

**EAST BAY MUNICIPAL UTILITY DISTRICT**  
**BASIC UNAUDITED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2020**

**First quarter report which provides a continuing view of the District's financial position**

**PREPARED BY THE  
FINANCE DEPARTMENT**

**UNAUDITED**

**EAST BAY MUNICIPAL UTILITY DISTRICT  
BASIC UNAUDITED FINANCIAL STATEMENTS  
For the Three Months Ended September 30, 2020**

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**EAST BAY MUNICIPAL UTILITY DISTRICT  
BASIC UNAUDITED FINANCIAL STATEMENTS  
For the Three Months Ended September 30, 2020**

**Management's Discussion and Analysis (MD&A) of Financial Condition and Results of Operations**

**Forward Looking Statements**

This section presents management's analysis of the East Bay Municipal Utility District's (the District) financial condition and activities as of September 30, 2020. This information should be read in conjunction with the unaudited financial statements for the year ended June 30, 2020. The information in this MD&A is presented under the following headings:

- Organization and Business
- The Basic Unaudited 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 1.45 million. The Wastewater System intercepts and treats wastewater from residences and industries within an 88-square-mile service area including the communities of Alameda, Albany, Berkeley, Emeryville, Oakland, Piedmont, and the Stege Sanitary District and serves a population of about 776,000. The District recovers cost of service primarily through user fees.

**THE BASIC UNAUDITED FINANCIAL STATEMENTS**

The District's basic unaudited financial statements are comprised of three components: Management Discussion and Analysis, Fund Financial Statements, and Notes to Basic Financial Statements. This quarterly financial report excludes the District's Fiduciary Fund that consists of the Pension and other Employee Benefit Trusts. The Fiduciary Fund is reported on an annual basis only and is included in the most recent Annual Audited Financial Reports for the year ended June 30, 2020, which is posted on the District's website <http://www.ebmud.com>.

## FINANCIAL ANALYSIS

### Net Position

The District's total net position increased by \$101.5 million or 5% during the three months ended September 30, 2020. The Water System's net position increased by \$92.2 million or 5%, and the Wastewater System's net position increased by \$9.3 million or 2%. Current and other assets increased by \$136.8 million or 13%. Capital assets increased by \$45.4 million or 1%. By far the largest portion of the District's net position, 85% or \$1.9 billion, represents its investment in capital assets necessary to provide services. Components of the net position are shown in Table 1.

**Table 1**  
Net Position  
Water and Wastewater  
September 30, 2020 and June 30, 2020  
(In thousands)

	September 30, 2020	June 30, 2020	Variance	%
Current and other assets	\$ 1,181,305	1,044,499	136,806	13%
Capital assets	5,283,318	5,237,870	45,448	1%
Total assets	<u>6,464,623</u>	<u>6,282,369</u>	<u>182,254</u>	3%
Deferred outflow of resources	213,504	215,423	(1,919)	(1)%
Total assets and deferred outflow	<u>6,678,127</u>	<u>6,497,792</u>	<u>180,335</u>	3%
Current and other liabilities	1,047,337	960,028	87,309	9%
Long-term liabilities	3,316,655	3,324,076	(7,421)	(0)%
Total liabilities	<u>4,363,992</u>	<u>4,284,104</u>	<u>79,888</u>	2%
Deferred inflow of resources	79,228	80,281	(1,053)	(1)%
Total liabilities and deferred inflow	<u>4,443,220</u>	<u>4,364,385</u>	<u>78,835</u>	2%
Net position:				
Net investment in capital assets	1,892,226	1,840,222	52,004	3%
Restricted	249,353	250,370	(1,017)	(0)%
Unrestricted	93,328	42,815	50,513	118%
Total net position	<u>\$ 2,234,907</u>	<u>2,133,407</u>	<u>101,500</u>	5%

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## Results of Operations

For the three months ended September 30, 2020, the District's total operating revenue of \$211.5 million increased by \$17.2 million, and total operating expense of \$120.1 million increased by \$7.7 million compared to the same period of the previous fiscal year. The change in net position (including capital contributions) increased from \$82.0 million in the three months ended in the previous fiscal year to \$101.5 million in the same period of the current fiscal year. The District's total net position increased from \$1,971.2 million in the three months ended September 30, 2019 to \$2,234.9 million in the same period of ending September 30, 2020.

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

- Water revenue increased by \$18.1 million or 11% due to a 6.25% water rate increase at the beginning of fiscal year 2021 and a 6.4% increase of billed water consumption.
- Wastewater revenue was down slightly, decreasing by \$0.4 million or 2%.
- Total operating expense increased by \$7.7 million, primarily as increases of \$3.7 million in raw water expenses, \$2.1 million in water treatment and distribution, and \$1.6 million in general administration expense.
- Net nonoperating expense increased by \$3.1 million, primarily due to an \$1.8 million decrease in bond interest expense and amortization offset by \$5.1 million decrease in investment income resulting from fair market value fluctuation of investments.
- Capital contributions increased by \$13.1 million primarily reflecting a \$9.0 million increase in System Capacity Charges and a \$2.1 million increase in Wastewater Capacity Fees due to continued development in multifamily dwelling projects. The construction service installments increased by \$2.4 million compared to the same period of previous fiscal year also due to continued development of multifamily dwelling projects in the Oakland and Berkeley service areas. Grants and other reimbursements received remained stable in the current fiscal year compared to the prior year. Page 8 contains additional capital contributions information.

Table 2 shows changes in the District's net position for the three months ended September 30, 2020 and 2019.

**Table 2**

Changes in Net Position

Water and Wastewater

September 30, 2020 and 2019

(In thousands)

	September 30, 2020	September 30, 2019	Variance	%
Operating Revenue:				
Water	\$ 179,909	161,837	18,072	11%
Sewer	22,909	23,287	(378)	(2)%
Power	1,521	2,249	(728)	(32)%
Wet weather facilities charges	7,136	6,864	272	4%
Total operating revenue	<u>211,475</u>	<u>194,237</u>	<u>17,238</u>	9%
Operating Expense:				
Raw water	14,806	11,100	3,706	33%
Water treatment & distribution	31,183	29,086	2,097	7%
Recreation areas, net	1,979	1,860	119	6%
Sewer lines & pumps	4,236	3,598	638	18%
Sewer treatment plant operations	9,617	9,639	(22)	(0)%
Customer accounting & collecting	4,938	5,111	(173)	(3)%
Financial and risk management	4,753	4,418	335	8%
Facilities management	1,323	801	522	65%
General administration	11,103	9,550	1,553	16%
Depreciation (excluding amounts reported within the Water and Wastewater operations)	33,500	33,610	(110)	(0)%
Amortization	2,651	3,577	(926)	(26)%
Total operating expense	<u>120,089</u>	<u>112,350</u>	<u>7,739</u>	7%
Net operating income (expense)	<u>91,386</u>	<u>81,887</u>	<u>9,499</u>	12%
Nonoperating income (expense):				
Investment income	(97)	4,958	(5,055)	(102)%
Taxes & subventions	10,348	10,109	239	2%
Interest & amortization of bond expenses, net	(26,760)	(28,518)	1,758	(6)%
Increase (decrease) of Equity in JPA partnership fund	(1,030)	(901)	(129)	14%
Other income	4,588	4,468	120	3%
Total nonoperating income (expense), net	<u>(12,951)</u>	<u>(9,884)</u>	<u>(3,067)</u>	31%
Income (loss) before contributions	78,435	72,003	6,432	9%
Capital contributions	<u>23,065</u>	<u>9,948</u>	<u>13,117</u>	132%
Change in net position	101,500	81,951	19,549	24%
Total net position – beginning	<u>2,133,407</u>	<u>1,889,262</u>	<u>244,145</u>	13%
Total net position – ending	<u>\$ 2,234,907</u>	<u>1,971,213</u>	<u>263,694</u>	13%

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## Liquidity

The District had \$789.8 million in combined current and noncurrent District Cash and Investments as of September 30, 2020, a decrease of \$22.9 million compared to \$812.7 million as of September 30, 2019. Components of cash and investments for the three months ended September 30, 2020 were as follows:

- Water System total combined current and noncurrent cash and investments decreased by \$19.0 million compared to the same date of the previous fiscal year. Net cash and cash equivalents decreased by \$71.0 million compared to the prior year. This was primarily due to a decrease of \$80.4 million from the purchase of securities in investing activities offset by an increase of \$3.2 million in operating activities and a decrease of \$6.0 million spending from capital and related financing activities. Net investments increased by \$77.9 million primarily due to reallocation of investments between short-term and long-term.
- Wastewater System total combined current and noncurrent cash and investments decreased by \$3.9 million compared to the same date in the previous fiscal year. Net cash and cash equivalents decreased by \$7.3 million compared to the prior year. This was primarily due to a decrease of \$11.8 million from the purchase of securities in investing activities offset by a decrease of \$4.3 million spending from capital and related financing activities. Net investments decreased by \$11.2 million also primarily due to reallocation of investments between short-term and long-term.

