

**EAST BAY MUNICIPAL UTILITY DISTRICT**  
**BASIC UNAUDITED FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED MARCH 31, 2014**

**Third 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 Nine Months Ended March 31, 2014**

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**EAST BAY MUNICIPAL UTILITY DISTRICT  
BASIC UNAUDITED FINANCIAL STATEMENTS  
For the Nine Months Ended March 31, 2014**

**Management's Discussion and Analysis (MDA) 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 and for the nine months ended March 31, 2014. This information should be read in conjunction with the unaudited financial statements for the nine months ended March 31, 2014. The information in this MDA is presented under the following headings:

- Organization and Business
- The Basic Unaudited Financial Statements
- Financial Analysis – Water System
- Financial Analysis – Wastewater System
- Request for Information

**ORGANIZATION AND BUSINESS**

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

**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 Trust. This is reported on an annual basis only and is included in the most recent Annual Audited Financial Reports for the year ended June 30, 2013, which is posted on the District website <http://www.ebmud.com>.

## FINANCIAL ANALYSIS – WATER SYSTEM

### Net Position

The Water System's net position increased by \$37.9 million or 3% during the nine months ended March 31, 2014. Changes in Deferred outflow and inflow of resources primarily reflect changes in the market value of interest rate SWAP agreements (see Note 6D). Components of the increase are shown in Table 1.

**Table 1**

Water System

Net Position

March 31, 2014 and June 30, 2013

(In thousands)

	March 31, 2014	June 30, 2013	Variance	%
Current and other assets	\$692,542	\$685,725	\$6,817	1%
Capital assets	3,531,733	3,484,655	47,078	1%
Deferred outflow of resources	71,167	74,848	(3,681)	(5)%
Total assets and deferred outflow	<u>4,295,442</u>	<u>4,245,228</u>	<u>50,214</u>	1%
Current and other liabilities	187,719	167,231	20,488	12%
Long-term liabilities	2,632,348	2,636,841	(4,493)	(0)%
Deferred inflow of resources	95,718	99,399	(3,681)	(4)%
Total liabilities and deferred inflow	<u>2,915,785</u>	<u>2,903,471</u>	<u>12,314</u>	0%
Net position:				
Net investment in capital assets	879,786	828,238	51,548	6%
Restricted	307,400	310,380	(2,980)	(1)%
Unrestricted	<u>192,471</u>	<u>203,139</u>	<u>(10,668)</u>	(5)%
Total net position	<u><u>\$1,379,657</u></u>	<u><u>\$1,341,757</u></u>	<u><u>\$37,900</u></u>	3%

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## Results of Operation

For the nine months ended March 31, 2014, the Water System's change in net position increased by \$23.7 million as compared to the same period in the previous fiscal year. This increase was due to an increase in operating revenues. Total operating revenues increased by \$34.8 million or 14.0% primarily due to a rate increase of 9.75% and an increase in water consumption of 7.6% compared to the previous year. Operating expenses remained essentially stable. Raw water expenses increased by 3.0 million or 12% and Water treatment and distribution expenses increased by \$4.9 million or 8% primarily due to an increase in water production. Non-operating income net of non-operating expenses increased by \$2.1 million was primarily due to reduced interest and bond expenses.

**Table 2**

Water System

Changes in Net Position

For the Nine Months Ended March 31, 2014 and 2013

(In thousands)

	March 31, 2014	March 31, 2013	Variance	%
Operating Revenues:				
Water	\$284,182	\$247,401	\$36,781	15%
Power	1,075	3,024	(1,949)	(64)%
Total operating revenues	<u>285,257</u>	<u>250,425</u>	<u>34,832</u>	14%
Operating Expenses:				
Raw water	27,210	24,240	2,970	12%
Water treatment & distribution	70,028	65,083	4,945	8%
Recreation areas, net	3,851	4,126	(275)	(7)%
Customer accounting & collecting	12,846	11,730	1,116	10%
Financial and risk management	11,311	11,836	(525)	(4)%
Facilities management	7,228	6,881	347	5%
General administration	40,937	41,011	(74)	(0)%
Depreciation on utility plant and vehicle	67,355	65,035	2,320	4%
Total operating expenses	<u>240,766</u>	<u>229,942</u>	<u>10,824</u>	5%
Net operating income (expense)	44,491	20,483	24,008	117%
Nonoperating income (expense):				
Investment income	1,086	2,544	(1,458)	(57)%
Taxes and subventions	18,117	19,297	(1,180)	(6)%
Interest , amortization and bond expenses, net	(72,409)	(74,483)	2,074	(3)%
Other income (expense)	10,570	7,927	2,643	33%
Total nonoperating income (expense), net	<u>(42,636)</u>	<u>(44,715)</u>	<u>2,079</u>	(5)%
Income (Loss) before capital contributions	1,855	(24,232)	26,087	(108)%
Capital contributions	36,045	38,489	(2,444)	(6)%
Change in net position	<u>37,900</u>	<u>14,257</u>	<u>23,643</u>	166%
Total net position – beginning	<u>1,341,757</u>	<u>1,316,044</u>	<u>25,713</u>	2%
Total net position – ending	<u>\$1,379,657</u>	<u>\$1,330,301</u>	<u>\$49,356</u>	4%

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## Liquidity

For the nine months ended March 31, 2014, Total cash and investments remained essentially stable at \$381.6 million compared to \$365.7 million at March 31, 2013. Cash and cash equivalents increased by 37.6 million compared to the prior year primarily due to an increase in net cash provided by operating activities of \$32.8 million. Total cash and investment was essentially in line with the prior year largely as a result of reallocation of investments between short-term and long-term.

**Table 3**

Water System

Cash Flows

For the Nine Months Ended March 31, 2014 and 2013

(In thousands)

	March 31, 2014	March 31, 2013	Variance	%
Net cash provided by operating activities	\$138,059	\$105,224	\$32,835	31%
Net cash provided by financing activities	18,117	19,297	(1,180)	(6)%
Net cash provided by (used in) capital and related financing activities	(146,982)	(135,164)	(11,818)	9%
Net cash provided by (used in) investing activities	<u>(8,750)</u>	<u>(26,508)</u>	<u>17,758</u>	<u>(67)%</u>
Net increase (decrease) in cash and cash equivalents	444	(37,151)	37,595	(101)%
Cash and cash equivalents:				
Beginning of year	<u>114,985</u>	<u>154,680</u>	<u>(39,695)</u>	<u>(26)%</u>
End of period	<u>\$115,429</u>	<u>\$117,529</u>	<u>(\$2,100)</u>	<u>(2)%</u>
Non-current investments	<u>266,216</u>	<u>248,181</u>	<u>18,035</u>	<u>7%</u>
Total District cash and investments	<u>\$381,645</u>	<u>\$365,710</u>	<u>\$15,935</u>	<u>4%</u>

**UNAUDITED**

## Capital Contributions

Capital contributions primarily consist of System Capacity Charges (SCC) and Seismic Improvement Program (SIP) surcharges. Additionally, the District receives 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 SCC consists of charges collected from all applicants who request a new water service connection or a larger water meter size, and varies depending on geographic region. The SCC pays for the applicant's share of the capital facilities, including those that serve the entire water system such as the aqueducts and raw water facilities, regional facilities such as treatment plants and distribution facilities, and future water supply upgrades needed to meet long-term increases in water demand created by new customers. The portion of the SCC that pays for the future water supply is restricted and the remainder is unrestricted.

