

**EAST BAY MUNICIPAL UTILITY DISTRICT**  
**BASIC UNAUDITED FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED MARCH 31, 2015**

**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, 2015**

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**EAST BAY MUNICIPAL UTILITY DISTRICT  
BASIC UNAUDITED FINANCIAL STATEMENTS  
For the Nine Months Ended March 31, 2015**

**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 March 31, 2015. This information should be read in conjunction with the unaudited financial statements for the nine months ended March 31, 2015. 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 1.4 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 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 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, 2014, 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 \$17.2 million or 1% during the nine months ended March 31, 2015. Current and other assets decreased by \$37.7 million or 6%. Capital assets increased by \$75.1 million or 2%. Changes in deferred outflow and inflow of resources primarily reflect changes in the market value of interest rate SWAP agreements and the downsize of SWAP agreements from refunding variable rate revenue bonds to fixed rate (see Note 6D). By far the largest portion of the Water System's net position, 67% or \$929.7 million, represents its investment in capital assets necessary to provide services. Components of the net position are shown in Table 1.

**Table 1**

Water System

Net Position

March 31, 2015 and June 30, 2014

(In thousands)

	March 31, 2015	June 30, 2014	Variance	%
Current and other assets	\$646,314	\$683,998	(\$37,684)	(6)%
Capital assets	3,642,755	3,567,648	75,107	2%
Deferred outflow of resources	30,686	30,756	(70)	(0)%
Total assets and deferred outflow	4,319,755	4,282,402	37,353	1%
Current and other liabilities	206,570	193,193	13,377	7%
Long-term liabilities	2,677,378	2,670,571	6,807	0%
Deferred inflow of resources	55,237	55,307	(70)	(0)%
Total liabilities and deferred inflow	2,939,185	2,919,071	20,114	1%
Net position:				
Net investment in capital assets	929,663	861,386	68,277	8%
Restricted	273,795	292,879	(19,084)	(7)%
Unrestricted	177,112	209,066	(31,954)	(15)%
Total net position	\$1,380,570	\$1,363,331	\$17,239	1%

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## Results of Operation

For the nine months ended March 31, 2015, the Water System's change in net position decreased by \$20.7 million as compared to the same period in the previous fiscal year. This decrease was due to a decline in operating revenue and increase in non-operating net expense, offset by an increase in capital contribution. Total operating revenues decreased by \$7.1 million or 3% primarily due to a 12.7% decrease in billed water consumption offset by a 9.5% water rate increase in the current year. Total operating expense decreased slightly compared to the same period in the previous fiscal year. Due to the current drought raw water expenses increased by \$2.2 million and Water treatment and distribution expenses increased by \$3.4 million as a result of purchase of supplement water supply and additional expenses incurred to treat local water reservoir. General administration expenses decreased by \$12.2 million primarily as a result of a \$6.1 million decrease in amortization expenses and additional \$8.1 million capitalized administration expenses. Net non-operating expense increased by \$33.1 million primarily due to a non-recurring \$32.2 million in interest expenses paid for advance refunding. Capital contribution increased \$15.0 million as a result of a \$5.0 million increase in system capacity charges, an increase of \$7.4 million in earned contribution on construction, and an increase of \$1.4 million in grant money received in the current fiscal year compared to the prior year, as discussed on page 6.

**Table 2**

### Water System

#### Changes in Net Position

For the Nine Months Ended March 31, 2015 and 2014

(In thousands)

	March 31, 2015	March 31, 2014	Variance	%
Operating revenue:				
Water	\$276,541	\$284,182	(\$7,641)	(3)%
Power	1,574	1,075	499	46%
Total operating revenues	278,115	285,257	(7,142)	(3)%
Operating expense:				
Raw water	29,412	27,210	2,202	8%
Water treatment and distribution	73,394	70,028	3,366	5%
Recreation areas, net	4,052	3,851	201	5%
Customer accounting and collecting	12,226	12,846	(620)	(5)%
Financial and risk management	12,360	11,311	1,049	9%
Facilities management	6,036	7,228	(1,192)	(16)%
General administration	28,752	40,937	(12,185)	(30)%
Depreciation on utility plant and vehicle	69,997	67,355	2,642	4%
Total operating expense	236,229	240,766	(4,537)	(2)%
Net operating income	41,886	44,491	(2,605)	(6)%
Nonoperating income (expense):				
Investment income	3,173	1,086	2,087	192%
Taxes and subventions	18,922	18,117	805	4%
Interest, amortization and bond expenses, net	(106,413)	(72,409)	(34,004)	47%
Increase (decrease) of equity in JPA partnership fund	(3,062)	-	(3,062)	100%
Other income	11,675	10,570	1,105	10%
Total nonoperating income (expense), net	(75,705)	(42,636)	(33,069)	78%
Income before capital contributions	(33,819)	1,855	(35,674)	(1,923)%
Capital contributions	51,058	36,045	15,013	42%
Change in net position	17,239	37,900	(20,661)	(55)%
Total net position – beginning	1,363,331	1,341,757	21,574	2%
Total net position – ending	\$1,380,570	\$1,379,657	\$913	0%

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## Liquidity

As of March 31, 2015, total combined current and non-current cash and investments decreased by \$35.3 million or 9% compared to the same date in the previous fiscal year. For the nine months ended March 31, 2015, net increase (decrease) in cash and cash equivalents decreased by \$42.7 million compared to the same period in the prior year. This was primarily due to a decrease of \$17.0 million in cash provided from operating activities and a decrease of \$42.0 million from capital and related financing activities, offset by an increase of \$15.5 million from the reallocation of investments between short-term and long-term. Net increase (decrease) in non-current investments decreased by \$13.2 million also primarily due to reallocation of investments between short-term and long-term.