Table 3 shows the District’s cash flow for the three months ended September 30, 2020 and 2019.

**Table 3**  
Cash Flows  
Water and Wastewater System  
For the Three Months Ended September 30, 2020 and 2019  
(In thousands)

	Water System		Wastewater System		Total		Increase (decrease)	
	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,	Variance	%
	2020	2019	2020	2019	2020	2019		
Cash and cash equivalents:								
Beginning of year	\$ 400,051	\$ 92,418	\$ 89,672	\$ 85,761	\$ 489,723	\$ 178,179	311,544	175%
Net cash provided by operating activities	99,905	96,656	5,888	5,754	105,793	102,410	3,383	3%
Net cash provided by noncapital financing activities	8,959	8,750	1,389	1,359	10,348	10,109	239	2%
Net cash used in capital and related financing activities	(53,113)	(59,075)	(5,526)	(9,847)	(58,639)	(68,922)	10,283	(15)%
Net cash provided by (used in) investing activities	(61,787)	18,664	(4,224)	7,556	(66,011)	26,220	(92,231)	(352)%
Net increase (decrease) in cash and cash equivalents	(6,036)	64,995	(2,473)	4,822	(8,509)	69,817	(78,326)	(112)%
End of period	<u>394,015</u>	<u>157,413</u>	<u>87,199</u>	<u>90,583</u>	<u>481,214</u>	<u>247,996</u>	<u>233,218</u>	<u>94%</u>
Investments:								
Beginning of year	224,592	558,038	18,378	30,123	242,970	588,161	(345,191)	(59)%
Net increase (decrease) in investments	61,383	(16,522)	4,223	(6,971)	65,606	(23,493)	89,099	(379)%
End of period	<u>285,975</u>	<u>541,516</u>	<u>22,601</u>	<u>23,152</u>	<u>308,576</u>	<u>564,668</u>	<u>(256,092)</u>	<u>(45)%</u>
Total District Cash and Investments	<u>\$ 679,990</u>	<u>\$ 698,929</u>	<u>\$ 109,800</u>	<u>\$ 113,735</u>	<u>\$ 789,790</u>	<u>\$ 812,664</u>	<u>(22,874)</u>	<u>(3)%</u>



## Cash and Investments by Fund

Total cash and investments available for operating and capital activities are reported in current and noncurrent assets as unrestricted and restricted funds. Total cash and investments increased by \$57.1 million during the three months ended September 30, 2020. Significant activities were as follows: Water System increased \$4.0 million in working capital, \$53.4 million in capital reserves to fund capital projects. Wastewater System increased \$1.1 million in capital reserves to fund capital projects and equipment replacements.

Operating and Capital Reserves are components of Unrestricted Cash and Investments. Individual funds within Operating and Capital Reserves are funded pursuant to Board policy but are unrestricted as to use. The Unrestricted Reserve Balances indicate the District's ability to meet unanticipated revenue declines or expenditure increases. Unrestricted reserves are committed by the Board of Directors. This is distinct from restricted reserves which are legally constrained by law or by third party. For additional information, see Note 1G to the financial statements.

Table 4 shows the District's cash and investment by fund as of September 30, 2020 and June 30, 2020.

**Table 4**  
Cash and Investment by Fund  
Water and Wastewater  
September 30, 2020 and June 30, 2020  
(In thousands)

	<u>Water System</u>		<u>Wastewater System</u>		<u>Total</u>		<u>Increase (decrease)</u>	
	<u>September 30, 2020</u>	<u>June 30, 2020</u>	<u>September 30, 2020</u>	<u>June 30, 2020</u>	<u>September 30, 2020</u>	<u>June 30, 2020</u>	<u>Amount</u>	<u>%</u>
Unrestricted cash and investment								
Operating reserves:								
Rate stabilization fund	\$ 95,000	95,000	24,090	24,090	119,090	119,090	—	0%
Working capital reserve	78,800	74,800	19,600	18,800	98,400	93,600	4,800	5%
Self-insurance	7,000	7,753	1,100	1,202	8,100	8,955	(855)	(10)%
Workers compensation	5,400	6,099	900	945	6,300	7,044	(744)	(11)%
Total operating reserves	<u>186,200</u>	<u>183,652</u>	<u>45,690</u>	<u>45,037</u>	<u>231,890</u>	<u>228,689</u>	<u>3,201</u>	<u>1%</u>
Capital reserves:								
Reserved for capital projects	440,199	384,050	21,616	21,067	461,815	405,117	56,698	14%
Reserve funded CIP - Wastewater	—	—	15,354	15,336	15,354	15,336	18	0%
Vehicle replacements	13,317	13,484	—	—	13,317	13,484	(167)	(1)%
Equipment replacements	—	2,580	27,119	26,589	27,119	29,169	(2,050)	(7)%
Total capital reserves	<u>453,516</u>	<u>400,114</u>	<u>64,089</u>	<u>62,992</u>	<u>517,605</u>	<u>463,106</u>	<u>54,499</u>	<u>12%</u>
Total Unrestricted cash and investment	<u>639,716</u>	<u>583,766</u>	<u>109,779</u>	<u>108,029</u>	<u>749,495</u>	<u>691,795</u>	<u>57,700</u>	<u>8%</u>
Restricted Cash and Investments								
Bond interest and redemption fund	457	457	21	21	478	478	—	0%
Debt service reserve fund	3,763	3,763	—	—	3,763	3,763	—	0%
Funds received for construction	33,231	33,827	—	—	33,231	33,827	(596)	(2)%
FERC partnership fund	2,269	2,276	—	—	2,269	2,276	(7)	(0)%
Monetary reserve	554	554	—	—	554	554	—	0%
Total restricted cash and investments	<u>40,274</u>	<u>40,877</u>	<u>21</u>	<u>21</u>	<u>40,295</u>	<u>40,898</u>	<u>(603)</u>	<u>(1)%</u>
Total District Cash and Investments \$	<u>679,990</u>	<u>624,643</u>	<u>109,800</u>	<u>108,050</u>	<u>789,790</u>	<u>732,693</u>	<u>57,097</u>	<u>8%</u>

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## Capital Contributions

Capital contributions primarily consist of System Capacity Charges (SCCs) and Wastewater Capacity Fees (WCFs). In addition, the District can receive contributions when the District's facilities need to be relocated during construction projects. The District also receives state and federal grants to fund capital projects.

The Water System's SCCs consist of charges collected from all applicants who request a new water service connection or a larger water meter size. These charges vary depending on geographic region. The SCC pays for the applicant's share of District 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 WCFs are treated as unrestricted funds and pay for the applicant's share of Wastewater facilities including the main wastewater treatment plant, interceptors, and wet weather facilities.