A flat Seismic Improvement Program (SIP) surcharge is imposed on each Single Family Residential or Multiple Family Residential account to pay for system-wide seismic improvements of the Water System being made from 1995-2025. The SIP surcharge is designed to recover costs of the SIP, the objective of which is to provide fire flow availability for real property, and provide continued water service to residential, commercial, industrial and public authority customers after a seismic event. SIP program costs are being paid over 30 years; the charge is effective on each water bill through February 28, 2025.

Table 4 shows the District's capital contributions received for the nine months ended March 31, 2014 and 2013:

**Table 4**  
Water System  
Capital Contributions  
For the Nine Months Ended March 31, 2014 and 2013

(In thousands)

	March 31, 2014	March 31, 2013	Variance	%
System capacity charges	\$16,141	\$19,287	(\$3,146)	(16)%
Earned contributions on construction	2,187	3,054	(867)	(28)%
Seismic improvement surcharge	17,046	15,270	1,776	12%
Grants and other reimbursements	671	878	(207)	(24)%
Total capital contributions	<u>\$36,045</u>	<u>\$38,489</u>	<u>(2,444)</u>	<u>(6)%</u>

**UNAUDITED**

## Capital Assets

The Water System had \$3.5 billion (net of accumulated depreciation) invested in a broad range of utility capital assets as of March 31, 2014. 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.

**Table 5**

### Water System

Capital Assets, Net of Depreciation

March 31, 2014 and June 30, 2013

(In thousands)

	<u>Water System</u>		<u>Increase/(decrease)</u>	
	<u>March 31, 2014</u>	<u>June 30, 2013</u>	<u>Amount</u>	<u>%</u>
Structures, buildings, and equipment	\$3,218,660	\$3,176,727	\$41,933	1.3%
Land and rights of way	55,455	55,455	-	0.0%
Construction work in progress	257,618	252,473	5,145	2.0%
Totals	<u>\$3,531,733</u>	<u>\$3,484,655</u>	<u>\$47,078</u>	1.4%

## Debt Administration

As of March 31, 2014, the Water System had total long-term debt outstanding of \$2.7 billion (net of unamortized costs).

**Table 6**

### Water System

Long -Term Debt

(Net of Unamortized Costs)

March 31, 2014 and June 30, 2013

(In thousands)

	<u>Water System</u>		<u>Increase (decrease)</u>	
	<u>March 31, 2014</u>	<u>June 30, 2013</u>	<u>Amount</u>	<u>%</u>
Revenue bonds	\$2,262,981	\$2,266,515	(\$3,534)	(0.2)%
Commercial paper	372,900	372,900	-	0.0%
Loans	16,066	17,002	(936)	(5.5)%
Totals	<u>\$2,651,947</u>	<u>\$2,656,417</u>	<u>(\$4,470)</u>	(0.2)%

**UNAUDITED**

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

*Debt Service Coverage Ratio:* Maintain an annual revenue bond debt coverage ratio of at least 1.6 times coverage.

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

*Commercial Paper/Variable Rate Debt (unhedged):* Limit to 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. At March 31, 2014, the Water System had \$602.3 million in authorized but unissued revenue bonds.

The Water System’s debt ratings as of March 31, 2014 are outlined in Table 7.

**Table 7**  
Water System  
Credit Ratings  
March 31, 2014

District debt by type	Rating by		
	Standard & Poor’s	Moody’s Investors Service	Fitch
Fixed Rate Revenue Bonds	AAA	Aa1	AA+
Variable Rate Revenue Bonds			
Long-term Underlying Rating	AAA	Aa1	AA+
SIFMA-Based Index Bonds	A-1+	VMIG-1	F1+
Extendable Commercial Paper	A-1+	P-1	F1+

## FINANCIAL ANALYSIS – WASTEWATER SYSTEM

### Net Position

The Wastewater System's net position remained essentially level, increasing by \$11.4 million or 4% during the nine months ended March 31, 2014. Changes in Deferred outflow and inflow of resources primarily reflect changes in the market value of interest rate SWAP agreements (see Note 6D). Components of the increase are shown in Table 8.

**Table 8**

Wastewater System

Net Position

March 31, 2014 and June 30, 2013

(In thousands)

	March 31, 2014	June 30, 2013	Variance	%
Current and other assets	\$126,262	\$115,133	\$11,129	10%
Capital assets	676,420	666,551	9,869	1%
Deferred outflow of resources	15,040	15,904	(864)	(5)%
Total assets and deferred outflow	<u>817,722</u>	<u>797,588</u>	<u>20,134</u>	3%
Current and other liabilities	48,804	39,322	9,482	24%
Long-term liabilities	455,693	455,569	124	0%
Deferred inflow of resources	15,040	15,904	(864)	(5)%
Total liabilities and deferred inflow	<u>519,537</u>	<u>510,795</u>	<u>8,742</u>	2%
Net position:				
Net investment in capital assets	207,147	203,122	4,025	2%
Restricted	9,840	4,139	5,701	138%
Unrestricted	<u>81,198</u>	<u>79,532</u>	<u>1,666</u>	2%
Total net position	<u><u>\$298,185</u></u>	<u><u>\$286,793</u></u>	<u><u>\$11,392</u></u>	4%

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## Results of Operation

For the nine months ended March 31, 2014, the Wastewater System's change in net position increased by \$4.7 million as compared to the previous fiscal year. Total operating revenues increased by \$5.6 million, mainly reflecting a rate increase of 9% in wastewater rates for the current fiscal year. Operating expenses increased by \$2.6 million or 5% primarily due to the increase in Sewer lines and pumps expenses and sewer treatment plant operation expenses. Non-operating income net of non-operating expenses improved by \$2.4 million was primarily due to reduced interest and bond expenses.