**Table 3**

Water System

Cash Flows

For the Nine Months Ended March 31, 2015 and 2014

(In thousands)

	March 31, 2015	March 31, 2014	Variance	%
Cash and cash equivalents:				
Beginning of year	175,941	129,361	46,580	36%
Net cash provided by operating activities	\$121,077	\$138,059	(\$16,982)	(12)%
Net cash provided by financing activities	18,922	18,117	805	4%
Net cash provided by (used in) capital and related financing activities	(188,997)	(146,982)	(42,015)	29%
Net cash provided by (used in) investing activities	737	(14,750)	15,487	(105)%
Net increase (decrease) in cash and cash equivalents	(48,261)	(5,556)	(42,705)	769%
End of period	<u>\$127,680</u>	<u>\$123,805</u>	<u>\$3,875</u>	<u>3%</u>
Non-current investments:				
Beginning of year	216,170	242,185	(26,015)	(11)%
Net increase (decrease) in non-current investments	2,463	15,656	(13,193)	(84)%
End of period	<u>218,633</u>	<u>257,841</u>	<u>(39,208)</u>	<u>(15)%</u>
Total cash and investments	<u>\$346,313</u>	<u>\$381,646</u>	<u>(\$35,333)</u>	<u>(9)%</u>

**UNAUDITED**

## Cash and Investments by Fund

Total cash and investments available for operating and capital activities are reported in current and non-current assets as unrestricted and restricted funds. Table 4 shows the composition of Water System's cash and investments as of March 31, 2015 and June 30, 2014. Total cash and investments decreased \$45.8 million or 12% during the nine months ended March 31, 2015. Significant activities included reserve of an additional \$2.5 million in working capital, use of \$30.6 million restricted funds received for construction to fund capital projects and release of \$16.7 million debt service reserve fund due to revenue bonds' refunding.

**Table 4**

### Water System

#### Cash and Investments by Fund

March 31, 2015 and June 30, 2014

(In thousands)

	March 31, 2015	June 30, 2014	Variance	%
Unrestricted cash and investments				
Operating reserves:				
Rate stabilization fund	\$85,000	\$85,000	-	0%
Working capital	61,700	59,200	2,500	4%
Self-insurance reserves	5,000	5,000	-	0%
Workers' compensation reserves	3,200	3,200	-	0%
Total operating reserves	154,900	152,400	2,500	2%
Capital reserves:				
Reserved for capital projects	141,424	174,307	(32,883)	(19)%
Vehicle replacement Fund	6,984	4,625	2,359	51%
Equipment replacement fund	203	310	(107)	(35)%
Total capital reserves	148,611	179,242	(30,631)	100%
Total unrestricted cash and investments	303,511	331,642	(28,131)	(8)%
Restricted Cash and Investments				
Bond interest and redemption fund	1,506	848	658	78%
Debt service reserve fund	12,647	29,368	(16,721)	(57)%
Funds received for construction	25,874	27,447	(1,573)	(6)%
FERC partnership fund	2,223	2,247	(24)	(1)%
Monetary reserve	534	534	0	0%
ABAG program restricted fund	18	25	(7)	(28)%
Total restricted cash and investments	42,802	60,469	(17,667)	(29)%
Total Cash and Investments	\$346,313	\$392,111	(\$45,798)	(12)%

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## 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.

For the nine months ended March 31, 2015, capital contributions increased \$15.0 million or 42% as compared to the same period in the previous fiscal year. Earned contributions on construction increased by \$7.4 million and system capacity charges increased by \$5.0 million due to rising development activities as the housing industry continues its rebound from the most recent recession. Grants and other reimbursements increased by \$1.4 million primarily due to additional grant money received from federal and state governments in the current fiscal year compared to the prior year. Table 5 shows the Water System's capital contributions received for the nine months ended March 31, 2015 and 2014:

**Table 5**

**Water System**

**Capital Contributions**

For the Nine Months Ended March 31, 2015 and 2014

	(In thousands)			
	March 31, 2015	March 31, 2014	Variance	%
System capacity charges	\$21,122	\$16,141	\$4,981	31%
Earned contributions on construction	9,566	2,187	7,379	337%
Seismic improvement surcharge	18,310	17,046	1,264	7%
Grants and other reimbursements	2,060	671	1,389	207%
Total capital contributions	<u>\$51,058</u>	<u>\$36,045</u>	<u>15,013</u>	<u>42%</u>

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## Capital Assets

The Water System had \$3.6 billion (net of accumulated depreciation) invested in a broad range of utility capital assets as of March 31, 2015. 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 6**  
Water System  
Capital Assets, Net of Depreciation  
March 31, 2015 and June 30, 2014  
(In thousands)

	March 31, 2015	June 30, 2014	Variance	%
Structures, buildings, and equipment (net)	\$3,267,556	\$3,269,155	(\$1,599)	(0.0)%
Land and rights-of-way	55,274	55,274	-	0.0%
Construction work in progress	319,925	243,219	76,706	31.5%
Totals	<u>\$3,642,755</u>	<u>\$3,567,648</u>	<u>\$75,107</u>	<u>2.1%</u>

## Debt Administration

As of March 31, 2015, the Water System had total long-term debt outstanding of \$2.7 billion (net of unamortized costs).

**Table 7**  
Water System  
Long -Term Debt  
(Net of Unamortized Costs)  
March 31, 2015 and June 30, 2014  
(In thousands)

	March 31, 2015	June 30, 2014	Amount	%
Revenue bonds	\$2,338,240	\$2,330,450	\$7,790	0.3%
Commercial paper	359,800	359,800	-	0.0%
Loans	15,051	16,011	(960)	(6.0)%
Totals	<u>\$2,713,091</u>	<u>\$2,706,261</u>	<u>\$6,830</u>	<u>0.3%</u>

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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, 2015, the Water System had \$527.3 million in authorized but unissued revenue bonds.

The Water System's debt ratings as of March 31, 2015 are outlined in Table 8.