For the three months ended September 30, 2020, capital contributions increased \$13.1 million or 132% as compared to the same period of previous fiscal year. System Capacity Charges increased by \$9.0 million and Wastewater Capacity Fees increased by \$2.1 million reflecting continued development in multifamily dwelling projects in the Oakland and Berkeley service areas. Earned contributions increased by \$2.4 million also due to continued development of multifamily dwelling projects in the Oakland and Berkeley service areas. Table 5 shows the District's capital contributions received for the three months ended September 30, 2020 and 2019.

**Table 5**  
Capital Contributions  
Water and Wastewater  
For the Three Months Ended September 30, 2020 and 2019  
(In thousands)

	<u>Water System</u>		<u>Wastewater System</u>		<u>Total</u>		<u>Increase (decrease)</u>	
	<u>September 30,</u>	<u>September 30,</u>	<u>September 30,</u>	<u>September 30,</u>	<u>September 30,</u>	<u>September 30,</u>	<u>Amount</u>	<u>%</u>
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>		
System capacity charges	\$ 15,983	6,943	—	—	15,983	6,943	9,040	130%
Wastewater capacity fees	—	—	2,670	616	2,670	616	2,054	333%
Earned contributions on construction	4,360	2,006	(4)	—	4,356	2,006	2,350	117%
Grants and other reimbursements	56	383	—	—	56	383	(327)	(85)%
Totals	\$ 20,399	9,332	2,666	616	23,065	9,948	13,117	132%

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## CAPITAL ASSETS

The District had \$5.3 billion (net of accumulated depreciation) invested in a broad range of utility capital assets as of September 30, 2020. 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. As of September 30, 2020, capital assets increased by \$45.4 million or 1% compared with capital assets as of June 30, 2020. Annual changes are consistent with the District's capital improvement program.

The Water System had \$4.5 billion (net of accumulated depreciation) invested in a broad range of utility capital assets as of September 30, 2020. The investment in capital assets includes land, buildings, improvements, water treatment plants, aqueducts, water transmission and distribution mains, water storage facilities, pump stations, water recycling facilities, machinery, and equipment.

The Wastewater System had \$760.0 million (net of accumulated depreciation) invested in a broad range of utility capital assets as of September 30, 2020. The investment in capital assets includes land, buildings, improvements, power generation, wastewater and wet weather treatment facilities, machinery, and equipment.

Table 6 shows the District's capital assets as of September 30, 2020 and June 30, 2020.

**Table 6**  
Capital Assets, Net of Depreciation  
Water and Wastewater  
September 30, 2020 and June 30, 2020  
(In thousands)

	<u>Water System</u>		<u>Wastewater System</u>		<u>Total</u>		<u>Increase/(decrease)</u>	
	<u>September 30, 2020</u>	<u>June 30, 2020</u>	<u>September 30, 2020</u>	<u>June 30, 2020</u>	<u>September 30, 2020</u>	<u>June 30, 2020</u>	<u>Amount</u>	<u>%</u>
Structures, buildings, and equipment	\$ 3,940,513	3,908,424	634,611	638,147	4,575,124	4,546,571	28,553	0.6%
Land and rights of way	73,790	73,790	21,409	21,409	95,199	95,199	—	0.0%
Construction work in progress	508,955	497,634	104,040	98,466	612,995	596,100	16,895	2.8%
Totals	<u>\$ 4,523,258</u>	<u>4,479,848</u>	<u>760,060</u>	<u>758,022</u>	<u>5,283,318</u>	<u>5,237,870</u>	<u>45,448</u>	<u>0.9%</u>

## DEBT ADMINISTRATION

The District had total long-term debt outstanding of \$3.4 billion as of September 30, 2020. Components of the District's long-term debt portfolio as of September 30, 2020 are:

- The Water System had total long-term debt outstanding of \$3.0 billion.
- The Wastewater System had total long-term debt outstanding of \$393.0 million.

Table 7 shows the District's long-term debt outstanding as of September 30, 2020 and June 30, 2020.

**Table 7**  
Long -Term Debt  
(Net of Unamortized Costs)  
Water and Wastewater  
September 30, 2020 and June 30, 2020  
(In thousands)

	Water System		Wastewater System		Total		Increase (decrease)	
	September 30, 2020	June 30, 2020	September 30, 2020	June 30, 2020	September 30, 2020	June 30, 2020	Amount	%
Revenue bonds*	\$ 2,633,071	2,639,641	382,930	383,781	3,016,001	3,023,422	(7,421)	(0)%
Commercial paper	335,800	335,800	10,000	10,000	345,800	345,800	—	0%
Loans	35,069	35,069	—	—	35,069	35,069	—	0%
Totals	\$ 3,003,940	3,010,510	392,930	393,781	3,396,870	3,404,291	(7,421)	(0)%

\*Includes unamortized bond premium and discount. For Water System, the unamortized bond premium was \$237 million and \$243 million as of September 30, 2020 and June 30, 2020, respectively. For Wastewater System, the net of unamortized bond premium and discount was \$24 million and \$25 million as of September 30, 2020 and June 30, 2020, respectively.

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 service coverage ratio of at least 1.6 times.

*Debt-Funded Capital Spending:* Limit debt-funded capital to no more than 65% of the total capital program over each five-year planning period.

*Extendable Commercial Paper and Un-hedged Variable Rate Debt:* Maintain an annual limit of 25% of outstanding long-term debt.

Revenue-supported debt authorization for the District can be approved by the District's Board of Directors, subject to a referendum process. As of September 30, 2020, the Water System had \$602.4 million and Wastewater System had \$186.0 million in authorized but unissued revenue bonds.

The District’s credit ratings are outlined in Table 8.

**Table 8**  
Credit Ratings  
Water and Wastewater  
September 30, 2020

<b>District debt by type</b>	<b>Standard &amp; Poor’s</b>	<b>Rating by Moody’s Investors Service</b>	<b>Fitch</b>
Water system:			
Fixed Rate Revenue Bonds	AAA	Aa1	AA+
Variable Rate Revenue Bonds			
Long-term Underlying Rating	AAA	Aa1	-
Short-Term Rating	A-1/A-1+	VMIG-1	-
Commercial Paper Notes	A-1+	P-1	-
Wastewater system:			
Fixed Rate Revenue Bonds	AAA	Aa1	AA+
Extendable Commercial Paper	A-1+	P-1	F1+

For credit ratings by bond issue, please visit our website at <http://www.ebmud.com>.

