

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

for the year ended June 30, 2014

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

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East Bay Municipal Utility District

Year Ended June 30, 2014

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Letter of Transmittal

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Organizational Staffing

Organization Chart

December 31, 2014  
East Bay Municipal Utility District  
Oakland, California

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the East Bay Municipal Utility District (EBMUD) for the fiscal year ended June 30, 2014.

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

Maze & Associates, Accountancy Corporation, have issued an unqualified ("clean") opinion on the East Bay Municipal Utility District's financial statements for the year ended June 30, 2014. The purpose of the independent audit was to provide reasonable assurance that these financial statements for the year ended June 30, 2014, are free of material misstatements. The independent auditor's report is located at the front of the financial section of this report.

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

The Comprehensive Annual Financial Report follows the guidelines recommended by the Government Finance Officers Association of the United States and Canada -EBMUD is submitting this Comprehensive Annual Financial Report to GFOA for review and certification.

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

The District's Water system collects, transmits, treats, and distributes high-quality water to approximately 60 percent of the developed area within Alameda and Contra Costa counties of California. The water is supplied to approximately 1.3 million industrial, commercial, residential, and institutional users in a 332-square-mile service area extending from Crockett in the north, southward to San Lorenzo (encompassing Oakland, Berkeley and Alameda), eastward from San Francisco Bay to Walnut Creek, and south through the San Ramon Valley. The Wastewater system intercepts and treats wastewater from residences and industries. It serves approximately 650,000 customers in an 88-square-mile area of Alameda and Contra Costa counties along the Bay's east shore, extending from Richmond in the north to San Leandro in the south.

A seven-member Board of Directors, elected by wards for four-year terms, determines overall policies, which are then implemented under the direction of the General Manager. Board meetings are open to the public and held the second and fourth Tuesdays of each month. In addition, workshop sessions, special meetings, and public hearings are occasionally scheduled and noticed. Each Board member serves on one or more standing Board committees. The committees review and make recommendations on matters of major interest before discussion by the full Board at a regular meeting. Standing committees of the Board are Planning, Legislative/Human Resources and Finance/Administration. Board members also represent EBMUD on the Association of California Water Agencies, the Bay Area Water Forum, the Freeport Regional Water Authority, the Upper Mokelumne River Watershed Authority, the Dublin San Ramon Services District/EBMUD Recycled Water Authority (DERWA), Bay Area Clean Water Agencies (BACWA), the Special Districts Associations of Alameda and Contra Costa Counties and the EBMUD/East Bay Regional Park District Liaison Committee.



EBMUD had approximately 1,764 full-time employees in FY14 under the administrative direction of appointed General Manager Alexander R. Coate and management staff. Employees are represented by the American Federation of State, County and Municipal Employees, Locals 444 and 2019, International Federation of Professional, Technical Engineers Local 21 and International Union of Operating Engineers Local 39. EBMUD is an equal opportunity employer and encourages diversity in contracting and in the workforces of District contractors.

EBMUD has continually pursued an array of solutions to provide a reliable water supply to its service area and protect the San Francisco Bay now and in the future. EBMUD continues to focus on water supply planning and drought protection, water quality, water conservation, infrastructure maintenance and improvements, watershed protection, wastewater treatment, customer service and fiscal integrity and stability.

EBMUD's service area encompasses cities in northern Alameda County and western and central Contra Costa County.

The seven cities EBMUD serves within Alameda County are Alameda, Albany, Berkeley, Emeryville, Oakland, Piedmont and San Leandro. These cities along the eastern shore of the San Francisco Bay feature pleasant climate and a rich diverse culture. They are host to the nation's strongest research, development and innovation clusters. In addition to excelling in many diversified technical disciplines, the area features leading research institutions and higher education institutions. These include the Lawrence Berkeley National Laboratory and University of California Berkeley campus as well as a high concentration of private technology development companies and clean tech innovation centers. The Port of Oakland is also an important distribution base for logistics activities that serves all of Northern California's importing and exporting cargo traffic. The education sector in this region provides the highest number of jobs (57,753), followed by the trade, transportation and utilities sector (42,003), and then by the manufacturing sector (30,193). In addition to the employers mentioned above, other employers of interest include Annie's Homegrown, Bayer Healthcare, Clif Bar, Clorox, Cost Plus, Dryer's/Edy's Grand Ice Cream, Kaiser Permanente, Pandora, Peet's Coffee and Tea, Pixar, County of Alameda, Alta Bates and Summit Medical Center, Oakland Unified School District and City of Oakland.

The West Contra Costa County region includes El Cerrito, Hercules, Pinole, Richmond and San Pablo. This region historically has been one of the Bay Area's significant manufacturing regions. In addition, this region provides favorable weather, excellent bay and bridge views, as well as marinas that offer excellent residential values for those seeking to escape higher prices elsewhere in the San Francisco Bay Area. The Craneway Pavillion, a repurposed Ford Factory located on the Bay, houses a number of emerging technology companies and also includes an attractive event space. The adjacent Rosie the Riveter Museum documents some of the past industrial history of the area. The San Pablo Bay is a favored saltwater fishing destination and also is a popular wintering stop and migratory staging ground for numerous species of waterfowl. Chevron is the largest employer in the West Contra Costa region and this sub-region, with its cluster of refineries, is a national leader in the petrochemical industry. The growth of biotechnology and medical devices in the region will get a boost when the proposed second campus of Lawrence Berkeley National Laboratory is established, bringing with it researchers and partnerships with the private sector that will further innovation and employment. In addition to Chevron, other employers of note include Bio-Rad and Sangamo Biosciences.

The Central Contra Costa County region, commonly known as “Central County” includes Clayton, Concord, Lafayette, Martinez, Moraga, Orinda, Pleasant Hill and Walnut Creek. Central County offers a variety of living environments ranging from bucolic small town to historic to urban. The region also boasts some of Northern California’s most desirable residential communities along with some of the top public schools in the state. Walnut Creek and Pleasant Hill offer excellent examples of transformed downtown centers and have become regional retail destinations. The Leshner Center for the Arts is an arts destination with over 900 productions and events a year. Higher education institutions such as the Diablo Valley College and John F. Kennedy University and health care providers such as John Muir/Mt. Diablo Regional Medical Centers in Walnut Creek and Concord, Kaiser Hospital and clinics in Walnut Creek and Martinez, along with the Contra Costa Regional Medical Center and Veterans Administration Hospital in Martinez provide over 30,000 jobs in this region. Other important sectors include trade, transportation and utilities (26,021 jobs) and professional and business services (20,088 jobs). Concord is home to an emerging biomedical industry cluster and Walnut Creek is the center of a large financial services group. Significant employers include: Diablo Valley College, Kaiser Foundation Hospitals, AT&T Services, Cellco Partnership, John Muir Health, California State Automobile Association, Frances Mary Accessories Inc., Contra Costa Newspapers Inc., and Shell Martinez Refining Co.

Consistent with Government Finance Officers Association (GFOA) recommendations EBMUD has developed a Strategic Plan that is a blueprint for how the District will respond to future challenges and changing priorities. Based on the District mission and values, goals are established, monitored and reviewed regularly with the Board of Directors.

### MISSION

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

### VALUES

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

### GOALS

- Long-term water supply:  
Ensure a reliable high-quality water supply for the future
- Water quality and environmental protection:  
Meet or surpass environmental and public health standards and protect public trust values

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

## INTRODUCTION

The District has a comprehensive set of financial policies that set forth comprehensive guidelines to maintain accountability and control over operating revenue and expenditures, ensure proper appropriation of reserves and restricted funds, and maintain a reasonable balance between debt and assets in providing funding for capital projects.

## FINANCIAL POLICIES

### *Investments*

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

### *Rate Stabilization*

The District's Rate Stabilization Funds for the Water and Wastewater Systems were established in 1986 to enable the deposit of funds upon determination that there are revenues remaining for such deposits after the District has satisfied the debt service and other requirements set forth in the District's bond documents including the payment of operation and maintenance costs. The funds may be utilized in future years to mitigate lower than expected debt coverage in a given fiscal year.

The District maintains a Contingency and Rate Stabilization Reserve in accordance with District's Fiscal Policy 4.02. The purpose of this fund is to provide an adequate reserve to mitigate overall rate volatility resulting from climatic or economic changes that significantly decrease the District's revenues or increase the District's operating costs. These General Fund Reserves are unrestricted.

In Fiscal Year 2014, the District combined the Rate Stabilization Fund and the Contingency and Rate Stabilization Reserve into a Single Rate Stabilization Fund Reserve.

### ***Internal Controls***

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

## **FINANCIAL HIGHLIGHTS**

### ***Financial Position***

The District's overall financial condition continues to be sound as demonstrated by a stable revenue base, effective cost containment, increase in net position and adequate fund reserves.

The Water System ended Fiscal Year 2014 with revenues that were greater than budget and operating expenses that were less than budget. As a result, the Water System ended FY2014 with a net positive budget variance. The water sales were higher than budgeted due to the extreme dry conditions, even though customers began reducing water use in February. Overall operating expenses were less than budget primarily due to unspent contingency funds, lower debt service costs and higher than budgeted reimbursement for the administration of capital projects.

The Wastewater System ended Fiscal Year 2014 with revenues that were greater than budget and operating expenses that were less than budget. The Wastewater System ended FY2014 with a net positive budget variance. Overall operating expenses were less than budget primarily due to unspent contingency funds and lower debt service costs.

***Debt Administration***

In FY14, the Water System had total long-term term revenue bonds, extendable commercial paper notes and State loans (net of unamortized costs) outstanding of \$2.7 billion. The District redeemed \$13.1 million of commercial paper and issued a total of \$446 million Water System Revenue Bonds, of which \$371 million was issued to fully or partially refund Water System Subordinated Revenue Refunding Bond Series 2005A, 2008A, 2008B-3 and 2011A. The Wastewater System had total long-term term revenue bonds, extendable commercial paper notes (net of unamortized costs) outstanding of \$455 million. The District issued \$14 million principal amount of Wastewater System General Obligation Refunding Bonds Series G to refund \$15.3 million principal amount of Wastewater System General Obligation Bonds Series F.

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

A summary of debt financing events in FY 14 is listed below. Additional information is available in the Footnotes to the Financial Statements:

The District issued \$128.3 million principal amount of Water System Series 2014A Bonds to refund \$144.4 million principal amount of the District's Water System Subordinated Revenue Bonds Series 2005A.

The District issued \$242.7 million principal amount of Water System Series 2014B Bonds to refund and defease \$95.3 million principal amount of the District's Water System Subordinated Revenue Refunding Bonds, Series 2008A as well as \$15.1 million principal amount of the District's Water System Subordinated Revenue Refunding Bonds Series 2008B and \$148.2 million principal amount of the District's Water System Revenue Refunding Bonds Series 2011A.

The District issued \$75.0 million principal amount of Water System Series 2014C Bonds to provide additional funding to finance improvements to the Water System of the District.



The District issued \$14.2 million principal amount of General Obligation Refunding Bonds Series G to refund \$15.3 million principal amount of the District's Wastewater System General Obligation Refunding Bonds Series F.

### ***Budget and Rates***

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

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

The total water system budget is \$585 million in FY14, and \$595 million in FY15. The FY14-15 Capital Improvement Program (CIP) includes funding for improving water treatment processes; replacing, upgrading and maintaining aging infrastructure; protecting natural resources; and ensuring our future water supply. Over the next five years, the District anticipates spending over \$757 million to maintain the District's pipelines, aqueducts, pumping plants and reservoirs.

The total wastewater system budget is \$128 million in FY14, and \$144 million in FY15. Over the next five years, the District anticipates spending over \$55 million on rehabilitation and improvements to the infrastructure at the wastewater treatment plant that include addressing odor conditions. Other projects include \$16 million to upgrade the digesters and \$19 million to rehabilitate a sewer interceptor.