**Table 9**

Wastewater System

Changes in Net Position

For the Nine Months Ended March 31, 2014 and 2013

(In thousands)

	March 31, 2014	March 31, 2013	Variance	%
Operating Revenues:				
Sewer	\$54,504	\$50,669	\$3,835	8%
Power	655	323	332	103%
Wet weather facilities charges	14,846	13,426	1,420	11%
Total operating revenues	<u>70,005</u>	<u>64,418</u>	<u>5,587</u>	<u>9%</u>
Operating Expenses:				
Sewer lines & pumps	10,055	9,260	795	9%
Sewer treatment plant operations	22,258	21,061	1,197	6%
Customer accounting & collecting	1,770	1,827	(57)	(3)%
Financial and risk management	406	385	21	5%
General administration	5,868	5,712	156	3%
Depreciation on utility plant and vehicle	16,697	16,210	487	3%
Total operating expenses	<u>57,054</u>	<u>54,455</u>	<u>2,599</u>	<u>5%</u>
Net operating income (expense)	12,951	9,963	2,988	30%
Nonoperating income (expense):				
Investment income	216	842	(626)	(74)%
Taxes and subventions	6,292	6,118	174	3%
Interest, amortization and bond expenses, net	(12,833)	(14,155)	1,322	(9)%
Other income (expense)	4,274	2,747	1,527	56%
Total nonoperating income (expense), net	<u>(2,051)</u>	<u>(4,448)</u>	<u>2,397</u>	<u>(54)%</u>
Income (Loss) before contributions	10,900	5,515	5,385	98%
Capital contributions	492	1,186	(694)	(59)%
Change in net position	<u>11,392</u>	<u>6,701</u>	<u>4,691</u>	<u>70%</u>
Total net position – beginning	<u>286,793</u>	<u>275,580</u>	<u>11,213</u>	<u>4%</u>
Total net position – ending	<u>\$298,185</u>	<u>\$282,281</u>	<u>\$15,904</u>	<u>6%</u>

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## Liquidity

For the nine months ended March 31, 2014, total cash and investment was \$106.9 million, a decrease of \$11.7 million, or 10% from \$118.5 million at March 31, 2013. The changes in cash resulted primarily from increased net cash provided by operating activities which was more than offset by increased capital expenditures.

**Table 10**  
Wastewater System  
Cash Flows

For the Nine Months Ended March 31, 2014 and 2013

(In thousands)

	March 31, 2014	March 31, 2012	Variance	%
Net cash provided by operating activities	\$29,641	\$22,957	\$6,684	29%
Net cash provided by financing activities	6,292	6,118	174	3%
Net cash provided by (used in) capital and related financing activities	(34,742)	(32,331)	(2,411)	7%
Net cash provided by (used in) investing activities	<u>(2,528)</u>	<u>8,134</u>	<u>(10,662)</u>	<u>(131)%</u>
Net increase (decrease) in cash and cash equivalents	(1,337)	4,878	(6,215)	(127)%
Cash and cash equivalents:				
Beginning of year	<u>85,702</u>	<u>51,275</u>	<u>34,427</u>	<u>67%</u>
End of period	<u>\$84,365</u>	<u>\$56,153</u>	<u>\$28,212</u>	<u>50%</u>
Non-current investments	<u>22,437</u>	<u>62,315</u>	<u>(39,878)</u>	<u>(64)%</u>
Total District cash and investments	<u>\$106,802</u>	<u>\$118,468</u>	<u>(\$11,666)</u>	<u>(10)%</u>

**UNAUDITED**

## Capital Contributions

Capital contributions primarily consist of System Capacity Charges. Additionally, the District receives 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 decrease of \$0.7 million in total capital contribution was primarily due to a decrease in payment received for system capacity charges compared to 2013.

The Wastewater System's Capacity Charges are treated as unrestricted funds and pay for the share of Wastewater facilities attributed to new customers.

Table 11 shows the District's capital contributions received for the nine months ended March 31, 2014 and 2013:

**Table 11**  
Wastewater System  
Capital Contributions  
For the Nine Months Ended March 31, 2014 and 2013  
(In thousands)

	March 31, 2014	March 31, 2013	Variance	%
System capacity charges	\$492	\$1,001	(\$509)	(51)%
Grants and other reimbursements	-	185	(185)	(100)%
Total capital contributions	<u>\$492</u>	<u>\$1,186</u>	<u>(\$694)</u>	<u>(59)%</u>

**UNAUDITED**

## Capital Assets

The Wastewater System had \$676.4 million (net of accumulated depreciation) invested in a broad range of utility capital assets as of March 31, 2014. The investment in capital assets includes land, buildings, improvements, wastewater and wet weather treatment facilities, machinery and equipment.

**Table 12**

Wastewater System  
Capital Assets, Net of Depreciation  
March 31, 2014 and June 30, 2013  
(In thousands)

	<b>Wastewater System</b>		<b>Increase/(decrease)</b>	
	<b>March 31, 2014</b>	<b>June 30, 2013</b>	<b>Amount</b>	<b>%</b>
Structures, buildings, and equipment	\$538,490	\$546,182	(\$7,692)	(1.4)%
Land and rights of way	20,048	20,048	-	0.0%
Construction work in progress	117,882	100,321	17,561	17.5%
Totals	<u>\$676,420</u>	<u>\$666,551</u>	<u>\$9,869</u>	1.5%

## Debt Administration

As of March 31, 2014, the Wastewater System had total long-term debt outstanding of \$469 million (net of unamortized costs).

**Table 13**

Wastewater System  
Long -Term Debt  
(Net of Unamortized Costs)  
March 31, 2014 and June 30, 2013  
(In thousands)

	<b>Wastewater System</b>		<b>Increase (decrease)</b>	
	<b>March 31, 2014</b>	<b>June 30, 2013</b>	<b>Amount</b>	<b>%</b>
General Obligation bonds	\$19,170	\$18,812	\$358	1.9%
Revenue bonds	435,103	435,337	(234)	(0.1)%
Commercial paper	15,000	15,000	-	0.0%
Totals	<u>\$469,273</u>	<u>\$469,149</u>	<u>\$124</u>	0.0%

**UNAUDITED**

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

*Debt Service Coverage Ratio:* Maintain an annual revenue bond debt coverage ratio of at least 1.6 times coverage.

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

*Commercial Paper/Variable Rate Debt (unhedged):* Limit to 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. At March 31, 2014, the Wastewater System had \$204.3 million in authorized but unissued revenue bonds.

The Wastewater System’s debt ratings as of March 31, 2014 are outlined in Table 14.

**Table 14**  
Wastewater System  
Credit Ratings  
March 31, 2014

District debt by type	Rating by		
	Standard & Poor’s	Moody’s Investors Service	Fitch
General Obligation Bonds	AAA	Aa1	—
Fixed Rate Revenue Bonds	AAA	Aa2	AA+
Variable Rate Revenue Bonds			
Long-term Underlying Rating	AAA	Aa2	AA+
SIFMA-Based Index Bonds	A-1+	VMIG-1	F1+
Extendable Commercial Paper	A-1+	P-1	F1+

**REQUEST FOR INFORMATION**

If you have any questions about this report or need additional information, please visit our website at <http://www.ebmud.com> or contact: the Controller, Accounting Division, P.O. Box 24055, Oakland, CA 94623-1055.