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

**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  
SEPTEMBER 30, 2020 AND JUNE 30, 2020  
(DOLLARS IN THOUSANDS)

	Water System		Wastewater System		Totals	
	September 30, 2020	June 30, 2020	September 30, 2020	June 30, 2020	September 30, 2020	June 30, 2020
<b>Current assets:</b>						
Cash and cash equivalents (Note 2)	\$ 367,881	\$ 371,488	\$ 87,178	\$ 89,651	\$ 455,059	\$ 461,139
Investments (Note 2)	271,835	212,278	22,601	18,378	294,436	230,656
<b>Receivables:</b>						
Customer	65,460	55,257	6,957	6,684	72,417	61,941
Interest and other	41,396	2,915	36,913	3,171	78,309	6,086
Materials and supplies (Note 1K)	11,787	12,732	5,322	5,476	17,109	18,208
Prepaid Insurance	760	1,642	237	335	997	1,977
<b>Total current assets</b>	<b>759,119</b>	<b>656,312</b>	<b>159,208</b>	<b>123,695</b>	<b>918,327</b>	<b>780,007</b>
<b>Noncurrent assets:</b>						
<b>Restricted cash and investments (Note 2):</b>						
Cash and cash equivalents	26,134	28,563	21	21	26,155	28,584
Investments	14,140	12,314	-	-	14,140	12,314
<b>Total restricted cash and investments</b>	<b>40,274</b>	<b>40,877</b>	<b>21</b>	<b>21</b>	<b>40,295</b>	<b>40,898</b>
<b>Other assets:</b>						
Equity in JPA partnership fund (Note 2J)	221,976	223,006	-	-	221,976	223,006
Other	94	83	613	505	707	588
<b>Total other assets</b>	<b>222,070</b>	<b>223,089</b>	<b>613</b>	<b>505</b>	<b>222,683</b>	<b>223,594</b>
<b>Capital assets (Note 3):</b>						
Structures, buildings, and equipment	6,392,934	6,015,561	1,181,055	1,148,763	7,573,989	7,164,324
Less accumulated depreciation	(2,452,421)	(2,107,137)	(546,444)	(510,616)	(2,998,865)	(2,617,753)
<b>Subtotal</b>	<b>3,940,513</b>	<b>3,908,424</b>	<b>634,611</b>	<b>638,147</b>	<b>4,575,124</b>	<b>4,546,571</b>
Land and rights-of-way	73,790	73,790	21,409	21,409	95,199	95,199
Construction in progress	508,955	497,634	104,040	98,466	612,995	596,100
<b>Total capital assets, net</b>	<b>4,523,258</b>	<b>4,479,848</b>	<b>760,060</b>	<b>758,022</b>	<b>5,283,318</b>	<b>5,237,870</b>
<b>Total noncurrent assets</b>	<b>4,785,602</b>	<b>4,743,814</b>	<b>760,694</b>	<b>758,548</b>	<b>5,546,296</b>	<b>5,502,362</b>
<b>Total assets</b>	<b>5,544,721</b>	<b>5,400,126</b>	<b>919,902</b>	<b>882,243</b>	<b>6,464,623</b>	<b>6,282,369</b>
<b>Deferred outflows of resources:</b>						
Accumulated decrease in fair value of hedging derivatives (Note 6)	39,460	40,513	-	-	39,460	40,513
Debt refundings related (Note 1H)	5,778	6,644	-	-	5,778	6,644
Pension related (Note 8)	130,560	130,560	21,531	21,531	152,091	152,091
OPEB related (Note 8)	13,916	13,916	2,259	2,259	16,175	16,175
<b>Total deferred outflows</b>	<b>189,714</b>	<b>191,633</b>	<b>23,790</b>	<b>23,790</b>	<b>213,504</b>	<b>215,423</b>
<b>Total assets and deferred outflows</b>	<b>\$ 5,734,435</b>	<b>\$ 5,591,759</b>	<b>\$ 943,692</b>	<b>\$ 906,033</b>	<b>\$ 6,678,127</b>	<b>\$ 6,497,792</b>

(Continued)

**UNAUDITED**

EAST BAY MUNICIPAL UTILITY DISTRICT  
BALANCE SHEETS  
SEPTEMBER 30, 2020 AND JUNE 30, 2020  
(DOLLARS IN THOUSANDS)

	Water System		Wastewater System		Totals	
	September 30, 2020	June 30, 2020	September 30, 2020	June 30, 2020	September 30, 2020	June 30, 2020
<b>Current liabilities:</b>						
Current maturities of long-term debt and Commercial Paper (Note 5 & 6)	\$ 69,260	\$ 69,260	\$ 10,955	\$ 10,955	\$ 80,215	\$ 80,215
Accounts payable and accrued expenses (Note 4)	54,185	60,793	3,817	6,455	58,002	67,248
Compensated absences	42,834	34,256	7,249	5,805	50,083	40,061
Current reserve for claims (Note 9)	10,018	10,018	820	820	10,838	10,838
Accrued interest	39,734	10,022	5,978	1,497	45,712	11,519
Total current liabilities	<u>216,031</u>	<u>184,349</u>	<u>28,819</u>	<u>25,532</u>	<u>244,850</u>	<u>209,881</u>
<b>Noncurrent liabilities:</b>						
Advances for construction	12,918	13,535	-	-	12,918	13,535
Reserve for claims (Note 9)	32,251	32,251	4,242	4,242	36,493	36,493
Net pension liability (Note 8)	469,634	469,634	79,015	79,015	548,649	548,649
Net OPEB liability (Note 8)	113,732	113,732	19,139	19,139	132,871	132,871
Other liabilities	39,692	12,632	31,864	5,967	71,556	18,599
Long-term liabilities, net of current maturities (Note 5 & 6)	2,934,680	2,941,250	381,975	382,826	3,316,655	3,324,076
Total noncurrent liabilities	<u>3,602,907</u>	<u>3,583,034</u>	<u>516,235</u>	<u>491,189</u>	<u>4,119,142</u>	<u>4,074,223</u>
Total liabilities	<u>3,818,938</u>	<u>3,767,383</u>	<u>545,054</u>	<u>516,721</u>	<u>4,363,992</u>	<u>4,284,104</u>
<b>Deferred inflows of resources</b>						
Derivative instrument (Note 6)	39,460	40,513	-	-	39,460	40,513
Pension related (Note 8)	23,993	23,993	5,598	5,598	29,591	29,591
OPEB related (Note 8)	8,398	8,398	1,779	1,779	10,177	10,177
Total deferred inflows	<u>71,851</u>	<u>72,904</u>	<u>7,377</u>	<u>7,377</u>	<u>79,228</u>	<u>80,281</u>
Total liabilities and deferred inflows	<u>3,890,789</u>	<u>3,840,287</u>	<u>552,431</u>	<u>524,098</u>	<u>4,443,220</u>	<u>4,364,385</u>
<b>Net position (Note 7):</b>						
Net investment in capital assets	1,525,095	1,475,981	367,131	364,241	1,892,226	1,840,222
Restricted for construction (Note 1G)	20,313	20,292	-	-	20,313	20,292
Restricted for debt service (Note 1G)	4,220	4,220	21	21	4,241	4,241
Restricted for JPA	221,976	223,006	-	-	221,976	223,006
Restricted - other (Note 1G)	2,823	2,831	-	-	2,823	2,831
Unrestricted	69,219	25,142	24,109	17,673	93,328	42,815
Total net position	<u>1,843,646</u>	<u>1,751,472</u>	<u>391,261</u>	<u>381,935</u>	<u>2,234,907</u>	<u>2,133,407</u>
Total liabilities, deferred inflows and net position	<u>\$ 5,734,435</u>	<u>\$ 5,591,759</u>	<u>\$ 943,692</u>	<u>\$ 906,033</u>	<u>\$ 6,678,127</u>	<u>\$ 6,497,792</u>

See accompanying notes to financial statements

**UNAUDITED**

EAST BAY MUNICIPAL UTILITY DISTRICT  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019  
(DOLLARS IN THOUSANDS)