### INTRODUCTION

In fiscal year 2014 (FY 14), EBMUD continues to make progress in the Long-term Water Supply, Water Quality and Environmental Protection, and Long-term Infrastructure Improvement strategic goals that best serve East Bay communities. In California, where new water projects take years to develop, long-term planning ensures reliable water supplies for the future. EBMUD implemented an overall plan to meet these goals in its Water Supply Management Program 2040 which helps EBMUD meet water needs for its customers for the next 30 years. Rate increases and cost-cutting programs continued to stabilize and improve EBMUD's financial position. Through cooperative efforts with stakeholders in FY14, EBMUD continued to maneuver through the many challenges with strength and stability.

### LONG-TERM WATER SUPPLY

#### *Water Supply Management Program 2040*

In fiscal year 2014 (FY14), EBMUD achieved many strategic goals to best serve East Bay communities. In California, where new water projects take years to develop, long-term planning ensures reliable water supplies for the future. EBMUD is implementing its Water Supply Management Program 2040 which helps EBMUD meet water needs for its customers over the long term. The plan calls for maintaining a reliable, high-quality water supply by aggressively conserving water, recycling wastewater and tapping into a variety of regional water supply sources. The planning document also stresses the District's objectives to preserve and protect the environment, adjust to new regulations and water system changes, seek cost-effective collaborative solutions and be prepared to address uncertainties including climate change and Delta challenges.

#### *Water Conservation and Management*

California is experiencing another cycle of dry weather in FY14. EBMUD is calling for customers to cut back water use to preserve water supplies. To increase our supply, EBMUD purchased a supplemental supply of Sacramento River water for the first time through the Freeport Regional Water Facility. The District's Water Conservation Master Plan, updated in 2011, directs the District's comprehensive strategies and initiatives to promote water conservation and reduce demand for water by an additional 39 MGD through conservation initiatives by the year 2040, and is part of the Water Supply Management Plan 2040.

In FY14, the District experienced an increase in customer requests for and participation in Home Self-Survey Kits, Home Water Reports, Lawn conversion and irrigation upgrade rebates and landscape water budgets.

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

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

### ***Water Recycling***

EBMUD can currently produce an average of 9 million gallons per day (MGD) of recycled water. EBMUD's recycled water program uses a valuable treated wastewater resource that is otherwise lost to the San Francisco Bay. Recycled water is a local, reliable, and sustainable supply that offsets the use of potable water and lessens the need for severe rationing during droughts. EBMUD's goal is to recycle 20 MGD by the year 2040. Recycled water is provided for industrial processes, landscape irrigation, commercial cooling and toilet flushing. EBMUD's current recycled water projects include East Bayshore, San Ramon Valley, North Richmond, Richmond Advanced Recycled Expansion (RARE), and San Leandro.

The East Bayshore project provides recycled water for a variety of non-potable applications to portions of Emeryville and Oakland. The San Ramon Valley project provides recycled water for landscape irrigation to portions of San Ramon. The North Richmond and RARE projects provide recycled water to a refinery for its cooling towers and boiler feedwater system. In FY14, the RARE Water Project continued to provide up to 3.5 million gallons per day of recycled water to the Chevron Richmond refinery to conserve an equivalent amount of potable water. Chevron continues to pay a monthly service charge to cover all capital, operations, and maintenance costs associated with the facility. The San Leandro project provides recycled water for irrigation to portions of Alameda and Oakland. Over the years, EBMUD has secured federal, state, and customer funding to partly pay for these recycled water facilities. Recently, state funding was secured to install a segment of the East Bayshore pipeline from Oakland to Emeryville. EBMUD partnered with the City of Albany's bike path project to install another segment of the East Bayshore pipeline, resulting in cost savings.

### ***Regional Water Supply Sources***

During normal rainfall years EBMUD customers receive 90 percent of their water from the Mokelumne River watershed in the foothills of the Sierra Mountains. During those rainfall years, the Mokelumne and local Easy Bay watersheds provide sufficient water for EBMUD's needs today and far into the future. However, California has a history of drought. Historically, dry years can mean up to ten times less precipitation compared to wet years. To assure more reliable dry year supplies, EBMUD worked with Sacramento County to complete the Freeport Regional Water Project under the Central Valley Project Contract. The Freeport Regional Water Facility provides up to 85 million gallons of water a day to the Sacramento area to protect its fragile groundwater basin. For EBMUD, the project guarantees the ability to deliver up to 100 million gallons a day in dry-year to guard against severe water shortage. The Freeport facility was activated in FY14 and is providing supplemental water supply for the East Bay.

In May of 2013, the EBMUD Board adopted a groundwater management plan for the South East Bay Plain Groundwater Basin. The plan provides a management structure to protect the groundwater basin used by EBMUD's Bayside Groundwater Project for drought supply. The Bayside Groundwater Facility is a groundwater well that can store excess water more than 500 feet below ground in wet periods for later recovery during droughts. During droughts, up to one million gallons per day of water from the well can be pumped from the aquifer and treated on-site.

In addition, EBMUD continued discussions with numerous agencies regarding future partnership opportunities related to long-term water transfers, groundwater banking, and regional desalination. Specifically, EBMUD worked together with staff of the Contra Costa Water District, Bay Area Water Supply and Conservation Agencies, Placer County Water Agency, San Joaquin County, San Francisco Public Utilities Commission, Zone 7 Water Agency, and Santa Clara Valley Water District on partnership concepts.

### **WATER QUALITY AND ENVIRONMENTAL PROTECTION**

#### ***New Phase in Bay Protection***

Over the years, San Francisco Bay protection agencies, environmental groups and EBMUD have all worked to keep the Bay as healthy as possible. EBMUD's main wastewater treatment plant operated continuously, 24 hours a day, for 14 years within permit limits and without a National Pollutant Discharge Elimination System violation. Over the past two years, EBMUD has worked intensively with local sewer agencies to establish programs and plans to accelerate maintenance and replacement of the sewer system collection and treatment infrastructure that supports storm water management and protects San Francisco Bay.

Though the East Bay has separate systems for storm water runoff and sewage, storm water can seep into cracks in an aging sewer system, resulting in excess flow and partially treated sewage being released into San Francisco Bay. Under a settlement agreement with the U.S. Environmental Protection Agency and in collaboration with the the California Regional Water Quality Control Board, EBMUD is working with six cities (eight beginning in January 2015) and one sewer district in our wastewater service area to ensure that property owners fix old, cracked sewer pipes that serve business or residences to protect the Bay.

In November 2013, the U.S. EPA approved a grant to evaluate “sidestream processes” to reduce nutrient loading in San Francisco Bay. This project proposal, was awarded \$517,650 in funding. EBMUD submitted this grant proposal as a regional collaborative effort. Project partners include three other wastewater agencies, Stanford and UC Berkeley and the San Francisco Estuary Institute. This project provides the District with an opportunity to lead a regional effort on a very significant regulatory issue, while demonstrating proactive efforts to reduce nutrients in the Bay. Staff also has identified nutrient removal from internal recycle streams at the main wastewater treatment plant (i.e., sidestreams) as a key business issue with potential benefits.

### ***Pollution Prevention***

The District continues to grow its Pollution Prevention Program and to expand partnerships with neighboring agencies, environmental groups, and other stakeholders to educate industries, commercial businesses and residents about their role in protecting the San Francisco Bay. Key efforts included addressing the Fats, Oils, and Grease (FOG) program, mercury, copper, PCBs, green chemistry and pharmaceuticals. The many highlights for FY14 include:

- Continued development of the “A Clean Bay Begins with You” customer outreach campaign including an outdoor advertising campaign developed to link household activities with the health of the San Francisco Bay;
- Expansion of the pharmaceuticals disposal campaign to promote safe disposal of unwanted medicines to address these substances’ impact on water quality.

### *Environmental Stewardship*

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

EBMUD continued its stewardship efforts on the Mokelumne River in 2014. These included continuing to improve river habitat for salmon and steelhead spawning, conducting a telemetry study of out-migrating salmon to better understand migratory path and survival, and working with federal water project operators to modify Delta operations to minimize impacts to salmon. The success indicator for these efforts is in the abundance of the salmon return to the Mokelumne.

### *Water Quality and Safety*

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

### *Generating Renewable Energy*

EBMUD can generate over 400,000 Megawatts per hour (MWh) of renewable energy at its hydropower, photovoltaic and cogeneration facilities for its own use and sale. Renewable energy can bring in over \$10 million dollars each year. EBMUD's innovation in energy management was awarded the National Environmental Achievement Award from the National Association of Clean Water Agencies for the innovative and sustainable practices of our Resource Recovery program, turning organic wastes to energy.

Through our innovative Resources Recovery Program, EBMUD's wastewater treatment plant became a net energy producer by providing 126 percent of the electricity needed to power the plant from renewable energy generated through food scraps, winery waste, fats, oils and greases and other organic waste. This reduces greenhouse gas emissions and provides substantial revenue, helping keep wastewater rates low.



### LONG-TERM INFRASTRUCTURE INVESTMENT

With an aging system, EBMUD must continually evaluate infrastructure durability and adjust investments to address the most pressing reliability concerns. Keeping infrastructure in good condition protects the environment and public health. EBMUD is increasing investments in refurbishing and replacing aging infrastructure. As of FY14, EBMUD continued its goal of replacing at least 10 miles of pipes each year for the next five years to maintain reliable water service. Contracts were awarded for rehabilitation of three steel reservoirs, and other rehabilitation work was in planning, design or construction on a wide range of projects at pumping plants, treatment plants and other locations.

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

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

The Government Finance Officers' Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to EBMUD for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2013. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of a state and local government financial report. To be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements. This is the eighth consecutive year that EBMUD has received this award. We are submitting our current CAFR to determine its eligibility for another certificate.

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

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

Respectfully submitted,



Eric L. Sandler  
Director of Finance



Government Finance Officers Association

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

Presented to

**East Bay Municipal Utility District  
California**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2013**

A handwritten signature in black ink, reading "Jeffrey R. Emswiler". The signature is written in a cursive, flowing style.