**UNAUDITED**

EAST BAY MUNICIPAL UTILITY DISTRICT  
BALANCE SHEETS  
MARCH 31, 2014 AND JUNE 30, 2013  
(DOLLARS IN THOUSANDS)

	Water System		Wastewater System		Total	
	March 31, 2014	June 30, 2013	March 31, 2014	June 30, 2013	March 31, 2014	June 30, 2013
Current assets:						
Cash and investments (Note 2)	\$313,395	\$303,247	\$77,103	\$73,622	\$390,498	\$376,869
Receivables:						
Customer	40,461	47,566	6,455	6,504	46,916	54,070
Interest and other	13,008	5,002	12,635	2,905	25,643	7,907
Materials and supplies	6,398	6,641	-	-	6,398	6,641
Prepaid Insurance	279	1,115	-	-	279	1,115
Total current assets	<u>373,541</u>	<u>363,571</u>	<u>96,193</u>	<u>83,031</u>	<u>469,734</u>	<u>446,602</u>
Noncurrent assets:						
Restricted cash and investments (Note 2):						
Bond construction fund	-	-	-	5,720	0	5,720
Capitalized interest fund	-	-	695	1,582	695	1,582
Bond interest and redemption fund	229	139	4,158	19	4,387	158
Debt service reserve fund	34,175	34,175	2,538	2,538	36,713	36,713
Funds received for construction	27,151	26,081	2,449	-	29,600	26,081
FERC partnership fund	2,248	2,232	-	-	2,248	2,232
Monetary reserve	579	605	-	-	579	605
Total restricted cash and investments	<u>64,382</u>	<u>63,232</u>	<u>9,840</u>	<u>9,859</u>	<u>74,222</u>	<u>73,091</u>
Unrestricted investments (Note 2):						
CIP fund	-	-	14,421	14,390	14,421	14,390
Vehicle/equipment replacement fund	3,868	5,067	5,438	7,525	9,306	12,592
Total unrestricted cash and investments	<u>3,868</u>	<u>5,067</u>	<u>19,859</u>	<u>21,915</u>	<u>23,727</u>	<u>26,982</u>
Other assets:						
JPA partnership fund	250,596	253,720	-	-	250,596	253,720
Other	155	135	370	328	525	463
Total other assets	<u>250,751</u>	<u>253,855</u>	<u>370</u>	<u>328</u>	<u>251,121</u>	<u>254,183</u>
Capital assets (Note 3):						
Structures, buildings, and equipment	4,710,303	4,600,402	908,910	899,906	5,619,213	5,500,308
Less accumulated depreciation	(1,491,643)	(1,423,675)	(370,420)	(353,724)	(1,862,063)	(1,777,399)
Subtotal	<u>3,218,660</u>	<u>3,176,727</u>	<u>538,490</u>	<u>546,182</u>	<u>3,757,150</u>	<u>3,722,909</u>
Land and rights-of-way	55,455	55,455	20,048	20,048	75,503	75,503
Construction in progress	257,618	252,473	117,882	100,321	375,500	352,794
Total capital assets, net	<u>3,531,733</u>	<u>3,484,655</u>	<u>676,420</u>	<u>666,551</u>	<u>4,208,153</u>	<u>4,151,206</u>
Total noncurrent assets	<u>3,850,734</u>	<u>3,806,809</u>	<u>706,489</u>	<u>698,653</u>	<u>4,557,223</u>	<u>4,505,462</u>
Total assets	<u>4,224,275</u>	<u>4,170,380</u>	<u>802,682</u>	<u>781,684</u>	<u>5,026,957</u>	<u>4,952,064</u>
Deferred outflows of resources						
Accumulated decrease in fair value of hedging derivatives	71,167	74,848	15,040	15,904	86,207	90,752
Total deferred outflows	<u>71,167</u>	<u>74,848</u>	<u>15,040</u>	<u>15,904</u>	<u>86,207</u>	<u>90,752</u>
Total assets and deferred outflows	<u>\$4,295,442</u>	<u>\$4,245,228</u>	<u>\$817,722</u>	<u>\$797,588</u>	<u>\$5,113,164</u>	<u>\$5,042,816</u>

(Continued)

**UNAUDITED**

EAST BAY MUNICIPAL UTILITY DISTRICT  
BALANCE SHEETS  
MARCH 31, 2014 AND JUNE 30, 2013  
(DOLLARS IN THOUSANDS)

	Water System		Wastewater System		Totals	
	March 31, 2014	June 30, 2013	March 31, 2014	June 30, 2013	March 31, 2014	June 30, 2013
Current liabilities:						
Current maturities of long-term debt and Commercial Paper (Note 5 & 6)	\$19,599	\$19,576	\$13,580	\$13,580	\$33,179	\$33,156
Accounts payable and accrued expenses (Note 4)	53,448	60,616	6,712	9,198	60,160	69,814
Current reserve for claims	6,498	6,498	845	845	7,343	7,343
Accrued interest	34,283	8,930	6,940	1,854	41,223	10,784
Total current liabilities	<u>113,828</u>	<u>95,620</u>	<u>28,077</u>	<u>25,477</u>	<u>141,905</u>	<u>121,097</u>
Noncurrent liabilities:						
Other liabilities:						
Advances for construction	7,578	6,571	-	-	7,578	6,571
OPEB liabilities (Note 8)	16,367	16,367	2,965	2,965	19,332	19,332
Reserve for claims (Note 9)	30,130	30,130	4,728	4,728	34,858	34,858
Other liabilities	19,816	18,543	13,034	6,152	32,850	24,695
Total other liabilities	<u>73,891</u>	<u>71,611</u>	<u>20,727</u>	<u>13,845</u>	<u>94,618</u>	<u>85,456</u>
Long-term liabilities, net of current maturities (Note 5 & 6)	<u>2,632,348</u>	<u>2,636,841</u>	<u>455,693</u>	<u>455,569</u>	<u>3,088,041</u>	<u>3,092,410</u>
Total noncurrent liabilities	<u>2,706,239</u>	<u>2,708,452</u>	<u>476,420</u>	<u>469,414</u>	<u>3,182,659</u>	<u>3,177,866</u>
Total liabilities	<u>2,820,067</u>	<u>2,804,072</u>	<u>504,497</u>	<u>494,891</u>	<u>3,324,564</u>	<u>3,298,963</u>
Deferred inflows of resources						
Derivative instrument (Note 6)	71,167	74,848	15,040	15,904	86,207	90,752
Swap Novation (Note 6F)	24,551	24,551	-	-	24,551	24,551
Total deferred inflows	<u>95,718</u>	<u>99,399</u>	<u>15,040</u>	<u>15,904</u>	<u>110,758</u>	<u>115,303</u>
Total liabilities and deferred inflows	<u>2,915,785</u>	<u>2,903,471</u>	<u>519,537</u>	<u>510,795</u>	<u>3,435,322</u>	<u>3,414,266</u>
Net position (Note 7):						
Net investment in capital assets	879,786	828,238	207,147	203,122	1,086,933	1,031,360
Restricted for construction	19,573	19,510	3,144	1,582	22,717	21,092
Restricted for debt service	34,404	34,314	6,696	2,557	41,100	36,871
Restricted for JPA	250,596	253,720	-	-	250,596	253,720
Restricted - other	2,827	2,836	-	-	2,827	2,836
Unrestricted	192,471	203,139	81,198	79,532	273,669	282,671
Total net position	<u>1,379,657</u>	<u>1,341,757</u>	<u>298,185</u>	<u>286,793</u>	<u>1,677,842</u>	<u>1,628,550</u>
Total liabilities and net position	<u>\$4,295,442</u>	<u>\$4,245,228</u>	<u>\$817,722</u>	<u>\$797,588</u>	<u>\$5,113,164</u>	<u>\$5,042,816</u>