**Table 8**  
Water System  
Credit Ratings  
March 31, 2015

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 SYSSYTEM

### Net Position

The Wastewater System's net position increased by \$6.9 million or 2% during the nine months ended March 31, 2015. Current and other assets increased by \$16.6 million or 16%. Capital assets increased by \$2.0 million. Changes in deferred outflow and inflow of resources primarily reflect changes in the market value of interest rate SWAP agreements and the elimination of SWAP agreements from refunding variable rate revenue bonds to fixed rate (see Note 6D). By far the largest portion of the Wastewater System's net position, 72% or \$220.2 million, represents its investment in capital assets necessary to provide services. Components of the net position are shown in Table 9.

**Table 9**

#### Wastewater System

#### Net Position

March 31, 2015 and June 30, 2014  
(In thousands)

	March 31, 2015	June 30, 2014	Variance	%
Current and other assets	\$120,623	\$104,032	\$16,591	16%
Capital assets	678,953	676,980	1,973	0%
Deferred outflow of resources	-	14,997	(14,997)	(100)%
Total assets and deferred outflow	<u>799,576</u>	<u>796,009</u>	<u>3,567</u>	0%
Current and other liabilities	45,671	38,158	7,513	20%
Long-term liabilities	446,644	442,503	4,141	1%
Deferred inflow of resources	-	14,997	(14,997)	(100)%
Total liabilities and deferred inflow	<u>492,315</u>	<u>495,658</u>	<u>(3,343)</u>	(1)%
Net position:				
Net investment in capital assets	220,150	222,008	(1,858)	(1)%
Restricted	4,432	4,861	(429)	(9)%
Unrestricted	<u>82,679</u>	<u>73,482</u>	<u>9,197</u>	13%
Total net position	<u>\$307,261</u>	<u>\$300,351</u>	<u>\$6,910</u>	2%

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## Results of Operation

For the nine months ended March 31, 2015, the Wastewater System's change in net position decreased by \$4.5 million compared to the same period in the prior year. Total operating revenues increased by \$4.3 million or 6%, primarily reflecting a rate increase of 8.5% in wastewater rates for the current fiscal year. Operating expenses increased \$2.2 million or 4% compared to the same period in the prior year due to increases in sewer treatment plant operation expenses and depreciation expenses. Total net non-operating expense increased by \$8.2 million primarily due to additional \$5.9 million interest expenses paid for advance refunding and decreased other income. Capital contributions increased by \$1.7 million as a result of increase in system capacity charges compared to the same period in the prior year, as discussed on page 13.

**Table 10**

### Wastewater System

#### Changes in Net Position

For the Nine Months Ended March 31, 2015 and 2014

	(In thousands)			
	March 31,	March 31,		
	2015	2014	Variance	%
Operating revenue:				
Sewer	\$57,579	\$54,504	\$3,075	6%
Power	583	655	(72)	(11)%
Wet weather facilities charges	16,125	14,846	1,279	9%
Total operating revenue	74,287	70,005	4,282	6%
Operating expense:				
Sewer lines and pumps	10,098	10,055	43	0%
Sewer treatment plant operations	22,948	22,258	690	3%
Customer accounting and collecting	1,910	1,770	140	8%
Financial and risk management	510	406	104	26%
General administration	5,715	5,868	(153)	(3)%
Depreciation on utility plant and vehicle	18,119	16,697	1,422	9%
Total operating expense	59,300	57,054	2,246	4%
Net operating income	14,987	12,951	2,036	16%
Nonoperating income (expense):				
Investment income	234	216	18	8%
Taxes and subventions	6,496	6,292	204	3%
Interest, amortization and bond expenses, net	(20,464)	(12,833)	(7,631)	59%
Other income	3,460	4,274	(814)	(19)%
Total nonoperating income (expense), net	(10,274)	(2,051)	(8,223)	401%
Income before contributions	4,713	10,900	(6,187)	(57)%
Capital contributions	2,197	492	1,705	347%
Change in net position	6,910	11,392	(4,482)	(39)%
Total net position – beginning	300,351	286,793	13,558	5%
Total net position – ending	\$307,261	\$298,185	\$9,076	3%

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## Liquidity

As of March 31, 2015, the total combined current and non-current cash and investments decreased by \$6.9 million or 6% compared to the same date in the previous fiscal year. For the nine months ended March 31, 2015, net increase (decrease) in cash and cash equivalents decreased by \$4.5 million or 338% compared to the same period in the prior year. This was primarily due to a decrease of \$6.9 million from the reallocation of investments between short-term and long-term. Net increase (decrease) in non-current investments increased by \$6.9 million, primarily due to the aforementioned reallocation of investments between short-term and long-term.

**Table 11**

**Wastewater System**

**Cash Flows**

For the Nine Months Ended March 31, 2015 and 2014

(In thousands)

	March 31, 2015	March 31, 2014	Variance	%
Cash and cash equivalents:				
Beginning of year	71,576	88,240	(16,664)	(19)%
Net cash provided by operating activities	\$28,416	\$29,641	(\$1,225)	(4)%
Net cash provided by financing activities	6,496	6,292	204	3%
Net cash provided by (used in) capital and related financing activities	(31,387)	(34,742)	3,355	(10)%
Net cash provided by (used in) investing activities	(9,385)	(2,528)	(6,857)	271%
Net increase (decrease) in cash and cash equivalents	(5,860)	(1,337)	(4,523)	338%
End of period	\$65,716	\$86,903	(\$21,187)	(24)%
Non-current investments:				
Beginning of year	24,548	17,156	7,392	43%
Net increase (decrease) in non-current investments	9,619	2,743	6,876	251%
End of period	34,167	19,899	14,268	72%
Total cash and investments	\$99,883	\$106,802	(\$6,919)	(6)%

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## Cash and Investments by Fund

Total cash and investments available for operating and capital activities are reported in current and non-current assets as unrestricted and restricted funds. Table 12 shows the composition of Wastewater System's cash and investments as of March 31, 2015 and June 30, 2014. Total cash and investment increased \$3.8 million or 4% during the nine months ended March 31, 2015. Significant activities were as follows: Wastewater System reserved an additional \$4.0 million in capital reserves to fund capital projects and equipment, released \$2.5 million in debt service reserve funds due to refunding of the related revenue bonds, and released \$2.2 million in funds received for construction for the Private Sewer Lateral Incentive program.