Executive Director/CEO

## Board of Directors

*East Bay Municipal Utility District*

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

### [John A. Coleman](#)

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

### [Katy H. Foulkes](#)

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

### [Andy Katz](#)

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

### [Doug A. Linney](#)

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

### [Lesla R. McIntosh](#)

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

### [Frank G. Mellon](#)

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

### [William B. Patterson](#)

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

# Organizational Staffing

*East Bay Municipal Utility District*

## BOARD OF DIRECTORS

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

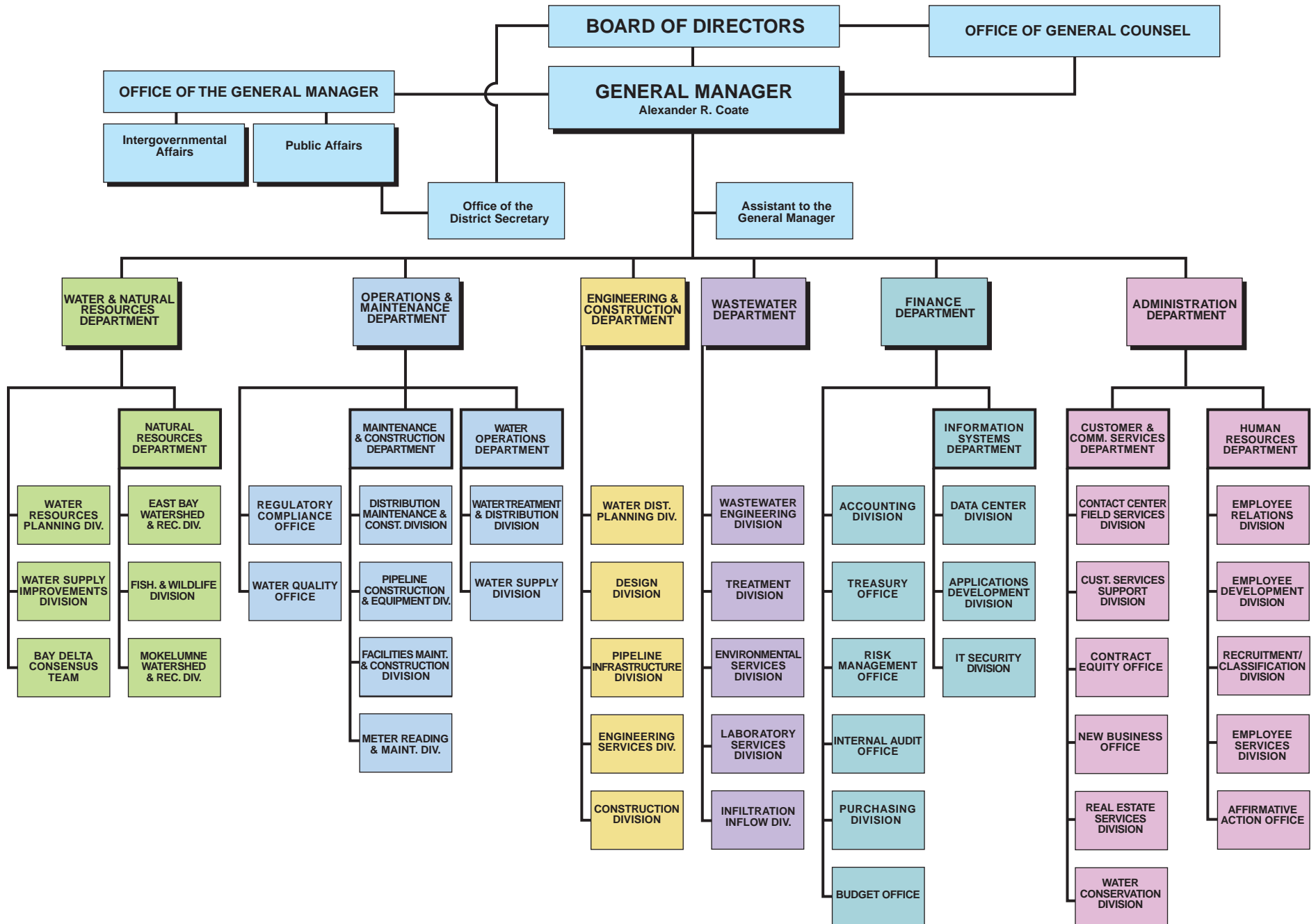
GENERAL MANAGER ..... Alexander R. Coate

FINANCE DIRECTOR ..... Eric L. Sandler

CONTROLLER ..... D. Scott Klein

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

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



Independent Auditor's Report

Management's Discussion and Analysis

Basic Financial Statements

Required Supplemental Information

Supplemental Information

**EAST BAY MUNICIPAL UTILITY DISTRICT**  
**BASIC FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**



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**EAST BAY MUNICIPAL UTILITY DISTRICT  
BASIC FINANCIAL STATEMENTS  
For the Years Ended June 30, 2014 and 2013**

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
East Bay Municipal Utility District  
Oakland, California

### *Report on Financial Statements*

We have audited the accompanying financial statements of each major fund and the discretely presented component unit, of the East Bay Municipal Utility District as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial positions of each major fund and the discretely presented component unit of the East Bay Municipal Utility District as of June 30, 2014 and 2013, and the respective changes in the financial positions and cash flows, where applicable, thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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

Management adopted the provisions of the following Governmental Accounting Standards Board Statements, which became effective during the year ended June 30, 2014 which had no material effects on the financial statements, but affected note disclosures.

Statement 67 – *Financial Reporting for Pension Plans*. See note 8 to the financial statements for relevant disclosures.

The emphasis of this matter does not constitute a modification to our opinions.

### ***Other Matters***

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

Accounting principles generally accepted in the United States of America require that Management's Discussion and certain schedules related to the Pension and Post Employment Healthcare Plans be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to this information in accordance with generally accepted auditing standards in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the East Bay Municipal Utility District's basic financial statements as a whole. The Supplemental Information as listed in the Table of Contents are presented for purposes of additional analysis and are not required parts of the basic financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 5, 2014 on our consideration of the East Bay Municipal Utility District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Pleasant Hill, California  
September 5, 2014

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# EAST BAY MUNICIPAL UTILITY DISTRICT

## Management's Discussion and Analysis

June 30, 2014

This section presents management's analysis of the East Bay Municipal Utility District's (the District) financial condition and activities as of and for the year ended June 30, 2014. Management's Discussion and Analysis (MDA) is intended to serve as an introduction to the District's basic financial statements. This information should be read in conjunction with the audited financial statements that follow this section. The District, as the primary governmental entity, includes within the financial statements, the financial position and activities of the District's Employees' Retirement System (Employees' Retirement System) as a component unit. The Employees' Retirement System issues its own financial statements and MDA under separate cover. Significant matters pertaining to the Employees' Retirement System have been included in the notes to the financial statements as deemed appropriate.

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

Organization and Business

Overview of the Basic Financial Statements

Financial Analysis

Capital Assets

Debt Administration

Request for Information

### ORGANIZATION AND BUSINESS

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

### OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

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

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

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



## EAST BAY MUNICIPAL UTILITY DISTRICT

### Management's Discussion and Analysis

June 30, 2014

The District's proprietary fund statements include:

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

While the Balance Sheet provides information about the nature and amount of resources and obligations at year-end, the *Statement of Revenues, Expenses, and Changes in Net Position* presents the results of the District's operations over the course of the fiscal year and information as to how the net position changed during the year. This statement can be used as an indicator of the extent to which the District has successfully recovered its costs through user fees and other charges. All changes in net position are reported during the period in which the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods, such as delayed collection of operating revenues and the expense of employee earned but unused vacation leave.

The *Statement of Cash Flows* presents changes in cash and cash equivalents resulting from operational, capital, noncapital, and investing activities. This statement summarizes the annual flow of cash receipts and cash payments, without consideration of the timing of the event giving rise to the obligation or receipt and excludes noncash accounting measures of depreciation or amortization of assets.

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

**Notes to Basic Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to basic financial statements can be found on pages 29 to 74 of this report.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents *certain required supplementary information* concerning the District's progress in funding its obligation to provide pension and other post-employment healthcare benefits to its employees. Such required supplementary information can be found on pages 77 to 80 of this report.

# EAST BAY MUNICIPAL UTILITY DISTRICT

## Management's Discussion and Analysis

June 30, 2014

### FINANCIAL ANALYSIS

#### *Financial Highlights*

In fiscal year 2014, EBMUD continued to effectively manage its finances and strengthen its financial position by adopting sufficient water and wastewater rates to fund capital infrastructure improvements and to maintain strong financial performance. The following results of operations indicate a continuing strong and stable fiscal position.

The total assets and deferred outflows of the District exceeded the total liabilities and deferred inflows by \$1.7 billion (*net position*).

Net position increased by \$35 million or 2% during the fiscal year.

Capital assets increased by \$93 million or 2% to \$4.2 billion.

During the year, operating revenue increased by \$35 million or 8% to \$462 million.

Operating expense increased by \$21 million or 6% to \$406 million.

Non-operating net expense increased by \$8 million or 13% to (\$71) million.

Capital contributions, consisting of capital facility fees, decreased by \$7 million or 12% from the prior fiscal year.

#### *Financial Position*

In the current year, the District's total net position increased by \$35 million or 2%. Current and other assets decreased by \$13 million or 2%. Capital assets increased by \$93 million or 2%. By far the largest portion of the District's net position, 65% or \$1.0 billion, represents its investment in capital assets necessary to provide services.

- The Water System's net position increased by \$21 million or 2% during the year ended June 30, 2014.
- The Wastewater System's net position increased by \$14 million or 5% during the year ended June 30, 2014.

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

# EAST BAY MUNICIPAL UTILITY DISTRICT

## Management's Discussion and Analysis

June 30, 2014

Table 1 shows the District's net position for the fiscal years ended June 30, 2014, 2013 and 2012:

**Table 1**  
Net Position  
Water and Wastewater  
June 30, 2014 and 2013  
(In thousands)

	<u>2014</u>	<u>2013</u>	<u>Variance</u>	<u>%</u>
Current and other assets	\$ 788,030	800,858	(12,828)	(2)%
Capital assets	4,244,628	4,151,206	93,422	2%
Deferred outflow of resources	45,753	90,752	(44,999)	(50)%
Total assets and deferred outflow	<u>5,078,411</u>	<u>5,042,816</u>	<u>35,595</u>	1%
Current and other liabilities	211,351	206,553	4,798	2%
Long-term liabilities	3,133,074	3,092,410	40,664	1%
Deferred inflow of resources	70,304	115,303	(44,999)	(39)%
Total liabilities and deferred inflow	<u>3,414,729</u>	<u>3,414,266</u>	<u>463</u>	0%
Net position:				
Net investment in capital assets	1,083,394	1,031,360	52,034	5%
Restricted	297,740	314,519	(16,779)	(5)%
Unrestricted	282,548	282,671	(123)	(0)%
Total net position	<u>\$ 1,663,682</u>	<u>1,628,550</u>	<u>35,132</u>	2%

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

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

## **EAST BAY MUNICIPAL UTILITY DISTRICT**

### **Management's Discussion and Analysis**

June 30, 2014

#### ***Results of Operations***

In the current fiscal year, the District's total operating revenue of \$462 million for the year increased by \$35 million and total operating expense of \$406 million for the year increased by \$21 million. The District's net position increased in the current and prior fiscal years. The change in net position (including capital contributions) decreased from \$37 million in the previous fiscal year to \$35 million in the current fiscal year. The District's total net position increased from \$1,629 million to \$1,664 million during the current fiscal year.

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

- Water revenues increased by \$31 million, mainly reflecting a 9.75% water rate increase in the current fiscal year.
- Wastewater revenues increased by \$4 million, mainly reflecting a 9% rate increase in the current fiscal year.
- Power revenues decreased by \$2 million over the previous year due to lower precipitation and run-off for power generation in the current fiscal year as compared to the previous fiscal year.
- Operating expense increased by \$21 million, primarily as a result of an increase in raw water expenses of \$6 million from the purchase of additional drought water supply, and water treatment and distribution expenses increased by approximately \$8 million as a result of \$5 million increase in the maintenance of distribution mains and \$4 million increase in sewer lines and pumps expenses and sewer treatment plant operation expenses.
- Non-operating net expense increased by \$8 million primarily due to the reclassification of the change of equity in JPA partnership fund from amortization expense to non-operating expense.
- Capital contributions decreased by \$7 million primarily reflecting a decrease of \$7 million in grant received in current fiscal year compared to the prior year. Page 16 contains additional capital contributions information.

## **EAST BAY MUNICIPAL UTILITY DISTRICT**

### **Management's Discussion and Analysis**

June 30, 2014

In the previous fiscal year, the District's total operating revenue of \$427 million for the year increased by \$34 million and total operating expense of \$385 million for the year increased by \$13 million. The District's change in net position (including capital contributions) increased from negative \$27 million in fiscal year 2012 to \$37 million fiscal year 2013. The District's total net position increased from \$1,592 million to \$1,629 million during the fiscal year 2013.

The major components of the District's results of operations in fiscal year 2013 were:

- Water revenues increased by \$30 million, mainly reflecting a 6% water rate increase and a 3.9% increase in consumption in fiscal year 2013.
- Wastewater revenues increased by \$4 million, mainly reflecting a 6% rate increase in the current fiscal year 2013.
- Power revenues decreased by \$1 million over the fiscal year 2012 due to lower precipitation and run-off for power generation in the fiscal year 2013 as compared to the previous fiscal year.
- Operating expense increased by \$13 million, primarily due to a \$15 million increase in General Administration that includes an increase of \$5 million in information services equipment, regulatory compliance, public information and emergency preparedness, no adjustment to amortization expense of \$10 million as in fiscal year 2012, offset by \$2 million reduction in expenses related to water and wastewater operations because of cost containment measures based on lower projected water consumption.
- Non-operating net expense decreased by \$34 million primarily due to a \$4 million increase by a one-time state reimbursement of borrowed property taxes (Prop 1A) and one-time redevelopment agency property tax reimbursements, no \$25 million charge for swap counterparty change as in fiscal year 2012, and a \$5 million reduction in amortization of bond expenses.
- Capital contributions increased by \$9 million primarily reflecting increased funds received from state grants (\$4 million from Mokelumne Aqueducts Interconnection Project) and an increase in net funds from System Capacity Fees, mainly reflecting an 11% rate increase and a one-time major construction project in Walnut Creek. In addition, there were \$1 million fewer refunds in the fiscal year 2013 versus the prior year with overall connections staying the same. Page 16 contains additional capital contributions information.