**UNAUDITED**

EAST BAY MUNICIPAL UTILITY DISTRICT  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE NINE MONTHS ENDED MARCH 31, 2014 AND 2013  
(DOLLARS IN THOUSANDS)

	Water System		Wastewater System		Total	
	March 31, 2014	March 31, 2013	March 31, 2014	March 31, 2013	March 31, 2014	March 31, 2013
Operating revenue:						
Water	\$284,182	\$247,401	-	-	\$284,182	\$247,401
Sewer	-	-	\$54,504	\$50,669	54,504	50,669
Power	1,075	3,024	655	323	1,730	3,347
Wet weather facilities charges	-	-	14,846	13,426	14,846	13,426
Total operating revenue	285,257	250,425	70,005	64,418	355,262	314,843
Operating expense:						
Raw water	27,210	24,240	-	-	27,210	24,240
Water treatment and distribution	70,028	65,083	-	-	70,028	65,083
Recreation areas, net	3,851	4,126	-	-	3,851	4,126
Sewer lines and pumping	-	-	10,055	9,260	10,055	9,260
Sewer treatment plant operations	-	-	22,258	21,061	22,258	21,061
Customer accounting and collecting	12,846	11,730	1,770	1,827	14,616	13,557
Financial and risk management	11,311	11,836	406	385	11,717	12,221
Facilities management	7,228	6,881	-	-	7,228	6,881
General administration	40,937	41,011	5,868	5,712	46,805	46,723
Depreciation on utility plant and vehicle	67,355	65,035	16,697	16,210	84,052	81,245
Total operating expense	240,766	229,942	57,054	54,455	297,820	284,397
Net operating income (loss)	44,491	20,483	12,951	9,963	57,442	30,446
Nonoperating income (expense):						
Investment income	1,086	2,544	216	842	1,302	3,386
Taxes and subventions	18,117	19,297	6,292	6,118	24,409	25,415
Interest and amortization of bond expenses, net of capitalized interest of \$5,791 and \$5,638 for the Water System and \$2,709 and \$2,082 for the Wastewater System in 2014 and 2013, respectively	(72,409)	(74,483)	(12,833)	(14,155)	(85,242)	(88,638)
Other income	10,570	7,927	4,274	2,747	14,844	10,674
Total nonoperating income (expense), net	(42,636)	(44,715)	(2,051)	(4,448)	(44,687)	(49,163)
Income before capital contributions	1,855	(24,232)	10,900	5,515	12,755	(18,717)
Capital contributions	36,045	38,489	492	1,186	36,537	39,675
Change in net position	37,900	14,257	11,392	6,701	49,292	20,958
Total net position - beginning	1,341,757	1,316,044	286,793	275,580	1,628,550	1,591,624
Total net position - ending	\$1,379,657	\$1,330,301	\$298,185	\$282,281	\$1,677,842	\$1,612,582

**UNAUDITED**

EAST BAY MUNICIPAL UTILITY DISTRICT  
STATEMENTS OF CASH FLOWS  
FOR THE NINE MONTHS ENDED MARCH 31, 2014 AND 2013  
(DOLLARS IN THOUSANDS)

	Water System		Wastewater System		Total	
	March 31, 2014	March 31, 2013	March 31, 2014	March 31, 2013	March 31, 2014	March 31, 2013
Cash flows from operating activities						
Cash received from customers	\$292,362	\$252,152	\$70,054	\$63,609	\$362,416	\$315,761
Cash received from other income	10,570	7,927	4,274	2,747	14,844	10,674
Cash payments for judgments and claims	(2,836)	(4,633)	(147)	(98)	(2,983)	(4,731)
Cash payments to suppliers for goods and services	(44,441)	(32,511)	(23,276)	(21,450)	(67,717)	(53,961)
Cash payments to employees for services	(117,596)	(117,711)	(21,264)	(21,851)	(138,860)	(139,562)
Net cash provided by operating activities	<u>138,059</u>	<u>105,224</u>	<u>29,641</u>	<u>22,957</u>	<u>167,700</u>	<u>128,181</u>
Cash flows from noncapital financing activities:						
Tax receipts	<u>18,117</u>	<u>19,297</u>	<u>6,292</u>	<u>6,118</u>	<u>24,409</u>	<u>25,415</u>
Net cash provided by financing activities	<u>18,117</u>	<u>19,297</u>	<u>6,292</u>	<u>6,118</u>	<u>24,409</u>	<u>25,415</u>
Capital and related financing activities:						
Capital contributions	36,045	38,489	492	1,186	36,537	39,675
Proceeds from advances for construction	1,007	1,295	-	-	1,007	1,295
Proceeds from sale of capital assets	655	360	-	-	655	360
Net proceeds and premiums from sale of bonds	-	102,956	15,567	1,240	15,567	104,196
Acquisition and construction of capital assets	(133,163)	(139,504)	(27,611)	(25,794)	(160,774)	(165,298)
Principal retirement on long-term debt and commercial paper	(4,470)	(31,628)	(15,131)	(205)	(19,601)	(31,833)
Amount paid to refunding bond escrow agent	-	(57,455)	(305)	-	(305)	(57,455)
Costs and discounts from issuance on long-term debt	-	(273)	(7)	-	(7)	(273)
Interest paid on long-term debt	(47,056)	(49,404)	(7,747)	(8,758)	(54,803)	(58,162)
Net cash provided by (used in) capital and related financing activities	<u>(146,982)</u>	<u>(135,164)</u>	<u>(34,742)</u>	<u>(32,331)</u>	<u>(181,724)</u>	<u>(167,495)</u>
Cash flows from investing activities:						
Proceeds from securities	378,828	79,937	11,255	20,267	390,083	100,204
Expenditures from purchases of securities	(388,483)	(110,035)	(13,998)	(12,660)	(402,481)	(122,695)
Interest received on investments	<u>905</u>	<u>3,590</u>	<u>215</u>	<u>527</u>	<u>1,120</u>	<u>4,117</u>
Net cash provided by (used in) investing activities	<u>(8,750)</u>	<u>(26,508)</u>	<u>(2,528)</u>	<u>8,134</u>	<u>(11,278)</u>	<u>(18,374)</u>
Net increase (decrease) in cash and cash equivalents	444	(37,151)	(1,337)	4,878	(893)	(32,273)
Cash and cash equivalents:						
Beginning of year	<u>114,985</u>	<u>154,680</u>	<u>85,702</u>	<u>51,275</u>	<u>200,687</u>	<u>205,955</u>
End of period	<u>\$115,429</u>	<u>\$117,529</u>	<u>\$84,365</u>	<u>\$56,153</u>	<u>\$199,794</u>	<u>\$173,682</u>