**Table 12**

### Wastewater System

#### Cash and Investments by Fund

March 31, 2015 and June 30, 2014

(In thousands)

	March 31, 2015	June 30, 2014	Variance	%
Unrestricted cash and investments				
Operating reserves:				
Rate stabilization fund	\$17,590	\$17,590	-	0%
Working capital	15,800	15,200	600	4%
Self-insurance reserves	1,700	1,700	-	0%
Workers' compensation reserves	600	600	-	0%
Total operating reserves	35,690	35,090	600	2%
Capital reserves:				
Reserved for capital projects	40,831	36,836	3,995	11%
Reserve funded CIP	14,466	14,430	36	0%
Equipment replacement fund	4,464	4,907	(443)	(9)%
Total capital reserves	59,761	56,173	3,588	6%
Total unrestricted cash and investments	95,451	91,263	4,188	5%
Restricted Cash and Investments				
Bond interest and redemption fund	4,432	109	4,323	3,966%
Debt service reserve fund	-	2,538	(2,538)	(100)%
Funds received for construction	-	2,214	(2,214)	(100)%
Total restricted cash and investments	4,432	4,861	(429)	(9)%
Total Cash and Investments	\$99,883	\$96,124	\$3,759	4%

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## Capital Contributions

Capital contributions primarily consist of System Capacity Charges (SCC). 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 increase of \$1.7 million in total capital contribution was primarily due to an increase in payments received for SCC compared to the same period in 2014. The SCC is treated as unrestricted funds and pays for the share of Wastewater facilities attributed to new customers. The SCC increased by \$1.5 million due to rising commercial and multi-residential development activities as the housing industry continues its rebound from the most recent recession. Table 13 shows the Wastewater System's capital contributions received for the nine months ended March 31, 2015 and 2014:

**Table 13**

### Wastewater System

### Capital Contributions

For the Nine Months Ended March 31, 2015 and 2014

(In thousands)

	March 31, 2015	March 31, 2014	Variance	%
System capacity charges	\$2,016	\$492	\$1,524	310%
Grants and other reimbursements	181	-	181	N/A
Total capital contributions	<u>\$2,197</u>	<u>\$492</u>	<u>\$1,705</u>	<u>347%</u>

## Capital Assets

The Wastewater System had \$679.0 million (net of accumulated depreciation) invested in a broad range of utility capital assets as of March 31, 2015. The investment in capital assets includes land, buildings, improvements, wastewater and wet weather treatment facilities, machinery and equipment.

**Table 14**

### Wastewater System

### Capital Assets, Net of Depreciation

March 31, 2015 and June 30, 2014

(In thousands)

	March 31, 2015	June 30, 2014	Variance	%
Structures, buildings, and equipment (net)	\$596,106	\$597,687	(\$1,581)	(0.3)%
Land and rights-of-way	20,364	20,231	133	0.7%
Construction work in progress	62,483	59,062	3,421	5.8%
Totals	<u>\$678,953</u>	<u>\$676,980</u>	<u>\$1,973</u>	<u>0.3%</u>

**UNAUDITED**

## Debt Administration

As of March 31, 2015, the Wastewater System had total long-term debt outstanding of \$459 million (net of unamortized costs).

**Table 15**  
Wastewater System  
Long -Term Debt  
(Net of Unamortized Costs)  
March 31, 2015 and June 30, 2014

	(In thousands)		Amount	%
	March 31, 2015	June 30, 2014		
General obligation bonds	\$14,839	\$15,225	(\$386)	(2.5)%
Revenue bonds	428,965	424,748	4,217	1.0%
Commercial paper	15,000	15,000	-	0.0%
Totals	<u>\$458,804</u>	<u>\$454,973</u>	<u>\$3,831</u>	<u>0.8%</u>

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, 2015, the Wastewater System had \$204.4 million in authorized but unissued revenue bonds.

The Wastewater System's debt ratings as of March 31, 2015 are outlined in Table 16.



**Table 16**  
Wastewater System  
Credit Ratings  
March 31, 2015

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, M/S 402, Oakland, CA 94623-1055.

**UNAUDITED**

EAST BAY MUNICIPAL UTILITY DISTRICT  
BALANCE SHEETS  
MARCH 31, 2015 AND JUNE 30, 2014  
(DOLLARS IN THOUSANDS)