# EAST BAY MUNICIPAL UTILITY DISTRICT

## Management's Discussion and Analysis

June 30, 2014

Table 2 shows changes in the District's net position for the fiscal years ended June 30, 2014, 2013, and 2012:

**Table 2**

Changes in Net Position

Water and Wastewater

June 30, 2014 and 2013

(In thousands)

	<u>2014</u>	<u>2013</u>	<u>Variance</u>	<u>%</u>
Operating Revenue:				
Water	\$ 367,547	336,066	31,481	9%
Sewer	72,345	68,050	4,295	6%
Power	2,479	4,289	(1,810)	(42)%
Wet weather facilities charges	19,389	18,321	1,068	6%
Total operating revenue	<u>461,760</u>	<u>426,726</u>	<u>35,034</u>	8%
Operating Expense:				
Raw water	41,066	33,076	7,990	24%
Water treatment & distribution	97,610	89,596	8,014	9%
Recreation areas, net	5,166	5,341	(175)	(3)%
Sewer lines & pumps	13,658	12,530	1,128	9%
Sewer treatment plant operations	31,748	28,683	3,065	11%
Customer accounting & collecting	20,323	18,518	1,805	10%
Financial and risk management	17,019	17,227	(208)	(1)%
Facilities management	9,054	8,829	225	3%
General administration	57,724	61,690	(3,966)	(6)%
Depreciation (excluding amounts reported within the Water and Wastewater operations)	<u>112,662</u>	<u>109,162</u>	<u>3,500</u>	3%
Total operating expense	<u>406,030</u>	<u>384,652</u>	<u>21,378</u>	6%
Net operating income (expense)	55,730	42,074	13,656	32%
Nonoperating income (expense):				
Investment income	2,512	5,192	(2,680)	(52)%
Taxes & subventions	35,373	35,844	(471)	(1)%
Interest & amortization of bond expenses, net	(121,069)	(116,270)	(4,799)	4%
Increase (decrease) of Equity in JPA partnership fund	(8,146)	—	(8,146)	N/A
Other income	20,501	12,698	7,803	61%
Total nonoperating income (expense), net	<u>(70,829)</u>	<u>(62,536)</u>	<u>(8,293)</u>	13%
Loss before contributions	(15,099)	(20,462)	5,363	(26)%
Capital contributions	<u>50,231</u>	<u>57,388</u>	<u>(7,157)</u>	(12)%
Change in net position	35,132	36,926	(1,794)	(5)%
Total net position – beginning	<u>1,628,550</u>	<u>1,591,624</u>	<u>36,926</u>	2%
Total net position – ending	<u>\$ 1,663,682</u>	<u>1,628,550</u>	<u>35,132</u>	2%

# EAST BAY MUNICIPAL UTILITY DISTRICT

## Management's Discussion and Analysis

June 30, 2014

**Table 2 (Continued)**

Changes in Net Position

Water and Wastewater

June 30, 2013 and 2012

(In thousands)

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

# EAST BAY MUNICIPAL UTILITY DISTRICT

## Management's Discussion and Analysis

June 30, 2014

### *Liquidity*

The District had \$488 million in combined current and non-current District Cash and Investments as of June 30, 2014, an increase of \$11 million compared to \$477 million as of June 30, 2013. Components of cash and investments for the year ended June 30, 2014 were:

- Water System total combined current and non-current Cash and Investments increased by \$21 million or 6% from \$371 million as of June 30, 2013 to \$392 million as of June 30, 2014. Net current Cash and Cash Equivalents increased by \$75 million compared to the prior year primarily due to an increase of \$22 million from operating revenues, a decrease of \$15 million capital and related expenses, and an increase of \$39 million from the reallocation of investments between short-term and long-term investments. Investments decreased by \$26 million primarily due to the aforementioned reallocation of investments between short-term and long-term investments.
- Wastewater System Total combined current and non-current Cash and Investments decreased by \$9 million or 9% from \$105 million as of June 30, 2013 to \$96 million as of June 30, 2014. Net current Cash and Cash Equivalents decreased by \$51 million compared to the prior year primarily due to a an increase of \$7 million from operating revenue offset by a larger decrease of \$59 million from the reallocation of investments between short-term and long-term investments. Investments increased by \$7 million primarily due to the aforementioned reallocation of investments between short-term and long-term investments.

Table 3 shows the District's cash flow for the fiscal years ended June 30, 2014, 2013 and 2012:

<b>Table 3</b> Cash Flows Water and Wastewater System June 30, 2014 and 2013 (In thousands)				
	<b>2014</b>	<b>2013</b>	<b>Variance</b>	<b>%</b>
Net cash provided by operating activities	\$ 234,083	\$ 206,025	28,058	14%
Net cash provided by financing activities	35,373	35,844	(471)	(1)%
Net cash provided by (used in) capital and related financing activities	(260,545)	(277,220)	16,675	(6)%
Net cash provided by (used in) investing activities	21,005	41,713	(20,708)	(50)%
Net increase (decrease) in cash and cash equivalents	29,916	6,362	23,554	370%
Cash and cash equivalents:				
Beginning of year	217,601	211,239	6,362	3%
End of period	<u>\$ 247,517</u>	<u>\$ 217,601</u>	<u>29,916</u>	<u>14%</u>
Investments	240,718	259,341	(18,623)	(7)%
Total District Cash and Investments	<u>\$ 488,235</u>	<u>\$ 476,942</u>	<u>11,293</u>	<u>2%</u>



# EAST BAY MUNICIPAL UTILITY DISTRICT

## Management's Discussion and Analysis

June 30, 2014

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

	<u>2013</u>	<u>2012</u>	<u>Variance</u>	<u>%</u>
Net cash provided by operating activities	\$ 206,025	\$ 152,284	53,741	35%
Net cash provided by financing activities	35,844	31,693	4,151	13%
Net cash provided by (used in) capital and related financing activities	(277,220)	(347,472)	70,252	(20)%
Net cash provided by (used in) investing activities	<u>41,713</u>	<u>180,970</u>	<u>(139,257)</u>	<u>(77)%</u>
Net increase (decrease) in cash and cash equivalents	6,362	17,475	(11,113)	(64)%
Cash and cash equivalents:				
Beginning of year	211,239	193,764	17,475	9%
End of period	<u>\$ 217,601</u>	<u>\$ 211,239</u>	<u>6,362</u>	<u>3%</u>
Investment	<u>259,341</u>	<u>295,575</u>	<u>(36,234)</u>	<u>(12)%</u>
Total District cash and investments	<u>\$ 476,942</u>	<u>\$ 506,814</u>	<u>(29,872)</u>	<u>(6)%</u>

### ***Cash and Investments by Fund***

In fiscal years 2014 and 2013, total cash and investments available for operating and capital activities are reported in current and noncurrent assets as unrestricted and restricted funds. Significant activities were as follows: Water System reserved an additional \$35 million in revenue in the rate stabilization funds and used \$14 million in capital reserves to fund capital projects. Wastewater System reserved an additional \$3 million in revenues in the rate stabilization fund, used \$6 million in borrowed funds and \$7 million in capital reserves to fund capital projects and equipment, and restricted \$2 million in Funds Received for Construction for the Private Sewer Lateral Incentive program.

In the previous fiscal year, significant activities were as follows: Water System reserved an additional \$21 million in revenue to fund future capital projects, used \$3 million in capital reserves to purchase vehicles and reduced the Debt Service and Bond Interest reserves as part of the fiscal year 2013 refinancing activity. Wastewater System reserved an additional \$16 million in revenue to fund future capital projects and used \$30 million in Construction Funds from borrowing.

Operating and Capital Reserves are components of Unrestricted Cash and Investments. Individual funds within Operating and Capital Reserves are funded pursuant to Board policy but are unrestricted as to use. For additional information see Note 1H on page 32.

Table 4 shows the District's cash and investment by fund for the fiscal years ended June 30, 2014, 2013 and 2012:

# EAST BAY MUNICIPAL UTILITY DISTRICT

## Management's Discussion and Analysis

June 30, 2014

**Table 4**

Cash and Investment by Fund

Water and Wastewater

June 30, 2014 and 2013

(In thousands)

	<b>Water System</b>		<b>Wastewater System</b>		<b>Total</b>		<b>Increase (decrease)</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>Amount</b>	<b>%</b>
Unrestricted cash and investment								
Operating reserves:								
Rate stabilization fund	\$ 85,000	50,000	17,590	15,000	102,590	65,000	37,590	58%
Working capital reserve	59,200	56,700	15,200	14,900	74,400	71,600	2,800	4%
Self-insurance	5,000	5,000	1,700	1,700	6,700	6,700	—	0%
Workers compensation	3,200	3,200	600	600	3,800	3,800	—	0%
Total operating reserves	152,400	114,900	35,090	32,200	187,490	147,100	40,390	27%
Capital reserves:								
Reserved for capital projects	174,307	188,347	36,836	41,422	211,143	229,769	(18,626)	(8)%
Reserve funded CIP - Wastewater	—	—	14,430	14,390	14,430	14,390	40	0%
Vehicle replacements	4,625	5,067	—	—	4,625	5,067	(442)	(9)%
Equipment replacements	310	—	4,907	7,525	5,217	7,525	(2,308)	(31)%
Total capital reserves	179,242	193,414	56,173	63,337	235,415	256,751	(21,336)	(8)%
Total Unrestricted cash and investment	331,642	308,314	91,263	95,537	422,905	403,851	19,054	5%
Restricted Cash and Investments								
Bond construction fund	—	—	—	5,720	—	5,720	(5,720)	(100)%
Capitalized interest fund	—	—	—	1,582	—	1,582	(1,582)	(100)%
Bond interest and redemption fund	848	139	109	19	957	158	799	506%
Debt service reserve fund	29,368	34,175	2,538	2,538	31,906	36,713	(4,807)	(13)%
Funds received for construction	27,447	26,081	2,214	—	29,661	26,081	3,580	14%
FERC partnership fund	2,247	2,232	—	—	2,247	2,232	15	1%
Monetary reserve	534	534	—	—	534	534	—	0%
ABAG program restricted fund	25	71	—	—	25	71	(46)	(65)%
Total restricted cash and investments	60,469	63,232	4,861	9,859	65,330	73,091	(7,761)	(11)%
Total District Cash and Investments	\$ 392,111	371,546	96,124	105,396	488,235	476,942	11,293	2%

Cash and Investment by Fund

Water and Wastewater

June 30, 2013 and 2012

(In thousands)

	<b>Water System</b>		<b>Wastewater System</b>		<b>Total</b>		<b>Increase (decrease)</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>	<b>Amount</b>	<b>%</b>
Unrestricted cash and investment								
Operating reserves:								
Rate stabilization fund	\$ 50,000	50,000	15,000	15,000	65,000	65,000	—	0%
Working capital reserve	56,700	54,100	14,900	14,200	71,600	68,300	3,300	5%
Self-insurance	5,000	5,000	1,700	1,700	6,700	6,700	—	0%
Workers compensation	3,200	3,200	600	600	3,800	3,800	—	0%
Total operating reserves	114,900	112,300	32,200	31,500	147,100	143,800	3,300	2%
Capital reserves:								
Reserved for capital projects	188,347	167,670	41,422	25,338	229,769	193,008	36,761	19%
Reserve funded CIP - Wastewater	—	—	14,390	14,288	14,390	14,288	102	1%
Vehicle replacements	5,067	7,844	—	—	5,067	7,844	(2,777)	(35)%
Equipment replacements	—	—	7,525	8,674	7,525	8,674	(1,149)	(13)%
Total capital reserves	193,414	175,514	63,337	48,300	256,751	223,814	32,937	15%
Total Unrestricted cash and investment	308,314	287,814	95,537	79,800	403,851	367,614	36,237	10%
Restricted Cash and Investments								
Bond construction fund	—	411	5,720	35,532	5,720	35,943	(30,223)	(84)%
Capitalized interest fund	—	—	1,582	3,327	1,582	3,327	(1,745)	(52)%
Bond interest and redemption fund	139	24,210	19	—	158	24,210	(24,052)	(99)%
Debt service reserve fund	34,175	46,730	2,538	2,538	36,713	49,268	(12,555)	(25)%
Funds received for construction	26,081	23,492	—	—	26,081	23,492	2,589	11%
FERC partnership fund	2,232	2,238	—	—	2,232	2,238	(6)	(0)%
Monetary reserve	534	722	—	—	534	722	(188)	(26)%
ABAG program restricted fund	71	—	—	—	71	—	71	N/A
Total restricted cash and investments	63,232	97,803	9,859	41,397	73,091	139,200	(66,109)	(47)%
Total District Cash and Investments	\$ 371,546	385,617	105,396	121,197	476,942	506,814	(29,872)	(6)%

# EAST BAY MUNICIPAL UTILITY DISTRICT

## Management's Discussion and Analysis

June 30, 2014

### 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.

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

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

Grants and other reimbursements decreased from \$8 million to \$1 million primarily due to less grant money received in the current year compared to the prior year.