(Continued)

**UNAUDITED**

EAST BAY MUNICIPAL UTILITY DISTRICT  
STATEMENTS OF CASH FLOWS  
FOR THE NINE MONTHS ENDED MARCH 31, 2014 AND 2013  
(DOLLARS IN THOUSANDS)

	Water System		Wastewater System		Total	
	March 31, 2014	March 31, 2013	March 31, 2014	March 31, 2013	March 31, 2014	March 31, 2013
Reconciliation of net operating income (loss) to net cash provided by operating activities:						
Net operating income (loss)	\$44,491	\$20,483	\$12,951	\$9,963	\$57,442	\$30,446
Adjustments to reconcile net operating income to net cash provided by operating activities:						
Depreciation on utility plant and vehicle	67,355	65,035	16,697	16,210	84,052	81,245
Depreciation within recreation areas	1,159	779	-	-	1,159	779
Amortization	20,040	18,712	1,045	873	21,085	19,585
Other income	10,570	7,927	4,274	2,747	14,844	10,674
Changes in assets/liabilities:					0	0
Materials and supplies	243	1,035	-	-	243	1,035
Prepaid insurance	836	812	-	-	836	812
Customer receivables	7,105	1,727	49	(809)	7,154	918
Other assets	(7,845)	(9,109)	(9,771)	(9,468)	(17,616)	(18,577)
Accounts payable and accrued expenses	(5,895)	(2,177)	4,396	3,441	(1,499)	1,264
Net cash provided by operating activities	<u>\$138,059</u>	<u>\$105,224</u>	<u>\$29,641</u>	<u>\$22,957</u>	<u>\$167,700</u>	<u>\$128,181</u>
Cash as presented on the Statement of Net Position as Follows:						
Cash and investments included in current assets	\$313,395	\$314,240	\$77,103	\$51,271	\$390,498	\$365,511
Cash and investments included in restricted assets	64,382	45,393	9,840	44,626	74,222	90,019
Cash and investments included in unrestricted assets	3,868	6,077	19,859	22,571	23,727	28,648
Total Districts cash and investments	<u>381,645</u>	<u>365,710</u>	<u>106,802</u>	<u>118,468</u>	<u>488,447</u>	<u>484,178</u>
Less non-current investments	<u>(266,216)</u>	<u>(248,181)</u>	<u>(22,437)</u>	<u>(62,315)</u>	<u>(288,653)</u>	<u>(310,496)</u>
District cash and cash equivalents	<u>\$115,429</u>	<u>\$117,529</u>	<u>\$84,365</u>	<u>\$56,153</u>	<u>\$199,794</u>	<u>\$173,682</u>

**UNAUDITED**

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO SUPPLEMENTARY INFORMATION  
FOR THE NINE MONTHS ENDED MARCH 31, 2014  
(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 nine months ended March 31, 2014 has been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and therefore do 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, 2013 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, liabilities, net assets, 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, 2013.

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 year ended June 30, 2013. 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. This Basic Unaudited Financial Statement and MD&A complement each other and should be read in conjunction with each other.

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO SUPPLEMENTARY INFORMATION  
FOR THE NINE MONTHS ENDED MARCH 31, 2014  
(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.
- 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 operating income.

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO SUPPLEMENTARY INFORMATION  
FOR THE NINE MONTHS ENDED MARCH 31, 2014  
(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 are capitalized. Cost includes material, direct labor and fringe benefits, transportation, and such indirect items as engineering, supervision, and interest on borrowed funds during construction, net of interest earned on unspent construction proceeds. Repairs, maintenance, and minor purchases of equipment are charged to expenses as incurred.

The depreciated cost of capital assets, plus removal costs, less salvage, is charged to expense upon retirement.

**Water Supply Management Program**

Costs incurred in this program are debt funded and capitalized in construction in progress. These costs are transferred to utility plant upon completion of the project and depreciated over their useful life. Debt service costs on the debt used to finance the program are recovered in future periods through 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 US Bureau of Reclamation for water deliveries from the Central Valley Project through February 2046 (Long Term Renewal Contract), with the anticipation of subsequent renewals of 40 year terms. Payments under the contract include reimbursement based on the amounts of water delivered to EBMUD of Capital costs for CVP storage and conveyance facilities (EBMUD's current allocation is \$4,510) and the O&M Deficit (EBMUD's current balance is \$6,781).

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO SUPPLEMENTARY INFORMATION  
FOR THE NINE MONTHS ENDED MARCH 31, 2014  
(Dollars in thousands)**

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

***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 Assets***

The District segregates certain cash and investments which have legal or other external restrictions. The Bond Construction Fund is used to report proceeds of bond issuances that are restricted for use in the capital program. The Bond Interest and Redemption Fund is used to segregate resources accumulated for debt service payments. Funds received for construction represent capital contributions restricted to fund specific construction projects or amounts received by the District from applicants and developers to cover the cost of extending water and wastewater service to new customers or to fund large wastewater treatment equipment replacements.

***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.

***K. Material and Supplies***

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

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO SUPPLEMENTARY INFORMATION  
FOR THE NINE MONTHS ENDED MARCH 31, 2014  
(Dollars in thousands)**

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

***L. Compensated Absences***

Compensated absences as of March 31, 2014 and June 30, 2013, respectively, are included on the balance sheet in accounts payable and accrued expenses. In previous years, trends have shown that the District employees utilize the accruals annually, therefore, amounts payable are accrued and reported as a current liability on the financial statements only.