	Water System		Wastewater System		Totals	
	March 31, 2015	June 30, 2014	March 31, 2015	June 30, 2014	March 31, 2015	June 30, 2014
Current assets:						
Cash and cash equivalents (Note 2)	\$103,577	\$134,171	\$61,284	\$66,715	\$164,861	\$200,886
Investments (Note 2)	199,934	197,471	34,167	24,548	234,101	222,019
Receivables:						
Customer	42,116	41,909	6,831	5,512	48,947	47,421
Interest and other	12,760	2,268	13,633	2,081	26,393	4,349
Materials and supplies	7,425	6,177	-	-	7,425	6,177
Prepaid Insurance	283	1,133	-	-	283	1,133
Total current assets	<u>366,095</u>	<u>383,129</u>	<u>115,915</u>	<u>98,856</u>	<u>482,010</u>	<u>481,985</u>
Noncurrent assets:						
Restricted cash and investments (Note 2):						
Cash and cash equivalents	24,103	41,770	4,432	4,861	28,535	46,631
Investments	18,699	18,699	-	-	18,699	18,699
Total restricted cash and investments	<u>42,802</u>	<u>60,469</u>	<u>4,432</u>	<u>4,861</u>	<u>47,234</u>	<u>65,330</u>
Other assets:						
Equity in JPA partnership fund (Note 2I)	237,198	240,260	-	-	237,198	240,260
Other	219	140	276	315	495	455
Total other assets	<u>237,417</u>	<u>240,400</u>	<u>276</u>	<u>315</u>	<u>237,693</u>	<u>240,715</u>
Capital assets (Note 3):						
Structures, buildings, and equipment	4,848,398	4,779,391	986,140	969,603	5,834,538	5,748,994
Less accumulated depreciation	(1,580,842)	(1,510,236)	(390,034)	(371,916)	(1,970,876)	(1,882,152)
Subtotal	<u>3,267,556</u>	<u>3,269,155</u>	<u>596,106</u>	<u>597,687</u>	<u>3,863,662</u>	<u>3,866,842</u>
Land and rights-of-way	55,274	55,274	20,364	20,231	75,638	75,505
Construction in progress	319,925	243,219	62,483	59,062	382,408	302,281
Total capital assets, net	<u>3,642,755</u>	<u>3,567,648</u>	<u>678,953</u>	<u>676,980</u>	<u>4,321,708</u>	<u>4,244,628</u>
Total noncurrent assets	<u>3,922,974</u>	<u>3,868,517</u>	<u>683,661</u>	<u>682,156</u>	<u>4,606,635</u>	<u>4,550,673</u>
Total assets	<u>4,289,069</u>	<u>4,251,646</u>	<u>799,576</u>	<u>781,012</u>	<u>5,088,645</u>	<u>5,032,658</u>
Deferred outflows of resources:						
Accumulated decrease in fair value of hedging derivatives (Note 6)	30,686	30,756	0	14,997	30,686	45,753
Total deferred outflows	<u>30,686</u>	<u>30,756</u>	<u>0</u>	<u>14,997</u>	<u>30,686</u>	<u>45,753</u>
Total assets and deferred outflows	<u>\$4,319,755</u>	<u>\$4,282,402</u>	<u>\$799,576</u>	<u>\$796,009</u>	<u>\$5,119,331</u>	<u>\$5,078,411</u>

(Continued)

**UNAUDITED**

EAST BAY MUNICIPAL UTILITY DISTRICT  
BALANCE SHEETS  
MARCH 31, 2015 AND JUNE 30, 2014  
(DOLLARS IN THOUSANDS)

	Water System		Wastewater System		Totals	
	March 31, 2015	June 30, 2014	March 31, 2015	June 30, 2014	March 31, 2015	June 30, 2014
Current liabilities:						
Current maturities of long-term debt and Commercial Paper (Note 5 & 6)	\$35,713	\$35,690	\$12,160	\$12,470	\$47,873	\$48,160
Accounts payable and accrued expenses (Note 4)	58,050	70,837	5,612	9,149	63,662	79,986
Current reserve for claims (Note 9)	7,903	7,903	780	780	8,683	8,683
Accrued interest	29,877	8,552	6,070	1,811	35,947	10,363
Total current liabilities	131,543	122,982	24,622	24,210	156,165	147,192
Noncurrent liabilities:						
Advances for construction	6,204	7,850	-	-	6,204	7,850
OPEB liabilities (Note 8)	18,363	18,363	3,322	3,322	21,685	21,685
Reserve for claims (Note 9)	30,125	30,125	4,589	4,589	34,714	34,714
Other liabilities	20,335	13,873	13,138	6,037	33,473	19,910
Long-term liabilities, net of current maturities (Note 5 & 6)	2,677,378	2,670,571	446,644	442,503	3,124,022	3,113,074
Total noncurrent liabilities	2,752,405	2,740,782	467,693	456,451	3,220,098	3,197,233
Total liabilities	2,883,948	2,863,764	492,315	480,661	3,376,263	3,344,425
Deferred inflows of resources						
Derivative instrument (Note 6)	30,686	30,756	-	14,997	30,686	45,753
Swap Novation (Note 6D)	24,551	24,551	-	-	24,551	24,551
Total deferred inflows	55,237	55,307	-	14,997	55,237	70,304
Total liabilities and deferred inflows	2,939,185	2,919,071	492,315	495,658	3,431,500	3,414,729
Net position (Note 7):						
Net investment in capital assets	929,663	861,386	220,150	222,008	1,149,813	1,083,394
Restricted for construction (Note 1G)	19,669	19,597	-	2,214	19,669	21,811
Restricted for debt service (Note 1G)	14,152	30,216	4,432	2,647	18,584	32,863
Restricted for JPA	237,198	240,260	-	-	237,198	240,260
Restricted - other (Note 1G)	2,776	2,806	-	-	2,776	2,806
Unrestricted	177,112	209,066	82,679	73,482	259,791	282,548
Total net position	1,380,570	1,363,331	307,261	300,351	1,687,831	1,663,682
Total liabilities and net position	\$4,319,755	\$4,282,402	\$799,576	\$796,009	\$5,119,331	\$5,078,411

See accompanying notes to financial statements

**UNAUDITED**

EAST BAY MUNICIPAL UTILITY DISTRICT  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE NINE MONTHS ENDED MARCH 31, 2015 AND 2014  
(DOLLARS IN THOUSANDS)