Table 5 shows the District's capital contributions received for the fiscal years ended June 30, 2014, 2013 and 2012:

**Table 5**  
Capital Contributions  
Water and Wastewater  
June 30, 2014 and 2013  
(In thousands)

	<b>Water System</b>		<b>Wastewater System</b>		<b>Total</b>		<b>Increase (decrease)</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>Amount</b>	<b>%</b>
System capacity charges	\$ 20,365	22,673	806	1,264	21,171	23,937	(2,766)	(12)%
Earned contributions on construction	5,240	4,540	—	—	5,240	4,540	700	15%
Seismic improvement surcharge	22,682	20,585	—	—	22,682	20,585	2,097	10%
Grants and other reimbursements	752	7,993	386	333	1,138	8,326	(7,188)	(86)%
<b>Totals</b>	<b>\$ 49,039</b>	<b>55,791</b>	<b>1,192</b>	<b>1,597</b>	<b>50,231</b>	<b>57,388</b>	<b>(7,157)</b>	<b>(12)%</b>

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

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

# EAST BAY MUNICIPAL UTILITY DISTRICT

## Management's Discussion and Analysis

June 30, 2014

### CAPITAL ASSETS

Table 6 shows the District's capital assets for the fiscal years ended June 30, 2014, 2013 and 2012:

**Table 6**

Capital Assets, Net of Depreciation

Water and Wastewater

June 30, 2014 and 2013

(In thousands)

	<u>Water System</u>		<u>Wastewater System</u>		<u>Total</u>		<u>Increase/(decrease)</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>Amount</u>	<u>%</u>
Structures, buildings, and equipment	\$ 3,269,155	3,176,727	597,687	546,182	3,866,842	3,722,909	143,933	3.9%
Land and rights of way	55,274	55,455	20,231	20,048	75,505	75,503	2	0.0%
Construction work in progress	<u>243,219</u>	<u>252,473</u>	<u>59,062</u>	<u>100,321</u>	<u>302,281</u>	<u>352,794</u>	<u>(50,513)</u>	<u>(14.3)%</u>
Totals	<u>\$ 3,567,648</u>	<u>3,484,655</u>	<u>676,980</u>	<u>666,551</u>	<u>4,244,628</u>	<u>4,151,206</u>	<u>93,422</u>	<u>2.3%</u>

Capital Assets, Net of Depreciation

Water and Wastewater

June 30, 2013 and 2012

(In thousands)

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

The District had \$4.2 billion (net of accumulated depreciation) invested in a broad range of utility capital assets as of June 30, 2014. Total capital assets were \$4.2 billion as of June 30, 2013. The investment in capital assets includes land, buildings, improvements, water treatment plants, filter plants, aqueducts, water transmission and distribution mains, water storage facilities, pump stations, water reclamation facilities, wastewater and wet weather treatment facilities, machinery and equipment (*see Table 6 above*). In the current fiscal year, capital assets increased by \$93 million or 2.3% over the prior fiscal year. In fiscal year 2013, capital assets increased \$97 million or 2.4% over fiscal year 2012. Annual changes are consistent with the District's capital improvement program.

## EAST BAY MUNICIPAL UTILITY DISTRICT

### Management's Discussion and Analysis

June 30, 2014

The Water System had \$3.6 billion (net of accumulated depreciation) invested in a broad range of utility capital assets as of June 30, 2014. The investment in capital assets includes land, buildings, improvements, water treatment plants, filter plants, aqueducts, water transmission and distribution mains, water storage facilities, power generation, pump stations, water reclamation facilities, machinery and equipment.

The Wastewater System had \$677 million (net of accumulated depreciation) invested in a broad range of utility capital assets as of June 30, 2014. The investment in capital assets includes land, buildings, improvements, power generation, wastewater and wet weather treatment facilities, machinery and equipment.

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

This year's major capital expenditures included:

#### **Water System:**

Pipeline Infrastruct Renewals	\$30,661
Large Diameter Pipelines	28,994
Pumping Plant Rehabilitation	21,595
Treatment Plant Upgrades	15,235
Reservoir Rehab/Maintenance	14,644
WTTIP WTP Improvements	10,902
Adm Bldg Modifications	10,770
SRV Recycled Water Program	8,443
Summit Pressure Zone Improve	8,002
Addl Supplemental Supply Projs	7,120
Pipeline Relocations	6,264
Freeport Regional Wtr Project	5,193
Water Conservation Project	4,645
Open Cut Reservoir Rehab	4,343
Dam Seismic Upgrades	4,001
Srvc Latl Repl Polybutylene	3,828
Raw Water Studies and Improves	2,896
Pipeline System Improvements	2,835
Transmission System SIP	2,479

#### **Wastewater System:**

Treatment Plant Infrastructure	14,725
Infiltration/Inflow Contrl Prj	11,815
Wood St Sewer Intercept Rehab	7,234
Concrete Rehab at SD1	6,306
Routine Cap Equip Replacement	3,041
PGS Engine Overhaul	2,809
Wet Weather Plant Imprmts	2,198
MWWTP Master Plan	1,828
Interceptor Corrosion Prevent	1,617
DCS Upgrades	1,576

# EAST BAY MUNICIPAL UTILITY DISTRICT

## Management's Discussion and Analysis

June 30, 2014

### DEBT ADMINISTRATION

The District had total long-term debt outstanding of \$3.1 billion as of June 30, 2014, a 1% increase from June 30, 2013. Total long-term debt outstanding was \$3.1 billion as of June 30, 2013, a 1% increase from June 30, 2012. Components of the District's long-term debt portfolio as of June 30, 2014 are:

- The Water System had total long-term debt outstanding of \$2.7 billion. During fiscal year 2014, the District redeemed \$13.1 million of commercial paper and issued a total of \$446 million Water System Revenue Bonds, of which \$371 million was issued to refund Water System Subordinated Revenue Refunding Bond Series 2005A, 2008A, 2008B-3 and 2011A.
- The Wastewater System had total long-term debt outstanding of \$455 million. During fiscal year 2014, the District issued \$14 million of Wastewater System General Obligation Refunding Bonds Series G to refund Wastewater System General Obligation Bond Series F.

Table 7 shows the District's long-term debt outstanding for the fiscal years ended June 30, 2014, 2013 and 2012:

**Table 7**

Long -Term Debt

(Net of Unamortized Costs)

Water and Wastewater

June 30, 2014 and 2013

(In thousands)

	Water System		Wastewater System		Total		Increase (decrease)	
	2014	2013	2014	2013	2014	2013	Amount	%
General obligation bonds	\$ —	—	15,225	18,812	15,225	18,812	(3,587)	(19)%
Revenue bonds	2,330,450	2,266,515	424,748	435,337	2,755,198	2,701,852	53,346	2%
Extendable commercial paper	359,800	372,900	15,000	15,000	374,800	387,900	(13,100)	(3)%
Loans	16,011	17,002	—	—	16,011	17,002	(991)	(6)%
Totals	\$ 2,706,261	2,656,417	454,973	469,149	3,161,234	3,125,566	35,668	1%

Long -Term Debt

(Net of Unamortized Costs)

Water and Wastewater

June 30, 2013 and 2012

(In thousands)

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

# EAST BAY MUNICIPAL UTILITY DISTRICT

## Management's Discussion and Analysis

June 30, 2014

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

*Debt Service Coverage Ratio:* Maintain an annual revenue bond debt coverage ratio of at least 1.6 times coverage. As of 6/30/2014, the coverage ratio for Water was 1.66 and for Wastewater was 1.60; the overall District's ratio was 1.65.

*Debt-Funded Capital Spending:* Limit debt-funded capital to no more than 65% of the total capital program over each five-year planning period. As of 6/30/2014, the percentage of debt-funded capital spending for Water was 61.6% and for Wastewater was 66.0%; the overall District's percentage was 62.4%.

*Extended Commercial Paper and Un-hedged Variable Rate Debt:* Limit to 25% of outstanding long-term debt. As of 6/30/2014, the percentage of extended commercial paper and un-hedged variable rate debt compared to total outstanding long-term debt for Water was 13.8% and for Wastewater was 3.3%; the overall District's percentage was 12.2%.

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

**Table 8**  
Credit Ratings  
Water and Wastewater  
June 30, 2014

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

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

Revenue-supported debt authorization for the District can be approved by the District's board of directors, subject to a referendum process. At June 30, 2014, the Water System had \$527.3 million and the Wastewater System had \$204.3 million in authorized but unissued revenue bonds.

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

# **EAST BAY MUNICIPAL UTILITY DISTRICT**

## **Management's Discussion and Analysis**

June 30, 2014

### **REQUEST FOR INFORMATION**

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



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

	Water System		Wastewater System		Totals	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Current assets:						
Cash and cash equivalents (Note 2)	\$134,171	\$87,960	\$66,715	\$78,381	\$200,886	\$166,341
Investments (Note 2)	197,471	220,354	24,548	17,156	222,019	237,510
Receivables:						
Customer	41,909	47,566	5,512	6,504	47,421	54,070
Interest and other	2,268	5,002	2,081	2,905	4,349	7,907
Materials and supplies	6,177	6,641	-	-	6,177	6,641
Prepaid Insurance	1,133	1,115	-	-	1,133	1,115
Total current assets	383,129	368,638	98,856	104,946	481,985	473,584
Noncurrent assets:						
Restricted cash and investments (Note 2):						
Cash and cash equivalents	41,770	41,401	4,861	9,859	46,631	51,260
Investments	18,699	21,831	-	-	18,699	21,831
Total restricted cash and investments	60,469	63,232	4,861	9,859	65,330	73,091
Other assets:						
Equity in JPA partnership fund (Note 2J)	240,260	253,720	-	-	240,260	253,720
Other	140	135	315	328	455	463
Total other assets	240,400	253,855	315	328	240,715	254,183
Capital assets (Note 3):						
Structures, buildings, and equipment	4,779,391	4,600,402	969,603	899,906	5,748,994	5,500,308
Less accumulated depreciation	(1,510,236)	(1,423,675)	(371,916)	(353,724)	(1,882,152)	(1,777,399)
Subtotal	3,269,155	3,176,727	597,687	546,182	3,866,842	3,722,909
Land and rights-of-way	55,274	55,455	20,231	20,048	75,505	75,503
Construction in progress	243,219	252,473	59,062	100,321	302,281	352,794
Total capital assets, net	3,567,648	3,484,655	676,980	666,551	4,244,628	4,151,206
Total noncurrent assets	3,868,517	3,801,742	682,156	676,738	4,550,673	4,478,480
Total assets	4,251,646	4,170,380	781,012	781,684	5,032,658	4,952,064
Deferred outflows of resources:						
Accumulated decrease in fair value of hedging derivatives (Note 6)						
Total deferred outflows	30,756	74,848	14,997	15,904	45,753	90,752
Total assets and deferred outflows	\$4,282,402	\$4,245,228	\$796,009	\$797,588	\$5,078,411	\$5,042,816