***M. 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.

***N. Interest Rate Swap***

The District entered into interest rate swap agreements to modify interest rates on some outstanding debt. In addition to the net interest expense resulting from these agreements, the termination value of the interest rate swap agreements is reflected on the balance sheet.

***O. 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.

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.

***P. Reclassification***

For the year ended June 30, 2013, certain classifications have been changed to improve financial statement presentation. For comparative purposes, prior year balances have been reclassified to conform with the fiscal year 2013 presentation.

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

**A. Classification**

Reconciliations of cash and investments reported on the financial statements as of March 31, 2014, are as follows:

<i><b>District Enterprise Funds:</b></i>	Water System	Wastewater System	Total
Cash and investments included in current assets	\$313,395	\$77,103	\$390,498
Cash and investments included in restricted assets	64,382	9,840	74,222
Cash and investments included in unrestricted assets	3,868	19,859	23,727
Total District cash and investments	381,645	106,802	488,447
Less non-current investments	(266,216)	(22,437)	(288,653)
District cash and cash equivalents	<u>\$115,429</u>	<u>\$84,365</u>	<u>\$199,794</u>

**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.

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

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 and Bonds	Not lower than District's bond rating
Variable Rate Obligations	Not lower than District's bond rating
Cash Sweep Agreements	Top Rating Category
Guaranteed Investment Contract	Not lower than District's bond rating
Shares of Beneficial Interest	Top Rating Category

***D. Interest Rate Risk***

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

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

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. They report their 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.

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

***E. 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 annually on EBMUD's Comprehensive Annual Financial Report.

***F. 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.

***G. 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.

***H. 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.

***I. Joint Powers Authority***

**DRSD/EBMUD Regional Water Authority** - On June 28, 1995, the Dublin San Ramon Service District (DSRSD) and East Bay Municipal Utility District (District) entered into a Joint Powers Agreement (JPA) and established the DSRSD/EBMUD Recycled Water Authority (DERWA) with the purpose of creating a recycled water program in the San Ramon and Livermore-Amador Valleys. The JPA 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 JPA books and records are being maintained separately from DSRSD and the District. The DSRSD and District made member contributions to fund the JPA start-up and continue to fund capital projects at the request of the JPA

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

on an as needed basis. Although DERWA has a significant relationship with the District, DERWA does not provide services solely to the District, and therefore is presented discretely. The District's share of the facility was booked in FY 2011.

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

**NOTE 3 – CAPITAL ASSETS**

**A. Summary**

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

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

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

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

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

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**EAST BAY MUNICIPAL UTILITY DISTRICT  
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**NOTE 4 – ACCOUNTS PAYABLE & ACCRUED EXPENSES**

Accounts payable and accrued expenses at March 31, 2014 and June 30, 2013, consist of:

	Water System		Wastewater System		Total	
	March 31, 2014	June 30, 2013	March 31, 2014	June 30, 2013	March 31, 2014	June 30, 2013
Accounts payable	\$8,826	\$13,848	\$506	\$3,537	\$9,332	\$17,385
Accrued salaries	19	2,800	-	492	19	3,292
Accrued compensated absences	23,536	23,452	3,949	4,066	27,485	27,518
Other	21,067	20,516	2,257	1,103	23,324	21,619
Total	\$53,448	\$60,616	\$6,712	\$9,198	\$60,160	\$69,814

**NOTE 5 – EXTENDABLE COMMERCIAL PAPER NOTES**

The District's Board of Directors has authorized a short-term commercial paper borrowing program of up to the lesser of either (1) the average of the total annual revenue for the three preceding years or (2) 25% of the District's total outstanding bonds. As of March 31, 2014, the District had \$475 million authorized for this program. The proceeds from the issuance of commercial paper are restricted as to use. Under this program, which must be authorized by the Board of Directors every seven years and is subject to the right of referendum, the Water System or the Wastewater System may issue commercial paper and bank notes at prevailing interest rates for periods of not more than 270 days from the date of issuance. The program was last authorized on March 10, 2009.

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

As of March 31, 2014, \$372.9 million in Water Series and \$15.0 million in Wastewater Series extendable commercial paper notes were outstanding under this program. The Water Series included terms of 50 to 120 days and interest rates ranging from 0.09% to 0.13% as of March 31, 2014, and terms of 51 to 119 days and interest rates ranging from 0.14% to 0.20% as of June 30, 2013. The Wastewater Series included the term of 90 days and an interest rate of 0.09% as of March 31, 2014, and terms of 97 days and an interest rate of 0.17% as of June 30, 2013. There were no unused proceeds as of March 31, 2014. It is the District's practice to use extendable commercial paper as a portion of the District's long-term variable rate debt exposure.

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**EAST BAY MUNICIPAL UTILITY DISTRICT  
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**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, 2013 are presented in the annual audited financial statements.

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

General obligation and revenue bonds are generally callable at future dates. The general obligation bonds are repaid from property taxes levied on property within the District.

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

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

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

***Wastewater Issuance During the Year***

**Wastewater System General Obligation Refunding Bonds, Series G** – The District issued \$14.2 million principal amount of General Obligation Refunding Bonds, Series G on February 20, 2014 to refund \$15.3 million principal amount of the District's Wastewater General Obligation Refunding Bonds, Series F, and paying the cost of issuance of the Bonds. The General Obligation Bonds are payable as to both principal and interest from ad valorem taxes which may be levied upon all property within the Wastewater System. Principal payments commence on April 1, 2015 and are payable annually on April 1 thereafter. Interest payments are payable on April 1 and October 1 of each year, commencing October 1, 2014.

The refunding of Wastewater GO F Bonds created an economic gain of \$1.4 million.

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO SUPPLEMENTARY INFORMATION  
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**NOTE 6 – LONG-TERM DEBT (Continued)**

**C. Variable Rate Debt**

The District has a number of bond issues with variable interest rates. The Water Series 2008A Bonds, Water Series 2008B-3 Bonds, and Wastewater Series 2008C 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 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 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.

The Water Series 2009A Bonds, Water Series 2011A Bonds and Wastewater Series 2011A Bonds are subject to mandatory tender for purchase by the District on the dates indicated in the table below (or on certain earlier dates as may be selected by the District). On those dates the bonds are remarketed, at which point a new mandatory tender date is established. In connection with each remarketing of the bonds the District enters into remarketing agreements and pays the remarketing agent a fee.