	Water System		Wastewater System		Total	
	March 31, 2015	March 31, 2014	March 31, 2015	March 31, 2014	March 31, 2015	March 31, 2014
Operating revenue:						
Water	\$276,541	\$284,182	-	-	\$276,541	\$284,182
Sewer	-	-	\$57,579	\$54,504	57,579	54,504
Power	1,574	1,075	583	655	2,157	1,730
Wet weather facilities charges	-	-	16,125	14,846	16,125	14,846
Total operating revenue	278,115	285,257	74,287	70,005	352,402	355,262
Operating expense:						
Raw water	29,412	27,210	-	-	29,412	27,210
Water treatment and distribution	73,394	70,028	-	-	73,394	70,028
Recreation areas, net	4,052	3,851	-	-	4,052	3,851
Sewer lines and pumping	-	-	10,098	10,055	10,098	10,055
Sewer treatment plant operations	-	-	22,948	22,258	22,948	22,258
Customer accounting and collecting	12,226	12,846	1,910	1,770	14,136	14,616
Financial and risk management	12,360	11,311	510	406	12,870	11,717
Facilities management	6,036	7,228	-	-	6,036	7,228
General administration	28,752	40,937	5,715	5,868	34,467	46,805
Depreciation on utility plant and vehicle	69,997	67,355	18,119	16,697	88,116	84,052
Total operating expense	236,229	240,766	59,300	57,054	295,529	297,820
Net operating income	41,886	44,491	14,987	12,951	56,873	57,442
Nonoperating income (expense):						
Investment income	3,173	1,086	234	216	3,407	1,302
Taxes and subventions	18,922	18,117	6,496	6,292	25,418	24,409
Interest and amortization of bond expenses, net of capitalized interest of \$6,311 and \$5,791 for the Water System and \$1,288 and \$2,709 for the Wastewater System in 2015 and 2014, respectively	(106,413)	(72,409)	(20,464)	(12,833)	(126,877)	(85,242)
Increase (decrease) of equity in JPA partnership fund	(3,062)	-	-	-	(3,062)	-
Other income	11,675	10,570	3,460	4,274	15,135	14,844
Total nonoperating income (expense), net	(75,705)	(42,636)	(10,274)	(2,051)	(85,979)	(44,687)
Income (loss) before capital contributions	(33,819)	1,855	4,713	10,900	(29,106)	12,755
Capital contributions	51,058	36,045	2,197	492	53,255	36,537
Change in net position	17,239	37,900	6,910	11,392	24,149	49,292
Total net position - beginning	1,363,331	1,341,757	300,351	286,793	1,663,682	1,628,550
Total net position - ending	\$1,380,570	\$1,379,657	\$307,261	\$298,185	\$1,687,831	\$1,677,842

See accompanying notes to financial statements

**UNAUDITED**

EAST BAY MUNICIPAL UTILITY DISTRICT  
STATEMENTS OF CASH FLOWS  
FOR THE NINE MONTHS ENDED MARCH 31, 2015 AND 2014  
(DOLLARS IN THOUSANDS)

	Water System		Wastewater System		Total	
	March 31, 2015	March 31, 2014	March 31, 2015	March 31, 2014	March 31, 2015	March 31, 2014
Cash flows from operating activities						
Cash received from customers	\$277,908	\$292,362	\$72,968	\$70,054	\$350,876	\$362,416
Cash received from other income	11,675	10,570	3,460	4,274	15,135	14,844
Cash payments for judgments and claims	(4,474)	(2,836)	(190)	(147)	(4,664)	(2,983)
Cash payments to suppliers for goods and services	(40,172)	(44,441)	(25,845)	(23,276)	(66,017)	(67,717)
Cash payments to employees for services	(123,860)	(117,596)	(21,977)	(21,264)	(145,837)	(138,860)
Net cash provided by operating activities	<u>121,077</u>	<u>138,059</u>	<u>28,416</u>	<u>29,641</u>	<u>149,493</u>	<u>167,700</u>
Cash flows from noncapital financing activities:						
Tax receipts	<u>18,922</u>	<u>18,117</u>	<u>6,496</u>	<u>6,292</u>	<u>25,418</u>	<u>24,409</u>
Net cash provided by financing activities	<u>18,922</u>	<u>18,117</u>	<u>6,496</u>	<u>6,292</u>	<u>25,418</u>	<u>24,409</u>
Capital and related financing activities:						
Capital contributions	51,058	36,045	2,197	492	53,255	36,537
Proceeds from advances for construction	(1,646)	1,007	-	-	(1,646)	1,007
Proceeds from sale of capital assets	2,695	655	-	-	2,695	655
Net proceeds and premiums from sale of bonds	543,905	-	208,103	15,567	752,008	15,567
Acquisition and construction of capital assets	(162,846)	(133,163)	(21,210)	(27,611)	(184,056)	(160,774)
Principal retirement on long-term debt and commercial paper	(520,269)	(4,470)	(185,835)	(15,131)	(706,104)	(19,601)
Amount paid to refunding bond escrow agent	(15,301)	-	(17,310)	(305)	(32,611)	(305)
Costs and discounts from issuance on long-term debt	(1,505)	-	(1,127)	(7)	(2,632)	(7)
Interest paid on long-term debt	(85,088)	(47,056)	(16,205)	(7,747)	(101,293)	(54,803)
Net cash provided by (used in) capital and related financing activities	<u>(188,997)</u>	<u>(146,982)</u>	<u>(31,387)</u>	<u>(34,742)</u>	<u>(220,384)</u>	<u>(181,724)</u>
Cash flows from investing activities:						
Proceeds from securities	260,551	378,828	14,095	11,255	274,646	390,083
Expenditures from purchases of securities	(263,014)	(394,483)	(23,714)	(13,998)	(286,728)	(408,481)
Interest received on investments	<u>3,200</u>	<u>905</u>	<u>234</u>	<u>215</u>	<u>3,434</u>	<u>1,120</u>
Net cash provided by (used in) investing activities	<u>737</u>	<u>(14,750)</u>	<u>(9,385)</u>	<u>(2,528)</u>	<u>(8,648)</u>	<u>(17,278)</u>
Net increase (decrease) in cash and cash equivalents	<u>(48,261)</u>	<u>(5,556)</u>	<u>(5,860)</u>	<u>(1,337)</u>	<u>(54,121)</u>	<u>(6,893)</u>
Cash and cash equivalents:						
Beginning of year	<u>175,941</u>	<u>129,361</u>	<u>71,576</u>	<u>88,240</u>	<u>247,517</u>	<u>217,601</u>
End of period	<u>\$127,680</u>	<u>\$123,805</u>	<u>\$65,716</u>	<u>\$86,903</u>	<u>\$193,396</u>	<u>\$210,708</u>

(Continued)

UNAUDITED

EAST BAY MUNICIPAL UTILITY DISTRICT  
STATEMENTS OF CASH FLOWS  
FOR THE NINE MONTHS ENDED MARCH 31, 2015 AND 2014  
(DOLLARS IN THOUSANDS)