(Continued)

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

	Water System		Wastewater System		Totals	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Current liabilities:						
Current maturities of long-term debt and Commercial Paper (Note 5 & 6)						
Accounts payable and accrued expenses (Note 4)	\$35,690	\$19,576	\$12,470	\$13,580	\$48,160	\$33,156
Current reserve for claims (Note 9)	70,837	60,616	9,149	9,198	79,986	69,814
Accrued interest	7,903	6,498	780	845	8,683	7,343
	8,552	8,930	1,811	1,854	10,363	10,784
Total current liabilities	122,982	95,620	24,210	25,477	147,192	121,097
Noncurrent liabilities:						
Advances for construction	7,850	6,571	-	-	7,850	6,571
OPEB liabilities (Note 8)	18,363	16,367	3,322	2,965	21,685	19,332
Reserve for claims (Note 9)	30,125	30,130	4,589	4,728	34,714	34,858
Other liabilities	13,873	18,543	6,037	6,152	19,910	24,695
Long-term liabilities, net of current maturities (Note 5 & 6)	2,670,571	2,636,841	442,503	455,569	3,113,074	3,092,410
Total noncurrent liabilities	2,740,782	2,708,452	456,451	469,414	3,197,233	3,177,866
Total liabilities	2,863,764	2,804,072	480,661	494,891	3,344,425	3,298,963
Deferred inflows of resources						
Derivative instrument (Note 6)	30,756	74,848	14,997	15,904	45,753	90,752
Swap Novation (Note 6F)	24,551	24,551	-	-	24,551	24,551
Total deferred inflows	55,307	99,399	14,997	15,904	70,304	115,303
Total liabilities and deferred inflows	2,919,071	2,903,471	495,658	510,795	3,414,729	3,414,266
Net position (Note 7):						
Net investment in capital assets	861,386	828,238	222,008	203,122	1,083,394	1,031,360
Restricted for construction (Note 1H)	19,597	19,510	2,214	1,582	21,811	21,092
Restricted for debt service (Note 1H)	30,216	34,314	2,647	2,557	32,863	36,871
Restricted for JPA	240,260	253,720	-	-	240,260	253,720
Restricted - other (Note 1H)	2,806	2,836	-	-	2,806	2,836
Unrestricted	209,066	203,139	73,482	79,532	282,548	282,671
Total net position	1,363,331	1,341,757	300,351	286,793	1,663,682	1,628,550
Total liabilities and net position	\$4,282,402	\$4,245,228	\$796,009	\$797,588	\$5,078,411	\$5,042,816

See accompanying notes to financial statements

EAST BAY MUNICIPAL UTILITY DISTRICT  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013  
(DOLLARS IN THOUSANDS)

	Water System		Wastewater System		Total
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2013
Operating revenue:					
Water	\$367,547	\$336,066	-	-	\$367,547
Sewer	-	-	\$72,345	\$68,050	72,345
Power	1,380	3,596	1,099	693	2,479
Wet weather facilities charges	-	-	19,389	18,321	19,389
Total operating revenue	368,927	339,662	92,833	87,064	461,760
Operating expense:					
Raw water	41,066	33,076	-	-	41,066
Water treatment and distribution	97,610	89,596	-	-	97,610
Recreation areas, net	5,166	5,341	-	-	5,166
Sewer lines and pumping	-	-	13,658	12,530	13,658
Sewer treatment plant operations	-	-	31,748	28,683	31,748
Customer accounting and collecting	17,995	16,140	2,328	2,378	20,323
Financial and risk management	16,379	16,637	640	590	17,019
Facilities management	9,054	8,829	-	-	9,054
General administration	50,052	53,339	7,672	8,351	57,724
Depreciation on utility plant and vehicle	90,426	87,303	22,236	21,859	112,662
Total operating expense	327,748	310,261	78,282	74,391	406,030
Net operating income	41,179	29,401	14,551	12,673	55,730
Nonoperating income (expense):					
Investment income	2,243	2,608	269	2,584	2,512
Taxes and subventions	25,492	26,436	9,881	9,408	35,373
Interest and amortization of bond expenses, net of capitalized interest of \$7,637 and \$7,836 for the Water System and \$3,470 and \$2,934 for the Wastewater System in 2014 and 2013, respectively	(104,339)	(97,865)	(16,730)	(18,405)	(121,069)
Increase (decrease) of equity in JPA partnership fund	(8,146)	-	-	-	(8,146)
Other income	16,106	9,342	4,395	3,356	20,501
Total nonoperating income (expense), net	(68,644)	(59,479)	(2,185)	(3,057)	(70,829)
Income (loss) before capital contributions	(27,465)	(30,078)	12,366	9,616	(15,099)
Capital contributions	49,039	55,791	1,192	1,597	50,231
Change in net position	21,574	25,713	13,558	11,213	35,132
Total net position - beginning	1,341,757	1,316,044	286,793	275,580	1,628,550
Total net position - ending	\$1,363,331	\$1,341,757	\$300,351	\$286,793	\$1,663,682

See accompanying notes to financial statements

EAST BAY MUNICIPAL UTILITY DISTRICT  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013  
(DOLLARS IN THOUSANDS)

	Water System		Wastewater System		Total
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014
Cash flows from operating activities					
Cash received from customers	\$374,584	\$333,279	\$93,825	\$86,431	\$468,409
Cash received from other income	16,106	9,342	4,395	3,356	20,501
Cash payments for judgments and claims	(5,154)	(5,669)	(196)	(131)	(5,350)
Cash payments to suppliers for goods and services	(49,634)	(22,678)	(27,256)	(24,492)	(76,890)
Cash payments to employees for services	(146,184)	(146,076)	(26,403)	(27,337)	(172,587)
Net cash provided by operating activities	189,718	168,198	44,365	37,827	234,083
Cash flows from noncapital financing activities:					
Tax receipts	25,492	26,436	9,881	9,408	35,373
Net cash provided by financing activities	25,492	26,436	9,881	9,408	35,373
Capital and related financing activities:					
Capital contributions	49,039	55,791	1,192	1,597	50,231
Proceeds from advances for construction	1,279	2,462	-	-	1,279
Proceeds from sale of capital assets	6,454	439	-	-	6,454
Net proceeds and premiums from sale of bonds	535,210	90,102	15,879	1,240	551,089
Acquisition and construction of capital assets	(203,942)	(204,500)	(34,059)	(36,230)	(238,001)
Change in Investment in JPA	5,314	-	-	-	5,314
Principal retirement on long-term debt and commercial paper	(482,665)	(943)	(29,743)	(13,303)	(512,408)
Amount paid to refunding bond escrow agent	(1,826)	(57,455)	(305)	-	(2,131)
Costs and discounts from issuance on long-term debt	(875)	(273)	(7)	-	(882)
Interest paid on long-term debt	(104,717)	(97,689)	(16,773)	(18,458)	(121,490)
Net cash provided by (used in) capital and related financing activities	(196,729)	(212,066)	(63,816)	(65,154)	(260,545)
Cash flows from investing activities:					
Proceeds from securities	524,430	262,124	15,716	64,291	540,146
Expenditures from purchases of securities	(498,415)	(276,118)	(23,108)	(14,065)	(521,523)
Interest received on investments	2,084	3,361	298	2,120	2,382
Net cash provided by (used in) investing activities	28,099	(10,633)	(7,094)	52,346	21,005
Net increase (decrease) in cash and cash equivalents	46,580	(28,065)	(16,664)	34,427	29,916
Cash and cash equivalents:					
Beginning of year	129,361	157,426	88,240	53,813	217,601
End of period	\$175,941	\$129,361	\$71,576	\$88,240	\$247,517

(Continued)

EAST BAY MUNICIPAL UTILITY DISTRICT  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013  
(DOLLARS IN THOUSANDS)

	Water System		Wastewater System		Total
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2013
Reconciliation of net operating income to net cash provided by operating activities:					
Net operating income	\$41,179	\$29,401	\$14,551	\$12,673	\$55,730
Adjustments to reconcile net operating income to net cash provided by operating activities:					
Depreciation on utility plant and vehicle	90,426	87,303	22,236	21,859	112,662
Depreciation within recreation areas	1,547	1,537	-	-	1,547
Amortization	22,522	25,639	1,394	1,176	23,916
Other income	16,106	9,342	4,395	3,356	20,501
Changes in assets/liabilities:					
Materials and supplies	464	132	-	-	464
Prepaid insurance	(18)	(32)	-	-	(18)
Customer receivables	5,657	(6,383)	992	(633)	6,649
Other assets	2,888	908	808	(876)	3,696
OPEB liability	1,996	2,859	357	530	2,353
Reserve for claims	1,400	(826)	(204)	(596)	1,196
Accounts payable and accrued expenses	5,551	18,318	(164)	338	5,387
Net cash provided by operating activities	\$189,718	\$168,198	\$44,365	\$37,827	\$234,083
Schedule of Non-Cash Activities					
Change in Fair Value	(\$417)	(\$968)	(\$60)	(\$97)	(\$477)
					(\$1,065)

See accompanying notes to financial statements

EAST BAY MUNICIPAL UTILITY DISTRICT  
STATEMENTS OF FIDUCIARY NET POSITION  
FIDUCIARY FUND - PENSION AND OTHER EMPLOYEE BENEFIT TRUST  
(COMPONENT UNIT)  
JUNE 30, 2014 AND 2013  
(DOLLARS IN THOUSANDS)

	<u>2014</u>	<u>2013</u>
Assets:		
Cash and cash equivalents (Note 2)	\$36,658	\$34,397
Invested securities lending collateral (Note 1.L. and 2)	129,511	101,523
Receivables:		
Contributions	3,501	2,973
Interest and other	5,019	14,405
Prepaid expenses	477	459
Investments, at fair value (Note 2):		
U.S. government obligations	82,377	86,483
Municipal bonds	4,385	5,774
Domestic corporate bonds	153,500	123,929
International bonds	10,847	13,877
Domestic stocks	783,177	604,676
International stocks	204,458	208,130
Real estate	68,194	53,222
Total Investments	<u>1,306,938</u>	<u>1,096,091</u>
Total assets	<u>1,482,104</u>	<u>1,249,848</u>
Liabilities:		
Accounts payable and accrued expenses	1,507	1,472
Payables to brokers, securities purchased	4,198	22,525
Securities lending collateral (Note 1.L.)	<u>129,511</u>	<u>101,523</u>
Total liabilities	<u>135,216</u>	<u>125,520</u>
Net position:		
Held in trust for pension benefits	1,325,387	1,107,628
Held in trust for post-employment healthcare benefits	<u>21,501</u>	<u>16,700</u>
Total net position	<u><u>\$1,346,888</u></u>	<u><u>\$1,124,328</u></u>

See accompanying notes to basic financial statements

EAST BAY MUNICIPAL UTILITY DISTRICT  
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUND - PENSION AND OTHER EMPLOYEE BENEFIT TRUST  
(COMPONENT UNIT)  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013  
(DOLLARS IN THOUSANDS)

	2014	2013
Additions:		
Contributions (Note 8)		
Employer	\$70,117	\$61,567
Plan members	12,133	10,566
Total contributions	82,250	72,133
Investment income:		
Net appreciation (depreciation) in fair value of investments		
Traded securities	197,439	120,223
Real estate	2,129	877
Interest	7,193	7,794
Dividends	15,470	12,348
Real estate operating income, net	1,104	1,144
Total investment income	223,335	142,386
Less:		
Investment expense	(3,437)	(3,729)
Borrowers' rebates and other agent fees on securities lending transactions	(67)	(122)
Net investment income	219,831	138,535
Total additions, net	302,081	210,668
Deductions:		
Benefits paid	78,149	71,760
Refund of contributions	116	335
Administrative expenses	1,256	1,217
Total deductions	79,521	73,312
Change in net position	222,560	137,356
Net position:		
Beginning of year	1,124,328	986,972
End of year	\$1,346,888	\$1,124,328

See accompanying notes to basic financial statements

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013  
(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) was formed in May 1923 under the provisions of the Municipal Utility District Act of 1921, as amended in 1941. The District is comprised of two financially independent entities: the Water System and the Wastewater System. These two entities are governed by the same elected seven-member board of directors which determines such matters as rates and charges for services, approval of contracts, and District policies. The Water System provides administrative and other support services to the Wastewater System. These costs are charged to the Wastewater System.