Issue	SBPA Expiration or SIFMA Bond mandatory purchase date	Interest Rate	Swap Rate
Water System Revenue			
Subordinated Bonds:			
Series 2008A-1	12/9/2016	Reset Weekly	See below
Series 2008A-2	7/1/2015	Reset Weekly	See below
Series 2008A-3	7/1/2015	Reset Weekly	See below
Series 2008A-4	12/9/2016	Reset Weekly	See below
Series 2008B-3	12/9/2016	Reset Weekly	See below
Series 2009A-1	12/1/2015	Weekly SIFMA Index + 0.20%	See below
Series 2009A-2	12/1/2015	Weekly SIFMA Index + 0.20%	See below
Series 2011A-1	7/1/2014	Weekly SIFMA Index + 0.35%	See below
Series 2011A-2	7/1/2014	Weekly SIFMA Index + 0.35%	See below
Wastewater System Revenue			
Subordinated Bonds:			
Series 2008C	12/9/2016	Reset Weekly	See below
Series 2011A	7/8/2015	Weekly SIFMA Index + 0.32%	See below

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

***D. Interest Rate Swap Agreements***

The District has entered into a number of matched interest rate swap contracts with providers in which the District contracted to pay a fixed rate on the nominal amount of outstanding bonds, in exchange for a floating rate payment, set monthly, two business days prior to the end of each month. The combination of variable rate bonds and a floating-rate swap creates synthetic fixed-rate debt for the District. The synthetic fixed rate on the bonds protects the District against increases in short-term interest rates. The terms, fair value, 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 March 31, 2014, are included below. The District's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to follow scheduled reductions in the associated bonds.

Related Bond Issue	Notional Amount	Effective Date	Counterparty	Counterparty Credit Ratings (Moody's/ S&P)	Issuer Pays	Issuer Receives	Maturity/Termination Date
2011A Water System Refunding Bonds	\$98,780	12/11/2011	The Bank of New York Mellon	Aa2/AA-	3.835%	65% of 30-day LIBOR	6/1/2025
2011A Water System Refunding Bonds	49,390	3/6/2002	JP Morgan Chase & Co.	Aa3/A+	3.835%	65% of 30-day LIBOR	6/1/2025
2008A Water System Refunding Bonds	70,965	6/2/2005	JP Morgan Chase & Co.	Aa3/A+	3.115%	62.3% of 30-day LIBOR	6/1/2038
2008A Water System Refunding Bonds	70,965	6/1/2011	Bank of America National Assoc.	A2/A	3.115%	62.3% of 30-day LIBOR	6/1/2038
2008A Water System Refunding Bonds	30,850	6/1/2012	Merrill Lynch Capital Services	Baa2/A-	3.115%	62.3% of 30-day LIBOR	6/1/2038
2008A Water System Refunding Bonds	27,770	9/25/2008	The Bank of New York Mellon	Aa2/AA-	3.115%	62.3% of 30-day LIBOR	6/1/2038
2008B/2009A Water System Refunding Bonds	61,050	6/1/2012	Deutsche Bank AG	A2/A	3.407%	91.0% of SIFMA	6/1/2026
2008B/2009A Water System Refunding Bonds	15,675	5/23/2007	Citibank, N.A. New York	A2/A	3.407%	91.0% of SIFMA	6/1/2026
2008B/2009A Water System Refunding Bonds	20,350	5/23/2007	Merrill Lynch Capital Services	Baa2/A-	3.407%	91.0% of SIFMA	6/1/2026
2011A Wastewater System Refunding Bonds	61,725	12/16/2008	Dexia Credit Local	Baa2/BBB	3.098%	62.3% of 3-month LIBOR	6/1/2038
2008C Wastewater System Refunding Bonds	25,845	3/5/2003	Citigroup, Inc.	Baa2/A-	3.468%	65% of 30-day LIBOR	6/1/2027
2008C Wastewater System Refunding Bonds	25,845	3/5/2003	JP Morgan Chase & Co.	Aa3/A+	3.468%	65% of 30-day LIBOR	6/1/2027

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

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

*Fair value.* The fair value of the swaps takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction and any upfront payments that may have been received. The fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the LIBOR swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps. The fair values of each swap at March 31, 2014, are included below:

Related Bond Issuance	Fair Value
2011A Water System Refunding Bonds	(\$26,682)
2008A Water System Refunding Bonds	(32,390)
2008B-3/2009 Water System Refunding Bonds	(12,095)
2011A Wastewater System Refunding Bonds	(7,985)
2008C Wastewater System Refunding Bonds	(7,055)
	(\$86,207)

*Credit risk.* As of March 31, 2014, the District was not exposed to credit risk on its outstanding swaps because the swaps had a negative fair value of \$86.2 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. On March 31, 2014, 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 and/or SIFMA Municipal Swap Index 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. As of March 31, 2014, the District has basis difference on its swaps ranging from a positive 5 basis points (the District receives more from its swap floating rate payment than it pays out on its variable rate debt) to negative basis difference of 30 basis points.

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

*Termination risk.* The District or the counterparty may terminate if the other party fails to perform under the terms of the 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.

**E. Senior Lien Bonds**

The District has a senior lien bond resolution that was adopted by the Board in 1982 for the purpose of issuing revenue bonds to finance the District's capital program. In 1990, the District adopted a subordinated lien bond indenture to provide more flexibility in the way the debt may be structured, for example by permitting variable rate debt issuance. The senior lien bonds have the first claim on the District's net revenues to pay debt service, followed by the subordinated lien bonds. Since 1990 no senior lien bonds have been issued and the last of the senior lien bonds were retired in 1997. To improve the marketability of the District's bonds to investors, the District closed the senior lien bond resolution for the Water and Wastewater systems in September 2010. The District's future bond issues will be known as Water or Wastewater "Revenue Bonds."

**F. SWAP Novation**

The District exchanged the counterparty of the 2002 Water System Refunding Bonds swap counterparty from Citigroup Financial Products Inc. to The Bank of New York Mellon by executing a swap novation transaction for \$113,550 on December 14, 2011. In accordance with GASB 64 pronouncement effective periods beginning after June 15, 2011, the fair value of the swap at the date of novation is recorded as a \$24,551 deferred liability and loss. The fair value of the new swap with The Bank of New York Mellon is reported at the fair value similar to existing swaps. The elimination of the \$24,551 liability and booking of the associated gain will be made at the maturity/ termination date of the bonds and underlying swap on June 1, 2025.

**G. GASB 65**

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

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**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 – NET OPEB OBLIGATION (NOO)**

OPEB (Other Pension Employee Benefits) liability is 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	10,000	25
Pardee and Camanche Dams	10,000	50
Main Wastewater Treatment Plant	10,000	50

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

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(Dollars in thousands)**

**NOTE 10 - CONTINGENT LIABILITIES**

The District is a defendant in a number of lawsuits which have arisen in the normal course of business. 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 – 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.