	Water System		Wastewater System		Total	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Operating revenue:						
Water	\$ 179,909	\$ 161,837	-	-	\$ 179,909	\$ 161,837
Sewer	-	-	\$22,909	\$23,287	22,909	23,287
Power	1,416	2,081	105	168	1,521	2,249
Wet weather facilities charges	-	-	7,136	6,864	7,136	6,864
Total operating revenue	<u>181,325</u>	<u>163,918</u>	<u>30,150</u>	<u>30,319</u>	<u>211,475</u>	<u>194,237</u>
Operating expense:						
Raw water	14,806	11,100	-	-	14,806	11,100
Water treatment and distribution	31,183	29,086	-	-	31,183	29,086
Recreation areas, net	1,979	1,860	-	-	1,979	1,860
Sewer lines and pumping	-	-	4,236	3,598	4,236	3,598
Sewer treatment plant operations	-	-	9,617	9,639	9,617	9,639
Customer accounting and collecting	4,389	4,498	549	613	4,938	5,111
Financial and risk management	4,491	4,283	262	135	4,753	4,418
Facilities management	1,323	801	-	-	1,323	801
General administration	9,375	7,974	1,728	1,576	11,103	9,550
Depreciation on utility plant and vehicle	27,619	27,794	5,881	5,816	33,500	33,610
Amortization	2,261	3,176	390	401	2,651	3,577
Total operating expense	<u>97,426</u>	<u>90,572</u>	<u>22,663</u>	<u>21,778</u>	<u>120,089</u>	<u>112,350</u>
Net operating income	<u>83,899</u>	<u>73,346</u>	<u>7,487</u>	<u>8,541</u>	<u>91,386</u>	<u>81,887</u>
Nonoperating income (expense):						
Investment income	(144)	4,349	47	609	(97)	4,958
Taxes and subventions	8,959	8,750	1,389	1,359	10,348	10,109
Interest and amortization of bond expenses, net of capitalized interest of \$1,378 and \$3,118 for the Water System and \$129 and \$259 for the Wastewater System in 2020 and 2019, respectively	(23,247)	(24,780)	(3,513)	(3,738)	(26,760)	(28,518)
Increase (decrease) of equity in JPA partnership fund	(1,030)	(901)	-	-	(1,030)	(901)
Other income	3,338	3,286	1,250	1,182	4,588	4,468
Total nonoperating income (expense), net	<u>(12,124)</u>	<u>(9,296)</u>	<u>(827)</u>	<u>(588)</u>	<u>(12,951)</u>	<u>(9,884)</u>
Income (loss) before capital contributions	71,775	64,050	6,660	7,953	78,435	72,003
Capital contributions	<u>20,399</u>	<u>9,332</u>	<u>2,666</u>	<u>616</u>	<u>23,065</u>	<u>9,948</u>
Change in net position	92,174	73,382	9,326	8,569	101,500	81,951
Total net position - beginning	<u>1,751,472</u>	<u>1,537,520</u>	<u>381,935</u>	<u>351,742</u>	<u>2,133,407</u>	<u>1,889,262</u>
Total net position - ending	<u>\$ 1,843,646</u>	<u>\$ 1,610,902</u>	<u>\$ 391,261</u>	<u>\$ 360,311</u>	<u>\$ 2,234,907</u>	<u>\$ 1,971,213</u>

See accompanying notes to financial statements

**UNAUDITED**



EAST BAY MUNICIPAL UTILITY DISTRICT  
STATEMENTS OF CASH FLOWS  
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019  
(DOLLARS IN THOUSANDS)

	Water System		Wastewater System		Total	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Cash flows from operating activities						
Cash received from customers	\$ 171,122	\$ 156,683	\$ 29,877	\$ 30,513	\$ 200,999	\$ 187,196
Cash received from other income	3,338	3,286	1,250	1,182	4,588	4,468
Cash payments for judgments and claims	(1,041)	(1,275)	(26)	(19)	(1,067)	(1,294)
Cash payments to suppliers for goods and services	(25,882)	(16,486)	(17,440)	(18,564)	(43,322)	(35,050)
Cash payments to employees for services	(47,632)	(45,552)	(7,773)	(7,358)	(55,405)	(52,910)
Net cash provided by operating activities	<u>99,905</u>	<u>96,656</u>	<u>5,888</u>	<u>5,754</u>	<u>105,793</u>	<u>102,410</u>
Cash flows from noncapital financing activities:						
Tax receipts	<u>8,959</u>	<u>8,750</u>	<u>1,389</u>	<u>1,359</u>	<u>10,348</u>	<u>10,109</u>
Net cash provided by noncapital financing activities	<u>8,959</u>	<u>8,750</u>	<u>1,389</u>	<u>1,359</u>	<u>10,348</u>	<u>10,109</u>
Capital and related financing activities:						
Capital contributions	20,399	9,332	2,666	616	23,065	9,948
Proceeds from advances for construction	-	896	-	-	-	896
Payments for advances for construction	(617)	-	-	-	(617)	0
Proceeds from sale of capital assets	136	909	-	-	136	909
Acquisition and construction of capital assets	(73,792)	(71,330)	(8,309)	(10,653)	(82,101)	(81,983)
Principal retirement on long-term debt and commercial paper	(5,704)	(4,392)	(851)	(667)	(6,555)	(5,059)
Interest paid on long-term debt	6,465	5,510	968	857	7,433	6,367
Net cash provided by (used in) capital and related financing activities	<u>(53,113)</u>	<u>(59,075)</u>	<u>(5,526)</u>	<u>(9,847)</u>	<u>(58,639)</u>	<u>(68,922)</u>
Cash flows from investing activities:						
Proceeds from securities	60,551	97,787	697	11,152	61,248	108,939
Payments from purchases of securities	(121,933)	(81,264)	(4,920)	(4,182)	(126,853)	(85,446)
Interest received on investments	(405)	2,141	(1)	586	(406)	2,727
Net cash provided by (used in) investing activities	<u>(61,787)</u>	<u>18,664</u>	<u>(4,224)</u>	<u>7,556</u>	<u>(66,011)</u>	<u>26,220</u>
Net increase (decrease) in cash and cash equivalents	(6,036)	64,995	(2,473)	4,822	(8,509)	69,817
Cash and cash equivalents:						
Beginning of year	<u>400,051</u>	<u>92,418</u>	<u>89,672</u>	<u>85,761</u>	<u>489,723</u>	<u>178,179</u>
End of period	<u>\$ 394,015</u>	<u>\$ 157,413</u>	<u>\$ 87,199</u>	<u>\$ 90,583</u>	<u>\$ 481,214</u>	<u>\$ 247,996</u>

**UNAUDITED**

EAST BAY MUNICIPAL UTILITY DISTRICT  
STATEMENTS OF CASH FLOWS  
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019  
(DOLLARS IN THOUSANDS)

	Water System		Wastewater System		Total	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Reconciliation of net operating income to net cash provided by operating activities:						
Net operating income	\$ 83,899	\$ 73,346	\$ 7,487	\$ 8,541	\$ 91,386	\$ 81,887
Adjustments to reconcile net operating income to net cash provided by operating activities:						
Depreciation on utility plant and vehicle	27,619	27,794	5,881	5,816	33,500	33,610
Depreciation within recreation areas	366	359	-	-	366	359
Amortization on intangible assets	2,261	3,176	462	473	2,723	3,649
Amortization on deferred quality control assets	-	-	(72)	(72)	(72)	(72)
Other income	3,338	3,286	1,250	1,182	4,588	4,468
Changes in assets/liabilities:						
Materials and supplies	945	323	154	(117)	1,099	206
Prepaid insurance	882	817	98	83	980	900
Customer receivables	(10,203)	(7,235)	(273)	194	(10,476)	(7,041)
Other assets	(38,231)	(34,946)	(33,802)	(32,828)	(72,033)	(67,774)
Accounts payable and accrued expenses	29,029	29,736	24,703	22,482	53,732	52,218
Net cash provided by operating activities	<u>\$ 99,905</u>	<u>\$ 96,656</u>	<u>\$ 5,888</u>	<u>\$ 5,754</u>	<u>\$ 105,793</u>	<u>\$ 102,410</u>

See accompanying notes to financial statements

**UNAUDITED**

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2020  
(Dollars in thousands)**

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

**A. Description of the Primary Government**

The East Bay Municipal Utility District (the District or EBMUD) 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. Basis of Presentation**

The unaudited financial information for the three months ended September 30, 2020, has been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and, therefore, does not contain all of the information and footnotes required by GAAP for annual financial statements. The financial statements should be read in conjunction with EBMUD's Annual Audited Financial Report for the year ended June 30, 2020 which is posted on our web site <http://www.ebmud.com>.

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 Annual Audited Financial Reports for the year ended June 30, 2020.

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.

In the opinion of EBMUD, the accompanying unaudited condensed financial statements contain all adjustments necessary for the fair presentation of the results for the three months ended September 30, 2020. These adjustments consist only of normal recurring adjustments. The results for interim periods are not necessarily indicative of the results for any future periods.

Management's discussion and analysis (MD&A) precedes the Basic Unaudited Financial Statements and provides a narrative introduction, overview, and analysis of the basic financial statements. The Basic Unaudited Financial Statements and MD&A complement each other and should be read in conjunction with each other.

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2020  
(Dollars in thousands)**

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

**C. Basis of Accounting**

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 net position subject to constraints placed on its 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.
- Unrestricted – This component of net position consists of net position that does 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.

