*\* Listed individually from University of California beginning in 2008

Source: CIS

Source data not available for Fiscal Year 2004.

**Demographic and Economic Information**  
**Water Sold by Type of Customer**

Fiscal Years 2004 to 2013  
(In millions of gallons)



Fiscal Year	Type of Customer				Total
	Residential	Commercial	Industrial	Public Authority	
2004	47,555	13,702	7,199	3,681	72,137
2005	43,796	12,483	7,177	3,254	66,710
2006	43,660	12,495	7,270	3,102	66,527
2007	44,300	14,084	6,973	3,178	68,535
2008	42,172	15,971	6,198	3,280	67,621
2009	39,366	8,323	7,189	4,332	59,210
2010	34,317	13,880	6,228	2,652	57,077
2011	34,330	14,016	5,145	2,646	56,137
2012	35,657	14,632	6,363	2,521	59,173
2013	33,083	19,686	5,818	2,878	61,465

Source: CIS

**Demographic and Economic Information  
Consumption and Account Comparative Highlights**

Fiscal Years 2013 and 2012

<b>Water System</b>	<b>2013</b>	<b>2012</b>
<b>During the Year:</b>		
Total Water Production, millions of gallons	67,089	65,242
Average Daily Water Production, MGD*	184	178
Maximum Daily Water Production, MGD	253	251
Minimum Daily Water Production, MGD	116	123
<b>At Year End:</b>		
Number of Accounts	378,852	378,123
Number of Employees	1,473	1,499
Miles of Water Distribution Pipe	4,110	4,110
Operating Distribution Storage Capacity, millions of gallons	637	630

<b>Wastewater System</b>		
<b>During the Year:</b>		
Average Daily Wastewater Flow, MGD	61	62
<b>At Year End:</b>		
Number of Accounts	174,536	174,232
Number of Employees	252	257

\*=millions of gallons per day

**Demographic and Economic Information  
Area Employment Information**

Fiscal Year 2011 to 2013

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	<b>Company</b>	<b>Employment</b>	<b>City</b>
1	AT&T Corp	Information	San Ramon
2	University of California, Berkeley	Educational Services	Berkeley
3	County of Alameda	Public Administration	Oakland
4	County of Contra Costa	Public Administration	Martinez
5	Safeway Inc	Retail Trade	Walnut Creek
6	Lawrence Livermore National Lab	Professional, Scientific, and Technical Services	Livermore & Berkeley
7	Wells Fargo Home Mortgage Inc	Finance and Insurance	Concord
8	Kaiser Foundation Hospitals	Health Care and Social Assistance	Walnut Creek
9	Oakland Unified School Dist	Educational Services	Oakland
10	World Savings & Loan Assn	Finance and Insurance	Oakland

Previous years data unavailable, no change between 2013, 2012 and 2011

## **Operating Information Section**

- Full-Time Equivalent District Employees by Function/Program
- Assessed Valuation of Taxable Property
- Ten-Year Summary of Property, Plant and Equipment
- Capital Asset Statistics by Function/Program
- Operating Indicators by Function/Program
- Ten-Year Summary of Expense by Source

**Operating Information**  
**Full Time Equivalent District Employees by Function/Program**

Fiscal Years 2004 to 2013

<u>Function/Program</u>	<b>Fiscal Year Ended June 30</b>									
	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
Maintenance and Construction	732.0	699.0	660.0	660.0	603.5	603.5	611.5	574.5	578.5	567.5
Water Operations and Maintenance	197.5	196.5	232.5	235.5	282.5	279.5	278.5	309.5	311.5	312.5
Water Resources	44.0	46.0	44.0	44.0	42.0	42.0	42.0	42.0	43.0	45.0
Natural Resources	69.5	69.5	69.5	70.5	68.0	68.0	68.0	68.0	63.0	63.0
Engineering and Construction	250.5	258.5	255.5	257.5	253.5	254.5	260.5	266.5	275.5	274.5
Office of the General Manager	25.5	29.5	29.5	29.5	33.5	33.5	34.5	34.5	37.5	40.0
Finance <sup>(1)</sup>	97.5	55.0	57.0	57.0	54.0	54.0	65.0	67.0	68.0	112.5
Information Systems	95.0	94.0	94.0	94.0	93.0	93.0	91.0	92.0	79.0	75.0
Administration Department <sup>(1)</sup>	57.0	103.5	106.5	106.5	107.5	107.5	99.5	100.5	103.5	40.5
Customer and Community Services	104.0	138.0	138.0	144.0	137.0	137.0	137.0	138.0	130.0	149.0
Human Resources	47.5	49.5	48.5	48.5	49.5	49.5	49.5	49.5	50.5	50.5
Office of General Counsel	17.0	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5
Water Recycling Program	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	9.0	9.0
Wastewater	286.5	284.5	286.5	283.5	285.5	284.5	286.5	284.5	281.0	278.0
<b>Total</b>	<b>2,031.5</b>	<b>2,048.0</b>	<b>2,046.0</b>	<b>2,055.0</b>	<b>2,034.0</b>	<b>2,031.0</b>	<b>2,048.0</b>	<b>2,051.0</b>	<b>2,046.5</b>	<b>2,033.5</b>

**Note:** Budgeted full-time equivalent positions available by Function/Program, actual headcount at year end for Water System and Wastewater System listed in: Demographic and Economic Information - Consumption and Account Comparative Highlights.