	Water System		Wastewater System		Total	
	March 31, 2015	March 31, 2014	March 31, 2015	March 31, 2014	March 31, 2015	March 31, 2014
Reconciliation of net operating income to net cash provided by operating activities:						
Net operating income	\$41,886	\$44,491	\$14,987	\$12,951	\$56,873	\$57,442
Adjustments to reconcile net operating income to net cash provided by operating activities:						
Depreciation on utility plant and vehicle	69,997	67,355	18,119	16,697	88,116	84,052
Depreciation within recreation areas	1,075	1,159	-	-	1,075	1,159
Amortization	13,972	20,040	1,118	1,045	15,090	21,085
Other income	11,675	10,570	3,460	4,274	15,135	14,844
Changes in assets/liabilities:						
Materials and supplies	(1,248)	243	-	-	(1,248)	243
Prepaid insurance	850	836	-	-	850	836
Customer receivables	(207)	7,105	(1,319)	49	(1,526)	7,154
Other assets	(10,598)	(7,845)	(11,513)	(9,771)	(22,111)	(17,616)
Accounts payable and accrued expenses	(6,325)	(5,895)	3,564	4,396	(2,761)	(1,499)
Net cash provided by operating activities	<u>\$121,077</u>	<u>\$138,059</u>	<u>\$28,416</u>	<u>\$29,641</u>	<u>\$149,493</u>	<u>\$167,700</u>

See accompanying notes to financial statements

**UNAUDITED**

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED MARCH 31, 2015  
(Dollars in thousands)**

<b>NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</b>
--

***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, 2015 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, 2014 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, 2014.

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, 2014. 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 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 NINE MONTHS ENDED MARCH 31, 2015  
(Dollars in thousands)**

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

**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 BASIC FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED MARCH 31, 2015  
(Dollars in thousands)**

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

***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 (CVP) through February 2046 (Long Term Renewal Contract), with the anticipation of subsequent renewals of 40 year terms. Payments under the contract include reimbursement based on the amounts of water delivered to EBMUD of Capital costs for CVP storage and conveyance facilities (EBMUD's current allocation is \$4,510) and the O&M Deficit (EBMUD's current balance is \$6,781).

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

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED MARCH 31, 2015  
(Dollars in thousands)**

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

***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 bi-annual 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 bi-annual 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 bi-annual budget, to maintain 1.25 times the expected annual costs.
- Workers' compensation reserve is established by Policy 4.02, as adopted by the Board of Directors in the bi-annual budget, to maintain a level equal to the estimated future liability for workers’ compensation claims.

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 bi-annual budget.
- Reserve Funded CIP (Wastewater) balance is a specific designation [Board Motion 029-94] used to fund wet and dry weather eligible construction projects.
- Vehicle Replacement Fund [Board Motion 94-030] is financed by deposits based on internal user rate charges, and used to reimburse operational expenditures and vehicle replacement purchases.

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**EAST BAY MUNICIPAL UTILITY DISTRICT  
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<b>NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)</b>
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- 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. The current balance is \$0 for Water and Wastewater.
- 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. The current balance is \$0 for Water and Wastewater.
- Bond Interest and Redemption fund is required, under the District's bond indentures, 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. 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.
- 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. As of March 31, 2015 and June 30, 2014, respectively, the balances were \$1,506 and \$848 for Water, and \$4,432 and \$109 for Wastewater.
- 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 of and interest on the related series of bonds in the event the District fails to transfer the required payment from the related system Revenue Fund (the respective designated part of the General Fund) (b) for the payment of 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. As of March 31, 2015 and June 30, 2014, respectively, the balances were \$12,647 and \$29,368 for Water, and \$0 and \$2,538 for Wastewater.

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**EAST BAY MUNICIPAL UTILITY DISTRICT  
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<b>NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)</b>
--

- 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. The balance as of March 31, 2015 was \$25,874 for Water (\$19,075 for Future Water Supply projects, \$6,799 for Applicant Work) and \$0 for Wastewater. The balance as of June 30, 2014 was \$27,447 for Water (\$19,037 for Future Water Supply projects, \$8,410 for Applicant Work) and \$2,214 for Wastewater (Private Lateral Sewer incentive Program).
- 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 provides operating support to Joint Settlement Agreement with US 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. As of March 31, 2015 and June 30, 2014, respectively, the balances were \$2,223 and \$2,274 for Water.
- 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 deposit in the District settlement account to cover power exchange transactions. As of March 31, 2015 and June 30, 2014, respectively, the balances were \$534 and \$534 for Water.
- ABAG (Association of Bay Area Governments) Restricted Fund was established as an interest bearing account for Regional General Permit effort by 7 local water agencies in October 2013. The agreement between the District and ABAG, approved by Board motion 029-12 on March 13, 2012, requires the District to collect deposits and pay invoices in accordance with a cost allocation agreed among the water agencies. As of March 31, 2015 and June 30, 2014, respectively, the balances were \$18 and \$25 for Water.

***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.

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

***L. Compensated Absences***

Compensated absences as of March 31, 2015 and June 30, 2014, 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.

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

***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 nine months ended March 31, 2015 and 2014, 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 2014 and 2013 presentations.

**NOTE 2 - CASH AND INVESTMENTS**

***A. Classification***

Reconciliations of cash and investments reported on the financial statements as of March 31, 2015, are as follows:

<b><i>District Enterprise Funds:</i></b>	Water System	Wastewater System	Total
Cash and investments included in current assets	\$303,511	\$95,451	\$398,962
Cash and investments included in restricted assets	42,802	4,432	47,234
Total District cash and investments	346,313	99,883	446,196
Less non-current investments	(218,633)	(34,167)	(252,800)
District cash and cash equivalents	<u>\$127,680</u>	<u>\$65,716</u>	<u>\$193,396</u>

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

***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 the investment to maturity.

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

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**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
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(Dollars in thousands)**

<b>NOTE 2 - CASH AND INVESTMENTS (Continued)</b>
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***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  
NOTES TO BASIC FINANCIAL STATEMENTS  
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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 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 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 due to the recent drought, the District activated the pumping of water from the Sacramento River via the Freeport facility during Fiscal Year 2015.