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2020  
(Dollars in thousands)**

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

***D. 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.

***E. Capital Assets***

**Utility Plant – at Original Cost**

The cost of additions to utility plant and replacement of retired units of property is capitalized. Cost includes material, direct labor and fringe benefits, transportation, and such indirect items as engineering, supervision, and interest during construction based on the interest rate on outstanding debt of the system in the prior fiscal year as allowed by GASB 76. 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 connection fees and 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.

**Contract Water Rights**

The District has contracted with the U.S. Bureau of Reclamation for water deliveries from the Central Valley Project (CVP) and shall continue so long as EBMUD pays applicable rates and charges consistent with applicable law. Payments under the contract include reimbursement for operation and maintenance costs based on the amounts of water delivered to EBMUD, the Operation & Maintenance Deficit (EBMUD's current balance is \$5,666), and prepayment of allocated capital costs for CVP storage and conveyance facilities (EBMUD's current estimated allocation is \$3,057). The Water Enterprise Fund capitalized the two components.

**EAST BAY MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2020**  
**(Dollars in thousands)**

<b>NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)</b>
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***F. 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).

***G. Restricted and Unrestricted cash and investments***

The District segregates cash and investments into funds that are “Restricted” and “Unrestricted.” Funds are “restricted” when limitations on use of the resources are imposed by creditors, grantors, contributors, laws or regulations of other governments, or imposed by law through constitutional provision or by enabling legislation. “Unrestricted” resources are committed by the Board of Directors through the passage of a resolution, or constrained for a specific purpose by committees or officials with authority delegated by the Board. The exception is the Reserve for Capital Projects, which is anticipated but not committed or constrained to be used for the District’s capital improvement program.

Unrestricted cash and investments are further categorized into Operating and Capital Reserves:

Operating Reserves:

- Rate Stabilization Fund (RSF) reserve is established by Policy 4.02, as adopted by the Board of Directors in the biennial budget, to maintain at least 20% of projected annual water volume revenues for Water and at least 5% of annual operating and maintenance expenses for Wastewater. Funding of the RSF is consistent with the District’s Bond indentures. In fiscal year 2014, the District combined the Rate Stabilization Fund referenced in the Bond indentures and the Contingency and Rate Stabilization Reserve referenced in Policy 4.02 into a single Rate Stabilization Fund reserve to enhance transparency.
- Working Capital reserve is established by Policy 4.02, as adopted by the Board of Directors in the biennial budget, to maintain at least three times the District’s monthly net operating and maintenance expenses.
- Self-insurance reserve is established by Policy 4.02, as adopted by the Board of Directors in the biennial budget, to maintain a level based on the Actuarial Self-Insured Retention (SIR) funding recommendation for the following year’s discounted loss and allocated loss adjustment expenses (ALAE) funding guidelines. Reserve amount should be calculated at a high (85%) confidence level. If an actuarial study is not available before close of the prior fiscal year end, the reserve shall equal 1.15 times the prior year reserve.
- Workers' compensation reserve is established by Policy 4.02, as adopted by the Board of Directors in the biennial budget, to maintain a level based on the Actuarial SIR funding recommendation for the following year’s discounted loss and ALAE funding guidelines. Reserve amount should be calculated at a high (85%) confidence level. If an actuarial study is not available before close of the prior fiscal year end, the reserve shall equal 1.15 times the prior year reserve.

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2020  
(Dollars in thousands)**

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

Capital Reserves:

- Reserve for Capital Projects comprises the resources available for cash funding of the District's capital improvement program as projected in conjunction with the biennial budget.
- Reserve Funded CIP (Wastewater) balance is a specific designation [Board Motion No. 029-94] used to fund wet and dry weather eligible construction projects.
- Vehicle Replacement Fund [Board Motion No. 030-94] is financed by deposits based on internal user rate charges, and used to reimburse operational expenditures and vehicle replacement purchases.
- Equipment Replacement Fund was established by the District with the implementation of the Wastewater Capacity Fees effective July 1, 1984. The balance in this account represents funds set aside for future wastewater department equipment replacements.

Restricted funds include the following:

- Debt Funded Construction funds are the proceeds of bond or commercial paper issues that are restricted for use on eligible projects in the District's capital program.
- Capitalized Interest fund is restricted by the District's bond indenture for the purpose of defraying a specific bond issue's debt service payments for a specified period.
- Bond Interest and Redemption fund is utilized, in order for the District 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 as required under the District's bond indentures. 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.
- Debt Service Reserve fund is created and required to be maintained at a specified level in connection with certain series of the District's outstanding bonds. Amounts in a Bond Reserve Fund may only be used (a) for the payment of principal 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); (b) for the payment or redemption of all of the related series of bonds then outstanding; or (c) for the payment of the final principal and interest payments on the related series of bonds.

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- Funds received for construction reflect advances received from applicants for work to be performed by the District and the unspent future water supply component of system capacity charges. This fund is used for the construction of major facilities, applicant requested services, and the design and construction of water supply improvement program projects.
- FERC partnership fund of \$2 million was established January 11, 1999, in compliance with Federal Energy Regulatory Commission (FERC) order which brought resolution to its Mokelumne River Proceeding. The District manages the fund and income derived from investing the funds to provide operating support to the Joint Settlement Agreement with U.S. Fish and Wildlife and California Fish and Game to protect the Mokelumne River Ecosystem from Pardee Reservoir to the Delta. The principal and any unused earnings shall remain the property of the District and will revert to the District upon expiration of the agreement in March 2031 or upon withdrawal of any party to the agreement.
- Monetary Reserve represents money on deposit in the name of the District with the Automated Power Exchange Inc. (APX) in accordance with the terms and conditions of the Automated Power Exchange Inc. California Master Service Agreement of July 15, 1999, entered between the District and APX for the sale and purchase of electric power. The funds held on deposit shall be withdrawn by the Depository and Clearing Agent in the event that sufficient funds are not deposited in the District settlement account to cover power exchange transactions.

***H. Deferred Amount on Bond Refunding***

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.

***I. 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.

***J. 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.



**EAST BAY MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2020**  
**(Dollars in thousands)**

<b>NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)</b>
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***K. Material and Supplies***

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

***L. Revenue***

Water billings include charges for water flow, elevation, and a monthly meter charge. 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 and are billed annually on the property tax bill.

***M. Interest Rate Swap***

The District entered into interest rate swap agreements to modify interest rates on some outstanding debt.

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.

***N. 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  
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**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.

***O. Fair Value Measurements***

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs are inputs – other than quoted prices included within level 1 – that are observable for an asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for an asset or liability.

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

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
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**NOTE 2 - CASH AND INVESTMENTS**

**A. Classification**

Reconciliations of cash and investments reported on the financial statements as of September 30, 2020, are as follows:

<i>District Enterprise Funds:</i>	Water System	Wastewater System	Total
Cash and investments included in unrestricted assets	\$639,716	\$109,779	\$749,495
Cash and investments included in restricted assets	40,274	21	40,295
Total District cash and investments	679,990	109,800	789,790
Less: investments	(308,576)	-	(308,576)
Net District current cash and cash equivalents	\$371,414	\$109,800	\$481,214

**B. District 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.

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum in Portfolio	Maximum Investment in One Issuer/Func
U.S. Treasury Bonds, Notes and Bills	5 Years	N/A	up to 100%	N/A
U.S. Government Agency and U.S. Government-Sponsored Enterprise Obligation	5 Years	N/A	up to 100%	40% in each Agency
State of California Local Agency Investment Fund (LAIF Pool)	N/A	N/A	\$75,000 per Sec. 16429.1	N/A
California Asset Management Program (CAMP)	N/A	AAAm	40%	20%
Investment Trust of California (CalTRUST)	N/A	AAAm	40%	20%
Money Market Mutual Funds	N/A	AAAm	20%	5%
Certificates of Time Deposit	1 Year	AA-	20%	\$250
Negotiable Certificates of Deposit	5 Years	AA-	20%	\$250
Commercial Paper	270 Days	A-1+ and A	20%	5% of portfolio or 10%
Medium Term Corporate Notes	5 Years	AA- and A	20%	5%
Repurchase Agreements	270 Days	N/A	20%	N/A
Municipal Bonds	5 Years	AA- and A	20%	5%
Municipal Notes	N/A	SP-1+	20%	5%

The District does not enter into reverse repurchase agreements.