<sup>(1)</sup> Purchasing and Budget Office were transferred from Administration Department to Finance in 2013.

**Operating Information  
Assessed Valuation of Taxable Property**

Fiscal Years 2004 to 2013  
(In Millions)

	Fiscal Year Ended June 30									
	2013	2012	2011	2010*	2009*	2008	2007	2006	2005	2004
<b>Water System</b>										
Alameda County	\$ 98,957	\$ 94,461	\$ 92,498	\$ 91,896	\$ 93,523	\$ 95,616	\$ 90,960	\$ 83,810	\$ 76,078	\$ 69,637
Contra Costa County	83,101	81,232	79,611	79,539	82,362	85,734	83,512	77,161	70,537	65,322
<b>Total</b>	<b>\$ 182,058</b>	<b>\$ 175,693</b>	<b>\$ 172,109</b>	<b>\$ 171,435</b>	<b>\$ 175,885</b>	<b>\$ 181,350</b>	<b>\$ 174,472</b>	<b>\$ 160,971</b>	<b>\$ 146,615</b>	<b>\$ 134,959</b>
<b>Wastewater System</b>										
Alameda County	\$ 75,006	\$ 71,934	\$ 70,659	\$ 70,004	\$ 71,451	\$ 72,332	\$ 68,416	\$ 62,758	\$ 56,980	\$ 52,049
Contra Costa County	4,437	4,216	4,335	4,368	4,319	4,395	4,213	3,918	3,581	3,284
<b>Total</b>	<b>\$ 79,443</b>	<b>\$ 76,150</b>	<b>\$ 74,994</b>	<b>\$ 74,372</b>	<b>\$ 75,770</b>	<b>\$ 76,727</b>	<b>\$ 72,629</b>	<b>\$ 66,676</b>	<b>\$ 60,561</b>	<b>\$ 55,333</b>

Net assessed valuations, plus homeowners' exemptions, the taxes on which are paid by the State.  
All valuations are stated on a 100% of full cash value basis.

\* Revised valuations for all years with reduction for Redevelopment Agencies removed.

**Operating Information**  
**Ten-Year Summary of Property, Plant and Equipment**

Fiscal Years 2004 to 2013

**Water System**  
(In Millions)

	Fiscal Year Ended June 30									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Structures, Buildings and Equipment	\$ 4,600.4	\$ 4,473.1	\$ 4,040.1	\$ 3,864.4	\$ 3,705.1	\$ 3,591.6	\$ 3,470.3	\$ 3,221.5	\$ 3,037.4	\$ 2,824.3
Less Accumulated Depreciation	<u>(1,423.7)</u>	<u>(1,337.9)</u>	<u>(1,253.7)</u>	<u>(1,177.5)</u>	<u>(1,104.2)</u>	<u>(1,035.0)</u>	<u>(965.3)</u>	<u>(917.9)</u>	<u>(857.1)</u>	<u>(801.3)</u>
Subtotal	<u>3,176.7</u>	<u>3,135.2</u>	<u>2,786.4</u>	<u>2,686.9</u>	<u>2,600.9</u>	<u>2,556.6</u>	<u>2,505.0</u>	<u>2,303.6</u>	<u>2,180.3</u>	<u>2,023.0</u>
Land and Rights-of-Way	55.5	55.4	52.9	53.5	50.9	49.9	48.9	49.0	49.0	48.9
Construction in Progress	<u>252.5</u>	<u>209.8</u>	<u>716.6</u>	<u>783.1</u>	<u>705.6</u>	<u>422.7</u>	<u>243.7</u>	<u>314.1</u>	<u>295.8</u>	<u>322.2</u>
Total Capital Assets, Net	<u>\$ 3,484.7</u>	<u>\$ 3,400.4</u>	<u>\$ 3,555.9</u>	<u>\$ 3,523.5</u>	<u>\$ 3,357.4</u>	<u>\$ 3,029.2</u>	<u>\$ 2,797.6</u>	<u>\$ 2,666.7</u>	<u>\$ 2,525.1</u>	<u>\$ 2,394.1</u>