***B. Description of the Component Unit***

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

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

***C. Basis of Presentation***

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

The basic financial statements include prior year comparative information. A complete presentation of the prior year information can be found in the District's financial statements for the year ended June 30, 2013.

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

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

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

Additionally, the District reports the following fiduciary fund:

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



**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013  
(Dollars in Thousands)**

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

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

***D. Basis of Accounting***

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

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District are charges to customers for sales and services. The District also recognizes wet weather facilities charges as operating revenue. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

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

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

- Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets and related deferred inflows and outflows.
- Restricted – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or law or regulations of other governments. It also pertains to constraints imposed by law or constitutional provisions or enabling legislation.

**EAST BAY MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**  
**(Dollars in Thousands)**

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

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

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

**E. Use of Estimates and Assumptions**

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

**F. Capital Assets**

**Utility Plant – at Original Cost**

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

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

**Water Supply Management Program**

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

**Preliminary Survey and Investigation Costs**

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

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013  
(Dollars in Thousands)**

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

**Contract Water Rights**

The District has contracted with the U.S. Bureau of Reclamation for water deliveries from the Central Valley Project (CVP) through February 2046 (Long Term Renewal Contract), with the anticipation of subsequent renewals of 40 year terms. Payments under the contract include reimbursement based on the amounts of water delivered to EBMUD of capital costs for CVP storage and conveyance facilities (EBMUD's current allocation is \$4,510) and the Operation & Maintenance Deficit (EBMUD's current balance is \$6,781).

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

**G. Depreciation**

Depreciation of capital assets is computed on a straight-line basis using the estimated service lives of the related assets (5 to 100 years).

**H. Restricted Assets**

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 sales for Water and at least 5% of projected annual operating and maintenance expenses for Wastewater. Funding of the RSF is consistent with Bond documents. In fiscal year 2014, the District combined the Rate Stabilization Fund and the Contingency and Rate Stabilization Reserve into a single Rate Stabilization Fund (RSF) reserve to enhance transparency.
- Working Capital 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 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.

**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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- Workers' compensation reserve is established by Policy 4.02, as adopted by the Board of Directors in the bi-annual budget, to maintain levels 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.
- 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 year balance is \$0 for Water and 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 June 30, 2014 and 2013, respectively, the balances were \$29,638 and \$34,175 for Water, and \$2,538 and \$2,538 for Wastewater.

**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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- 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. As of June 30, 2014 and 2013, respectively, the balances were \$848 and \$139 for Water, and \$109 and \$19 for Wastewater.
- Capitalized Interest fund is restricted by the specific bond issue for the purpose of defraying that bond issue's debt service payments for a specified period. As of June 30, 2014 and 2013 respectively, the balances were \$0 and \$0 for Water, and \$0 and \$1,582 for Wastewater.
- 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 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). The balance as of June 30, 2013 was \$26,081 for Water (\$18,994 for Future Water Supply, \$7,087 for Applicant Work) and \$0 for Wastewater.
- FERC partnership fund of \$2,000 was established January 11, 1999, in compliance with the Federal Energy Regulatory Commission (FERC) order which brought resolution to its Mokelumne River Proceeding. The District will manage the fund and income derived from investing the funds will provide operating support to the joint settlement agreement with U.S. Fish and Wildlife and California Fish and Game to protect the Mokelumne River Ecosystem from Pardee Reservoir to the Delta. The principal and any unused earnings shall remain the property of the District and will revert to the District upon expiration of the agreement in March 2031 or upon withdrawal of any party to the agreement. As of June 30, 2014 and 2013, respectively, the balance was \$2,247 and \$2,232 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 into between the District and APX for the sale and purchase of electric power. The funds held on deposit shall be withdrawn by the Depository and Clearing Agent in the event that sufficient funds are not deposited in the District settlement account to cover power exchange transactions. As of June 30, 2014 and 2013, respectively, the balance was \$534 and \$534 for Water.

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<b>NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)</b>
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- 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 June 30, 2014 and 2013, respectively, the balance was \$25 and \$71 for Water.

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

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

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

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

***K. District Investments***

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

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

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

***L. Retirement System Investments***

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

**EAST BAY MUNICIPAL UTILITY DISTRICT**  
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<b>NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)</b>
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The System presents in the Statements of Changes in Plan Net Position the net change in the fair value of its investments, which consists of the realized gains or losses and the unrealized appreciation (depreciation) on those investments. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

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

Retirement Board policies permit the Employees' Retirement System to use investments of the pension plan to enter into securities lending transactions, which are loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return collateral for the same securities in the future. The System's securities custodian is an agent in lending the Plan's securities for cash collateral, U.S. government securities, and irrevocable letters of credit of 102% for domestic securities lent and 105% for international securities lent. As of June 30, 2014, the Employees' Retirement System had no credit risk exposure to borrowers because the amounts the Employees' Retirement System owes the borrowers exceed the amounts the borrowers owe the Employees' Retirement System.

Contracts with the lending agent require them to indemnify the Employees' Retirement System under certain circumstances if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the System for income distributions by the securities issuers while the securities are on loan. The risk of any loss of collateral or investment of cash collateral (including a loss of income or principal, or loss of market value thereon) lies with the System, except for losses resulting from negligence or intentional misconduct of the agent in performing the duties allocated under the securities lending agreement with respect to collateral. During the year ended June 30, 2014, there were no violations of legal or contractual provisions, and no borrower or lending agent default losses known to the securities lending agent.

In lending securities, cash collateral is invested in the lending agent's short-term investment pool, which as of June 30, 2014, had a weighted average maturity of 37 days. The relationship between the maturities of the investment pool and the System's loans is affected by the maturities of the securities loans made by other entities that use the agent's pool, which the System cannot determine. Cash collateral may also be invested separately in term loans, in which case the maturity of the collateral investment generally matches the term of the loan. Noncash collateral cannot be pledged or sold unless the borrower defaults. All securities loans can be terminated on demand by either the lender or the borrower, although the average term of overall loans for the System was approximately 115 days. There are no dividends or coupon payments owing on the securities lent. Cash received as collateral on securities lending transactions is reported as an asset of the System with a corresponding liability.

As of June 30, 2014, the fair value of securities on loan was \$129,511. The total cash and noncash collateral held by the System's custodian to secure these securities on loan was valued at \$126,604 (all cash collateral).

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

***M. Material and Supplies***

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

***N. Compensated Absences***

Compensated absences as of June 30, 2014, 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.

The changes in compensated absences were as follows:

	Water System		Wastewater System		Total	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Beginning Balance	\$23,452	\$24,399	\$4,066	\$4,371	\$27,518	\$28,770
Additions	(22,014)	24,418	(4,195)	4,248	(26,209)	28,666
Payments	24,187	(25,365)	4,361	(4,553)	28,548	(29,918)
Ending Balance	<u>\$25,625</u>	<u>\$23,452</u>	<u>\$4,232</u>	<u>\$4,066</u>	<u>\$29,857</u>	<u>\$27,518</u>

***O. 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.

***P. Interest Rate Swap***

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



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

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

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

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

In addition to liabilities, the statement of financial position or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

**NOTE 2 - CASH AND INVESTMENTS**

***A. Classification***

Reconciliations of cash and investments reported on the financial statements as of June 30, 2014, are as follows:

	Water System	Wastewater System	Total
<b><i>District Enterprise Funds:</i></b>			
Cash and investments included in current assets	\$331,642	\$91,263	\$422,905
Cash and investments included in restricted investments	60,469	4,861	65,330
Total District cash and investments	392,111	96,124	488,235
Less investments	(216,170)	(24,548)	(240,718)
Cash and cash equivalents	<u>\$175,941</u>	<u>\$71,576</u>	<u>\$247,517</u>
<b><i>System Pension Trust Funds:</i></b>			
Cash and cash equivalents			\$36,658
Invested securities lending collateral			129,511
Retirement system investments			1,306,938
Total System cash and investments			<u>\$1,473,107</u>

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

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

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

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

The District does not enter into reverse repurchase agreements.

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

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

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

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

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

The System's investment policies authorize the System to invest in financial instruments in three broad investment categories: equity, fixed income, and real estate. These financial instruments can include, but are not limited to, corporate bonds, commercial paper, U.S. government securities, common and preferred stock, real estate investment trusts, and mutual funds. Fixed income investments may include futures and options contracts in order to provide added flexibility in managing the fixed income portfolio. The following is a summary of the System investment policy adopted by the System with *Resolution No. 6789*.

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

Core Fixed Income	10%
Non-Core Fixed Income	10%
Domestic Equity	40%
Covered Calls	20%
International Equity	15%
Real Estate	5%
Allocation to Cash	0%

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

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<b>NOTE 2 - CASH AND INVESTMENTS (Continued)</b>
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The Director of Finance is authorized to transfer assets from any asset class which exceeds the long-term asset allocation goal by more than 3% at the end of two or more consecutive quarters, allocating the excess assets to a manager or group of managers with the exception of real estate managers. The Director of Finance is further authorized to withdraw assets from assigned managers as necessary to efficiently meet operating needs.

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

The core fixed income target allocation (10% of the total portfolio) will primarily consist of U.S. denominated fixed income securities. Individual managers may invest up to 20% of their assets in international fixed income securities.

The non-core fixed income target allocation (10% of the total portfolio) will primarily consist of U.S. denominated fixed income securities. Individual managers may invest up to 35% of their assets in international fixed income securities. It is expected that this allocation may have a material allocation to below investment grade securities.

The domestic equity allocation target (40% of the total portfolio) will consist of approximately 37% in large cap market related growth and value (average risk) securities, 3% in small capitalized securities, and 20% in international securities. The international equity allocation target will consist of approximately 17% international equities and 3% emerging markets. It is expected this allocation will allow for exposure to mid cap securities based on tactical decisions by the Retirement Fund's large cap and small cap domestic equity managers.

The covered calls target allocation (20% of the total portfolio) may consist of a combination of Chicago Board Options Exchange S&P 500 BuyWrite Index (the "BXM Index") replication strategy and/or active non-replication strategies and their underlying domestic equity portfolios.

The international equity target allocation (15% of the total portfolio) will consist of approximately 12% in international equities and 3% in emerging markets equities.

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

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

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

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<b>NOTE 2 - CASH AND INVESTMENTS (Continued)</b>
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The use of futures and options in the fixed income accounts may be used as part of their portfolio management strategy and will be incidental to their securities trading activities. The resulting aggregate risk profile (volatility) of the portfolio will not be different from that permissible by using securities only.