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**EAST BAY MUNICIPAL UTILITY DISTRICT  
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**NOTE 2 - CASH AND INVESTMENTS (Continued)**

***C. District 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 the 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 (up to 3 years)	Top Short-Term Rating Category
Corporate Bonds (longer than 3 years)	Not lower than District's bond rating
Variable Rate Obligations	Top Short-Term Rating Category
Cash Sweep Agreements	Top Rating Category
Guaranteed Investment Contract	Not lower than District's bond rating
Shares of Beneficial Interest	Top Rating Category

***D. Fair Value Hierarchy***

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. This information is presented in the annual audited financial statements.

***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 fair value to changes in market interest rates. The District generally manages its interest rate risk by holding the investment to maturity.

Information about the sensitivity of the market values of the District's investments (including investments held by bond trustees) to market interest rate fluctuations is provided as part of the annual financial report.

**EAST BAY MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
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**NOTE 2 - CASH AND INVESTMENTS (Continued)**

The District participates in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The District reports its investment in LAIF at the fair 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.

**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. This information is presented in the annual audited financial statements.

**G. Concentration Risk**

Significant District investments in the securities of any individual issuers, other than U. S. Treasury securities, LAIF, and mutual funds are presented in the annual audited financial statements.

**H. Foreign Currency Risk**

Foreign currency risk, the risk that changes in foreign exchange rates will adversely affect the fair values of an investment or deposit, is presented in the annual audited financial statements.

**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 will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

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 invests 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 employs the Trust Department of a bank or trustee as the custodian of certain District managed investments, regardless of their form.

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
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**NOTE 2 - CASH AND INVESTMENTS (Continued)**

***J. Joint Powers Authority***

**DSRSD/EBMUD Recycled Water Authority** - On June 28, 1995, the Dublin San Ramon Services 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 recycled water program in the San Ramon and Livermore-Amador Valleys. The DERWA governing body is not substantially the same as the District, and its independent Board consists of two directors each from the DSRSD and District. The DERWA books and records are being maintained separately from DSRSD and the District. The DSRSD and District made member contributions to fund DERWA start-up costs and continue to fund capital projects at the request of the JPA on an as needed basis. Certain past contributions to DERWA from EBMUD are recorded as Investment in JPA and presented on the balance sheet. Although DERWA has a significant relationship with the District, DERWA does not provide services solely to the District, and therefore is not considered a component unit of the District.

**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 FRWA Board consists of five representatives from SCWA, EBMUD and the City of Sacramento. 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, the FRWP can provide up to 85 MGD to SCWA in all years. The District's share of the facilities is recorded as Investment in JPA and is presented on the balance sheet. To increase the District's reserve of water supply during the last drought, the District activated the pumping of water from the Sacramento River via the Freeport facility during fiscal year 2015.

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
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**NOTE 3 – CAPITAL ASSETS**

**A. Summary**

The District capitalizes all assets with a historical cost of at least five thousand dollars and a useful life of at least three years. Contributed capital assets are valued at their estimated acquisition value on the date contributed.

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

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

Accounts payable and accrued expenses at September 30, 2020 and June 30, 2020 consist of:

	Water System		Wastewater System		Total	
	September 30, 2020	June 30, 2020	September 30, 2020	June 30, 2020	September 30, 2020	June 30, 2020
Accounts payable	\$25,406	\$34,907	\$2,866	\$4,662	\$28,272	\$39,569
Accrued salaries	4,256	5,484	655	908	4,911	6,392
Other	24,523	20,402	296	885	24,819	21,287
Total	\$54,185	\$60,793	\$3,817	\$6,455	\$58,002	\$67,248

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**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
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**NOTE 5 – COMMERCIAL PAPER NOTES**

The District's Board of Directors has authorized the issuance of short-term indebtedness of the District in a maximum principal amount of up to the lesser of either the average of the total annual revenue for the three preceding years or 25% of the District's total outstanding bonds. Under this authority the District has established two commercial paper programs: an extendable commercial paper program and a traditional commercial paper program. The proceeds from the issuance of commercial paper under these programs are restricted as to use. Under the programs, which must be authorized by the Board of Directors every seven years by resolution 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 of not more than 270 days from the date of issuance. The programs were last authorized on April 28, 2015.

The District initially established its extendable commercial paper program in March 2009. Under the extendable commercial paper program, no liquidity support agreement 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 failure to place new commercial paper notes to pay maturing notes. This extension is expected to provide the District sufficient time to find a replacement investor or refund the extendable commercial paper with a different form of debt to repay the investor.

As of September 30, 2020, \$10.0 million in Wastewater Series extendable commercial paper notes were outstanding under this program. There are no outstanding balances in Water Series extendable commercial paper notes under this program. The Wastewater Series included the term of 119 days and an interest rate of 0.19% as of September 30, 2020, and the term of 79 days and an interest rate of 0.30% as of June 30, 2020.

The District established its current traditional commercial paper program in December 2015. As of September 30, 2020, \$335.8 million in Water Series and \$0 in Wastewater Series commercial paper notes were outstanding under this program. The Water Series commercial paper notes included the terms of 32 to 92 days and interest rates ranging from 0.12% to 0.20% as of September 30, 2020, and the terms of 33 to 93 days and interest rates ranging from 0.12% to 0.40% as of June 30, 2020.

To provide liquidity for the Water Series notes issued under the traditional commercial paper program, the District maintains two liquidity support facilities with commercial banks: a standby letter of credit in the amount of \$176.0 million and a revolving credit agreement in the amount of \$160.0 million. Borrowings by the Water System for commercial paper notes and bank notes under the traditional commercial paper program cannot exceed the aggregate amount available under these agreements. Drawings under the liquidity support facilities are restricted to pay principal on maturing Water Series commercial paper notes. There were no borrowings under the liquidity support facilities as of September 30, 2020. The liquidity support facilities expire on May 6, 2024 and November 30, 2021, respectively, and are subject to extension at the request of the District upon agreement by the issuing bank.



**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
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**NOTE 5 – COMMERCIAL PAPER NOTES (Continued)**

There were no unused proceeds of commercial paper notes as of September 30, 2020. It is the District's practice to use the commercial paper programs as a portion of the District's long-term variable rate debt exposure.

**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 for the year ending June 30, 2020, are presented in the annual audited financial statements.

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

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 (SWRCB) Parity Loans of the Water System. The net revenues of the Wastewater System are pledged toward the repayment of the Wastewater Revenue Bonds of the Wastewater System.

The District is subject to certain revenue bond covenants on outstanding debt which require the setting of rates and charges to yield net revenues of the respective Water System or Wastewater System, as applicable, equal to at least 110% of the current annual debt service requirements for all revenue bonds and other parity obligations of the respective Water System or Wastewater System. The District has designated \$119.1 million (\$95.0 million for the Water System and \$24.1 million for the Wastewater System) of operating reserves 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.

Upon the occurrence and continuation of an event of default under the Water System Revenue Bond Indenture or Wastewater System Revenue Bond indenture, the principal amounts of (and accrued interest on) the respective system's revenue bonds can be accelerated and declared immediately due and payable by the registered bondholders of a majority in aggregate principal amount of the then outstanding bonds upon written notice delivered to the District. Failure to pay debt service when due and the occurrence of certain insolvency or bankruptcy-related events are events of default. Failure to observe or perform the covenants and agreements under the Indenture for a period of 60 days after written notice of such failure is given to the District is also an event of default unless the District has taken all action reasonably possible to remedy such failure within 60 days and the District diligently proceeds to remedy the failure. A default by the District under any agreement governing Parity Debt which continues after the applicable grace period, if any, is also an event of default.