**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, 2015 and June 30, 2014, consist of:

	Water System		Wastewater System		Total	
	March 31	June 30	March 31	June 30	March 31	June 30,
	2015	2014	2015	2014	2015	2014
Accounts payable	\$8,290	\$27,262	\$1,167	\$2,911	\$9,457	\$30,173
Accrued salaries	(4)	3,454	-	600	(4)	4,054
Accrued compensated absences	25,554	25,625	3,988	4,232	29,542	29,857
Other	24,210	14,496	457	1,406	24,667	15,902
Total	<u>\$58,050</u>	<u>\$70,837</u>	<u>\$5,612</u>	<u>\$9,149</u>	<u>\$63,662</u>	<u>\$79,986</u>

**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, 2015, 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, 2015, \$359.8 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 58 to 120 days and interest rates ranging from 0.05% to 0.10% as of March 31, 2015, and terms of 50 to 119 days and interest rates ranging from 0.07% to 0.11% as of June 30, 2014. The Wastewater Series included the term of 61 days and an interest rate of 0.06% as of March 31, 2015, and the term of 84 days and an interest rate of 0.11% as of June 30, 2014. There were no unused proceeds as of March 31, 2015. It is the District's practice to use extendable commercial paper as a portion of the District's long-term variable rate debt exposure.

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED MARCH 31, 2015  
(Dollars in thousands)**

<b>NOTE 6 – LONG-TERM DEBT</b>
--------------------------------

***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, 2014 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 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 \$102.6 million (\$85.0 million for the Water System and \$17.6 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.

***Water Issuance During the Year***

**2015 Water System Revenue Refunding Bonds, Series 2015A** – The District issued \$429.4 million principal amount of Series 2015A Bonds on March 3, 2015, to provide funds, together with certain other available monies, to refund \$83.9 million principal amount of the District's Water System Subordinated Revenue Bonds Series 2005A, \$330 million principal amount of the District's Water System Subordinated Revenue Bonds Series 2007A and \$82.1 million principal amount of the District's Water System Variable Rate Revenue Refunding Bonds Series 2009A, to fund the costs of terminating certain interest rate swap agreements relating to the District's outstanding variable rate Water System Revenue Bonds to be refunded, and to pay the costs of issuance in connection with the Series 2015A Bonds. The Series 2015A Bonds are special obligations of the District and are payable solely from and secured by a pledge of Subordinated Water Revenues. Principal payments commence on June 1, 2023 and are payable annually on June 1 thereafter. Interest payments are payable on June 1st and December 1st of each year, commencing June 1, 2015.

The refunding of Water System Revenue Bonds, Series 2015A created an economic gain of \$65.4 million.

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**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
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<b>NOTE 6 – LONG-TERM DEBT (Continued)</b>
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*Wastewater Issuance During the Year*

**2014 Wastewater System Revenue Refunding Bonds, Series 2014A and Series 2014B** – The District issued \$82.2 million principal amount of Series 2014A Bonds and \$2.5 million principal amount of Series 2014B Bonds on August 28, 2014, to provide funds, together with certain other available monies, to refund \$49.1 million principal amount of the District's Wastewater System Subordinated Revenue Refunding Bonds variable rate Series 2008C and \$42.7 million principal amount of the District's Wastewater System's Revenue Refunding Bonds variable rate Series 2011A, to fund the costs of terminating certain interest rate swap agreements related to the Wastewater System Revenue Bonds to be refunded, and to pay the costs of issuance of the Bonds. The Series 2014 Bonds are special obligations of the District and are payable solely from and secured by a pledge of Subordinated Wastewater Revenues. Principal payments commence on June 1, 2015 and are payable annually on June 1 thereafter. Interest payments are payable on June 1st and December 1st of each year, commencing December 1, 2014.

The refunding of Wastewater System Revenue Bonds, Series 2014 created an economic gain of \$0.3 million.

**2015 Wastewater System Revenue Refunding Bonds, Series 2015A and Series 2015B** – The District issued \$68.4 million principal amount of Series 2015A Bonds and \$2.8 million principal amount of Series 2015B Bonds on March 3, 2015, to provide funds, together with certain other available monies, to refund \$60.6 million principal amount of the District's Wastewater System Subordinated Revenue Bonds Series 2007A and \$16.4 million principal amount of the District's Wastewater System Variable Rate Revenue Refunding Bonds Series 2011A, to fund the costs of terminating an interest rate swap agreement relating to the District's outstanding variable rate Wastewater System Revenue Bonds to be refunded, and to pay the costs of issuance in connection with the Series 2015 Bonds. The Series 2015 Bonds are special obligations of the District and are payable solely from and secured by a pledge of Subordinated Wastewater Revenues. Principal payments commence on June 1, 2016 and are payable annually on June 1 thereafter. Interest payments are payable on June 1st and December 1st of each year, commencing June 1, 2015.

The refunding of Wastewater System Revenue Bonds, Series 2015 created an economic gain of \$7.4 million.

**EAST BAY MUNICIPAL UTILITY DISTRICT  
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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 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.

Issue	SBPA Expiration 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

**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 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 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, 2015, 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
2008A Water System Refunding Bonds	37,240	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	37,240	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	16,195	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	14,575	9/25/2008	The Bank of New York Mellon	Aa2/AA-	3.115%	62.3% of 30-day LIBOR	6/1/2038

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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 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, 2015, are included below:

<u>Related Bond Issuance</u>	<u>Fair Value</u>
2008A Water System Refunding Bonds	(30,686)

*Credit risk.* As of March 31, 2015, the District was not exposed to credit risk on its outstanding swaps because the swaps had a negative fair value of \$30.7 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 March 31, 2015, 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. As of March 31, 2015, the District has a basis difference on its swaps of a positive 11 basis points (the District receives more from its swap floating rate payment than it pays out on its variable rate debt).

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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.

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.

**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.



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**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.

**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.

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