Sources: Financial Statements

**Operating Information**  
**Ten-Year Summary of Property, Plant and Equipment**

Fiscal Years 2004 to 2013

**Wastewater System**  
(In Millions)

	Fiscal Year Ended June 30									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Structures, Buildings and Equipment	\$ 899.9	\$ 877.7	\$ 815.8	\$ 797.2	\$ 768.5	\$ 744.8	\$ 711.6	\$ 703.6	\$ 677.7	\$ 662.7
Less Accumulated Depreciation	(353.6)	(331.9)	(312.1)	(293.0)	(273.6)	(255.6)	(239.2)	(224.9)	(208.3)	(192.4)
Subtotal	<u>546.3</u>	<u>545.8</u>	<u>503.7</u>	<u>504.2</u>	<u>494.9</u>	<u>489.2</u>	<u>472.4</u>	<u>478.7</u>	<u>469.4</u>	<u>470.3</u>
Land and Rights-of-Way	20.0	20.0	19.9	19.7	19.7	19.5	16.1	5.6	5.6	5.6
Construction in Progress	<u>100.3</u>	<u>87.6</u>	<u>112.2</u>	<u>81.8</u>	<u>57.9</u>	<u>46.3</u>	<u>50.9</u>	<u>30.0</u>	<u>21.3</u>	<u>20.3</u>
Total Capital Assets, Net	<u>\$ 666.6</u>	<u>\$ 653.4</u>	<u>\$ 635.8</u>	<u>\$ 605.7</u>	<u>\$ 572.5</u>	<u>\$ 555.0</u>	<u>\$ 539.4</u>	<u>\$ 514.3</u>	<u>\$ 496.3</u>	<u>\$ 496.2</u>

Sources: Financial Statements

**Operating Information  
Capital Asset Statistics by Function/Program**

Fiscal Years 2004 to 2013

<u>Function/Program</u>	Fiscal Year Ended June 30									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
<b>Water System</b>										
Water mains (miles)	4,110	4,110	4,110	4,110	4,110	4,110	4,110	4,085	4,065	4,033
Fire hydrants	30,453	30,421	30,319	30,247	30,203	30,050	29,916	29,532	28,817	28,499
Reservoir storage at June 30 (in acre feet)	610,000	631,580	670,580	719,680	657,270	472,330	560,290	719,460	730,720	605,310
<b>Wastewater System</b>										
Sanitary sewers (miles)	Owned by various communities									
Storm sewers (miles)	Owned by various communities									
Treatment capacity (thousands of gallons per day)	168,000	168,000	168,000	168,000	168,000	168,000	168,000	168,000	168,000	168,000

**Operating Information  
Operating Indicators by Function/Program**

Fiscal Years 2004 to 2013

<u>Function/Program</u>	Fiscal Year Ended June 30									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
<b>Water System</b>										
New connections	534	426	477	514	735	1,535	1,994	2,230	1,928	1,925
Water main breaks	813	825	726	852	1,238	916	938	842	855	876
Average daily production (millions of gallons)	184	178	174	174	182	205	211	211	205	224
Peak daily production (millions of gallons)	253	251	260	253	262	288	336	311	310	310
<b>Wastewater System</b>										
Average daily sewage treatment (millions of gallons)	61	62	71	68	66	69	67	82	76	72

**Operating Information**  
**Ten-Year Summary of Expense by Source**

Fiscal Years 2004 to 2013  
(In Millions)

	Fiscal Year Ended June 30									
	2013	2012	2011*	2010*	2009*	2008*	2007*	2006*	2005*	2004*
Interest and Amortization of Bonds	\$ 116.3	\$ 121.3	\$ 105.8	\$ 80.9	\$ 92.3	\$ 106.7	\$ 88.9	\$ 88.9	\$ 84.1	\$ 72.2
Depreciation on Utility Plant	109.2	103.5	95.2	94.0	89.8	87.1	88.5	80.7	84.2	73.8
Water Treatment and Distribution	89.6	91.8	84.2	86.0	83.5	80.8	77.0	76.0	72.7	72.5
General Administration <sup>(1)</sup>	61.7	46.9	52.2	49.5	63.7	61.9	37.2	34.7	28.9	21.2
Raw Water	33.1	31.8	31.1	28.9	36.3	29.6	25.3	24.2	23.1	22.8
Sewer Treatment Plant Operations	28.7	30.4	28.7	25.2	25.9	24.8	23.0	22.1	20.9	19.8
Financial and Risk Management	17.2	18.2	18.1	17.5	20.8	17.9	15.7	17.5	15.2	15.5
Customer Accounting and Collecting	18.5	18.9	17.5	16.1	16.5	14.8	14.0	13.3	13.0	12.6
Facilities Management	8.8	11.8	12.2	8.1	5.7	6.9	7.6	7.1	7.0	6.8
Sewer Lines and Pumping	12.5	12.5	13.4	12.9	13.2	12.0	12.3	11.7	10.7	10.9
Recreation Areas, Net	<u>5.3</u>	<u>5.5</u>	<u>5.7</u>	<u>8.4</u>	<u>9.0</u>	<u>8.6</u>	<u>9.4</u>	<u>8.3</u>	<u>7.8</u>	<u>7.8</u>
<b>Total:</b>	<b>\$ 500.9</b>	<b>\$ 492.6</b>	<b>\$ 464.1</b>	<b>\$ 427.5</b>	<b>\$ 456.7</b>	<b>\$ 451.1</b>	<b>\$ 398.9</b>	<b>\$ 384.5</b>	<b>\$ 367.6</b>	<b>\$ 335.9</b>

<sup>(1)</sup> The 2013 increase in General Administration primarily reflects an adjustment to amortization expense in 2012, which reduced overall General Administration in that year.

\* Restated to meet current formatting.