**EAST BAY MUNICIPAL UTILITY DISTRICT  
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**NOTE 6 - LONG TERM DEBT (Continued)**

**2018 South Reservoir Replacement Project Parity Loan** – The District entered into a loan agreement with the SWRCB to fund construction for the South Reservoir Replacement Project. The project replaced the existing South Reservoir with an 8.5 MG partially buried concrete reservoir to meet demand and increase system reliability. This project was completed in January 2020. The final loan amount based on project expenditure reimbursements is \$14 million. The loan repayments are payable solely from net revenues of the Water System. Interest payments on the outstanding loan balance commenced on July 1, 2018 and principal payments commenced on January 1, 2019. Principal and interest are payable semi-annually thereafter.

**2018 MacArthur Davenport Pipeline Replacement Project Parity Loan** – The District entered into a loan agreement with the SWRCB to fund construction for the MacArthur Davenport Pipeline Replacement Project. The project re-aligned part of the transmission main and installed approximately 7,000 feet of 8-inch and 10,900 feet of 24-inch steel water pipes away from the Hayward fault, reducing the likelihood of failure during a seismic event. This project was completed in June 2019. The final loan amount based on project expenditure reimbursements is \$12 million. The loan repayments are payable solely from net revenues of the Water System. Principal and interest payments on the outstanding loan balance commenced on July 1, 2020. Principal and interest are payable semi-annually thereafter.

***C. 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 September 30, 2020, \$110 million of the bonds outstanding are considered defeased.

***D. Variable Rate Debt***

The District has a number of bond issues with variable interest rates. The Water Series 2008A Bonds are subject to purchase on the demand of the holder with seven days prior notice at a price equal to the principal plus accrued interest. 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. In the event that they are not sold, under Standby Bond Purchase Agreements (SBPAs) issued by banks for the above variable rate debt issues, the trustee or the remarketing agent is entitled to draw an amount sufficient to pay the purchase price of delivered bonds. The District's obligation to repay the banks for any draws on the respective SBPAs (to the extent such repayment is not thereafter provided from remarketing proceeds of the related bonds) is payable from net revenues of the Water System and secured on parity with the District's Water Revenue Bonds. The District is required to pay an annual commitment fee to the banks issuing SBPAs. Expiration dates of these SBPAs are presented below by debt issue. In addition, the remarketing agent receives an annual fee of seven basis points of the outstanding principal amount of the bonds.

**EAST BAY MUNICIPAL UTILITY DISTRICT  
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**NOTE 6 - LONG TERM DEBT (Continued)**

Issue	Standby Purchase Agreement Terms		
	Expiration Date	Interest Rate	Swap Rate
Water System Revenue Subordinated Bonds:			
Series 2008A-1	12/9/2022	Reset Weekly	See below
Series 2008A-2	11/24/2021	Reset Weekly	See below
Series 2008A-3	11/24/2021	Reset Weekly	See below
Series 2008A-4	12/9/2022	Reset Weekly	See below

**E. 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 on the first day of each calendar month for its LIBOR based swaps. The combination of variable rate bonds and a floating-rate swap creates synthetic fixed-rate debt for the District. The synthetic fixed rate on the bonds provides a hedge against increases in short-term interest rates. The terms, fair values, and credit risk of each of the swap agreements are discussed below.

*Term and credit risks.* The terms and credit ratings of the outstanding swaps, as of September 30, 2020, 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	Counterparty	Counterparty Credit Ratings (Moody's/ S&P)	Issuer Pays	Issuer Receives	Maturity/ Termination Date
2008A Water System Refunding Bonds	\$ 37,240	JP Morgan Chase & Co.	Aa2/A+	3.115%	62.3% of 30-day LIBOR	6/1/2038
2008A Water System Refunding Bonds	37,240	Bank of America National Assoc.	Aa2/A+	3.115%	62.3% of 30-day LIBOR	6/1/2038
2008A Water System Refunding Bonds	16,195	Merrill Lynch Capital Services	A2/A-	3.115%	62.3% of 30-day LIBOR	6/1/2038
2008A Water System Refunding Bonds	14,575	The Bank of New York Mellon	Aa2/AA-	3.115%	62.3% of 30-day LIBOR	6/1/2038

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 LIBOR based swaps are anticipated to approximate the outflow of payments on the variable rate bonds. Only the net difference in the amount owed to and received from the swap providers is made under the swap contracts.

**UNAUDITED**

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2020  
(Dollars in thousands)**

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

*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 value of the swaps at September 30, 2020, is included below:

Related Bond Issuance	Fair Value
2008A Water System Refunding Bonds	(\$39,460)

*Credit risk.* As of September 30, 2020, the District was not exposed to credit risk on its outstanding swaps because the swaps had a negative fair value of \$39.5 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 that determine 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. As of September 30, 2020, the District was not required to provide collateral to any swap counterparty.

*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 is exposed to basis risk as the District receives payments based on LIBOR rates to offset the actual variable interest 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. For the three months ended September 30, 2020, the District has a cumulative average basis difference on its swaps of a positive 2 basis points (the District received more from its swap floating rate payment than it paid out on its variable rate debt).

*Termination risk.* The District or the counterparty may terminate if the other party fails to perform under the terms of the swap contract. The District will be exposed to variable rates if the providers to the swap contracts default or if the swap contracts are terminated as it will lose the hedge provided by the swap. 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.

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2020  
(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, funds restricted for debt service 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**

Net pension liability (i.e., the Plan’s liability determined in accordance with GASB No. 68 less the fiduciary net position), net OPEB liability (The Plan’s liability determined according to GASB 75) and pension and OPEB related deferred inflows and outflows of resources are calculated and revised annually.

**NOTE 9 – RISK MANAGEMENT**

The District has purchased commercial insurance for general, property, public officials’ liability and workers’ compensation.

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 as shown below:

Coverage	Policy Limit	Self-insurance retention
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	25,000	25
Pardee and Camanche Dams	25,000	25
Main Wastewater Treatment Plant	25,000	25

Settled claims have not exceeded the District’s policy limits in any of the past five fiscal years. Reserve for claims balance is calculated and revised annually.

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**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2020  
(Dollars in thousands)**

**NOTE 10 - CONTINGENT LIABILITIES**

In the normal course of operations, the District is a party to various claims, legal actions and complaints, 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 11 – COMMITMENTS & CONTINGENCIES**

The District is assessing the effects of the ongoing pandemic (known as the COVID-19 pandemic) caused by a novel strain of coronavirus and the disease it causes on the District and its business and operations.

Current and potential economic and fiscal impacts to the District related to the COVID-19 pandemic include, but are not limited to, a slowdown in development activity in the District's service areas and decline in the collection of capacity fees; reduced operating revenues due to lower-water sales and associated reductions in wastewater service revenue and/or increases in delinquencies or non-payment of utility bills; increased operating costs to support modified working arrangements and other COVID-19 related activities; reductions in property tax receipts of the District as a result of declines in assessed valuations in the District's service area or increases in property tax delinquencies or non-payment; and/or reductions in investment income or increases in required pension and other post-employment benefit plan contributions as a result of ongoing volatility in the financial markets or a sustained decline in the value of plan assets.

The degree of impact to the District's finances and operations is difficult to predict due to the evolving nature of the COVID-19 pandemic. The ultimate duration and severity of the pandemic, the ramifications of future actions that may be taken or required by governmental authorities to contain and respond to the pandemic, and the severity of an associated economic recession and extent to which a recovery may be prolonged, are not yet known. In light of the uncertainties surrounding the COVID-19 pandemic and its impacts, management is unable to reasonably quantify the effect on future finances of the District at this time.

**NOTE 12 – CONTROLS & PROCEDURES**

The management of EBMUD is responsible for establishing and maintaining adequate internal controls to assure that EBMUD's operations are effective and efficient, applicable laws and regulations are followed, and financial reports are reliable. The 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 control should not exceed the benefits likely to be derived, and that cost-benefit analyses require estimates and judgments by management.

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