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

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

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

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

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

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

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

***E. Interest Rate Risk***

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

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

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

***District Enterprise Funds:***

Investment Type	12 Months or less	13 to 24 Months	25 to 60 Months	Total
U.S. Government-Sponsored Enterprise Agencies:				
Non-callable	\$102,654	\$21,681	\$12,914	\$137,249
Callable		14,989	26,964	41,953
Corporate Securities	404	3,554	10,566	14,524
Municipal Bonds	7,765	4,256	1,991	14,012
Commercial Paper Discounted	9,992			9,992
Guaranteed Investment Contracts	12,000			12,000
Demand Deposits and Certificate of Deposit	10,945			10,945
Mutual Funds (U.S. Securities)	133,160			133,160
California Asset Management Program	40,002			40,002
California Local Agency Investment Fund	43,528			43,528
Total Investments	<u>\$360,450</u>	<u>\$44,480</u>	<u>\$52,435</u>	457,365
Cash in banks				<u>30,870</u>
Total District Cash and Investments				<u>\$488,235</u>

***System Pension Trust Fund:***

Investment Type	Less than 12 Months	12 to 72 Months	72 to 120 Months	More than 120 Months	Maturity not Determined	Total
Asset Backed Securities	\$847	\$5,920	\$1,103	\$1,653		\$9,523
Equity Securities	980,808					980,808
Commercial Mortgage - Backed Securities				8,865		8,865
Corporate Bonds	317	42,040	15,231	5,434	\$32,077	95,099
Government Agencies		8,148	6,284	2,894		17,326
Government Bonds		29,348	8,612	5,163		43,123
Government Mortgage - Backed Securities	1		209	14,262		14,472
Government Issued Commercial Mortgage - Backed Securities				239		239
Index Linked Government Bonds	1,811	4,507		899		7,217
Short Term Investment Funds					6,829	6,829
Municipal Bonds		549	1,629	2,207		4,385
Mutual Funds				267		267
Real Estate					68,194	68,194
Other Fixed Income		18,662			31,929	50,591
Total System Investments	<u>\$983,784</u>	<u>\$109,174</u>	<u>\$33,068</u>	<u>\$41,883</u>	<u>\$139,029</u>	<u>\$1,306,938</u>

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

The District and System are participants in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. They report their investment in LAIF at the market value amount provided by LAIF, which is the same as the value of the pool share. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. On June 30, 2014, these investments matured in an average of 232 days.

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

Highly Sensitive Investments	Year End
Commercial Mortgage - Backed Securities	\$8,865
Government Mortgage - Backed Securities	14,472
Government Issued Commercial Mortgage - Backed Securities	239

**F. Credit Risk**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical credit rating organization. Presented below is the actual rating as of June 30, 2014, for each investment type as provided by Moody's.

*District Enterprise Funds:*

Investment Type	Aaa	Aa2	Aa3	A1	A2	Total
U.S. Government-Sponsored						
Enterprise Agencies:						
Non-Callable	\$137,249					\$137,249
Callable	41,953					41,953
Corporate Securities	4,420	\$4,569	\$5,131	\$404		14,524
Municipal Bonds		11,053				11,053
Commercial Paper Discounted		9,992				9,992
Guaranteed Investment Contracts					\$12,000	12,000
Mutual Funds (U.S. Securities)	133,160					133,160
Totals	<u>\$316,782</u>	<u>\$25,614</u>	<u>\$5,131</u>	<u>\$404</u>	<u>\$12,000</u>	359,931
<i>Not rated:</i>						
Demand Deposits and Certificate of Deposit						10,945
Municipal Bonds						2,959
California Local Agency Investment Fund						43,528
California Asset Management Program						40,002
Cash in Banks						<u>30,870</u>
Total District Cash and Investment						<u>\$488,235</u>

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

***System Pension Trust Fund:***

Investment Type	Aaa	Aa	A	Baa	Ba	U.S. Government Guaranteed	Not Rated	Total
Asset Backed Securities	\$6,981	\$475		\$200			\$1,867	\$9,523
Equity Securities							980,808	980,808
Commercial Mortgage - Backed Securities	5,498	634	\$172	11			2,550	8,865
Corporate Bonds	445	14,977	27,803	18,100	\$331		33,443	95,099
Government Agencies	14,393					\$1,146	1,787	17,326
Government Bonds	43,123							43,123
Government Mortgage - Backed Securities						14,246	226	14,472
Government Issued								
Commercial Mortgage - Backed Securities						239		239
IndexLinked Government Bonds	7,217							7,217
Short Term Investment Funds							6,829	6,829
Municipal Bonds		3,786					599	4,385
Mutual Funds			145				122	267
Real Estate							68,194	68,194
Other Fixed Income							50,591	50,591
Total System Investments	<u>\$77,657</u>	<u>\$19,872</u>	<u>\$28,120</u>	<u>\$18,311</u>	<u>\$331</u>	<u>\$15,631</u>	<u>\$1,147,016</u>	<u>\$1,306,938</u>

***G. Concentration Risk***

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

***District Enterprise Funds:***

Reporting Unit	Issuer	Investment Type	Reported Amount
District-Wide			
	FHLB	Federal Agency Securities	\$105,393
	FNMA	Federal Agency Securities	37,070
Major Funds:			
Water System			
	FHLB	Federal Agency Securities	96,844
	FNMA	Federal Agency Securities	35,025
	FHLMC	Federal Agency Securities	19,750
Wastewater System			
	FHLB	Federal Agency Securities	8,549
	FFCB	Federal Agency Securities	5,996

***System Pension Trust Fund:***

Significant System Pension Trust Fund investments are:

Nature of investment	Fair Value at Year End
Northern Trust Collective Daily Russell 1000 Equity Index Fund	\$216,642



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

***H. Foreign Currency Risk***

***System Pension Trust Fund:***

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair values of an investment or deposit. Presented below in US dollars is the fair market value of the System's foreign investments at June 30, 2014:

<u>Foreign Currency</u>	<u>Equity Securities Investment Type</u>
Euro	\$65,666
British Pound Sterling	33,665
Hong Kong Dollar	15,660
Swiss Franc	14,544
Japanese Yen	12,394
South Korean Won	8,614
Canadian Dollar	5,032
Danish Krone	4,643
Australian Dollar	3,248
Swedish Krona	2,897
Brazilian Real	2,691
Singapore Dollar	2,463
Norwegian Krone	2,427
Indonesian Rupiah	1,281
Mexican Peso	1,268
Thai Baht	863
Turkish Lira	793
Malaysia Ringgit	376
Total	<u><u>\$178,525</u></u>

The Fund's investment policy permits it to invest up to 20% of total investment on foreign currency-denominated investments. The Fund's current position is 14%.

***I. Custodial Credit Risk***

Custodial credit risk for *cash on deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, the District or System will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

**EAST BAY MUNICIPAL UTILITY DISTRICT**  
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<b>NOTE 2 - CASH AND INVESTMENTS (Continued)</b>
--

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

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

As of June 30, 2014 and 2013, the System's brokers/dealers held \$77 and \$117, respectively, in cash and US government bonds exposed to custodial credit risk.

***J. Joint Powers Authority***

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

**EAST BAY MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
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<b>NOTE 3 – CAPITAL ASSETS</b>
--------------------------------

**A. Summary**

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

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

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

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

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

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

**B. Additions and Retirements**

Capital assets activity for all business-type activities for the year ended June 30, 2014, was as follows:

	Balance at June 30, 2013	Additions and Transfers, net	Retirements and Transfers, net	Balance at June 30, 2014
<b>Water System:</b>				
Capital assets, not being depreciated:				
Land	\$52,488		(\$181)	\$52,307
Rights-of-way	2,967			2,967
Construction in progress - Land	489		(77)	412
Construction in progress	251,984	\$216,580	(225,757)	242,807
Total capital assets, not being depreciated	307,928	216,580	(226,015)	298,493
Capital assets, being depreciated:				
Buildings and improvements	217,567	352		217,919
System and improvements	4,302,503	220,446	(44,831)	4,478,118
Machinery and equipment	80,332	4,959	(1,937)	83,354
Total capital assets, being depreciated:	4,600,402	225,757	(46,768)	4,779,391
Less accumulated depreciation for:				
Buildings and improvements	(86,756)	(4,810)		(91,566)
System and improvements	(1,275,741)	(84,038)	3,643	(1,356,136)
Machinery and equipment	(61,178)	(3,125)	1,769	(62,534)
Total accumulated depreciation	(1,423,675)	(91,973)	5,412	(1,510,236)
Total capital assets, being depreciated, net	3,176,727	133,784	(41,356)	3,269,155
Water System capital assets, net	\$3,484,655	\$350,364	(\$267,371)	\$3,567,648
<b>Wastewater System:</b>				
Capital assets, not being depreciated:				
Land	\$19,857	\$183		\$20,040
Rights-of-way	191			191
Construction in progress - Land	259	193	(\$183)	269
Construction in progress	100,062	35,130	(76,399)	58,793
Total capital assets, not being depreciated	120,369	35,506	(76,582)	79,293
Capital assets, being depreciated:				
Buildings and improvements	75,473	236		75,709
System and improvements	814,968	75,745	(6,702)	884,011
Machinery and equipment	9,465	418		9,883
Total capital assets, being depreciated	899,906	76,399	(6,702)	969,603
Less accumulated depreciation for:				
Buildings and improvements	(31,818)	(1,679)		(33,497)
System and improvements	(316,016)	(20,042)	4,044	(332,014)
Machinery and equipment	(5,890)	(515)		(6,405)
Total accumulated depreciation	(353,724)	(22,236)	4,044	(371,916)
Total capital assets, being depreciated, net	546,182	54,163	(2,658)	597,687
Wastewater System capital assets, net	\$666,551	\$89,669	(\$79,240)	\$676,980
Business-type activities capital assets, net	\$4,151,206	\$440,033	(\$346,611)	\$4,244,628

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

**C. Construction in Progress**

Construction in Progress in fiscal 2013-2014 comprises:

	<u>Expended to Date</u>
<b><i>Water System:</i></b>	
Pipeline Infrastruct Renewals	\$ 30,661
Large Diameter Pipelines	28,994
Pumping Plant Rehabilitation	21,595
Treatment Plant Upgrades	15,235
Reservoir Rehab/Maintenance	14,644
WTTIP WTP Improvements	10,902
Adm Bldg Modifications	10,770
SRV Recycled Water Program	8,443
Summit Pressure Zone Improve	8,002
Addl Supplemental Supply Projs	7,120
Pipeline Relocations	6,264
Freeport Regional Wtr Project	5,193
Water Conservation Project	4,645
Open Cut Reservoir Rehab	4,343
Dam Seismic Upgrades	4,001
Srvc Latl Repl Polybutylene	3,828
Raw Water Studies and Improves	2,896
Pipeline System Improvements	2,835
Transmission System SIP	2,479
Small Capital Improvements	2,440
Other Construction Projects	47,929
	<u>\$ 243,219</u>
<b><i>Wastewater System:</i></b>	
Treatment Plant Infrastructure	\$ 14,725
Infiltration/Inflow Contrl Prj	11,815
Wood St Sewer Intercept Rehab	7,234
Concrete Rehab at SD1	6,306
Routine Cap Equip Replacement	3,041
PGS Engine Overhaul	2,809
Wet Weather Plant Imprmts	2,198
MWWTP Master Plan	1,828
Interceptor Corrosion Prevent	1,617
DCS Upgrades	1,576
Digester Upgrade	871
MWWTP Pwr Dist Sys Upgrade	871
West End Property Development	859
Resource Recovery Project	847
So Interceptor Reloc High St	540
Other Construction Projects	1,925
	<u>\$ 59,062</u>
Total District Construction in Progress	<u><u>\$ 302,281</u></u>

At June 30, 2014, the District's remaining current major project commitments are estimated to be \$20,495 for the Water System and \$9,643 for the Wastewater System.

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013  
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**NOTE 4 – ACCOUNTS PAYABLE & ACCRUED EXPENSES**

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

	Water System		Wastewater System		Total	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Accounts payable	\$27,262	\$13,848	\$2,911	\$3,537	\$30,173	\$17,385
Accrued salaries	3,454	2,800	600	492	4,054	3,292
Accrued compensated absences	25,625	23,452	4,232	4,066	29,857	27,518
Other	14,496	20,516	1,406	1,103	15,902	21,619
Total	<u>\$70,837</u>	<u>\$60,616</u>	<u>\$9,149</u>	<u>\$9,198</u>	<u>\$79,986</u>	<u>\$69,814</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 June 30, 2014, the District had \$475 million authorized for this program. The proceeds from the issuance of commercial paper are restricted as to use. Under this program, which must be authorized by the Board of Directors every seven years and is subject to the right of referendum, the Water System or the Wastewater System may issue commercial paper and bank notes at prevailing interest rates for periods not more than 270 days from the date of issuance. The program was last authorized on March 10, 2009.

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

As of June 30, 2014, \$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 50 to 119 days and interest rates ranging from 0.07% to 0.11% as of June 30, 2014, and terms of 51 to 119 days and interest rates ranging from 0.14% to 0.20% as of June 30, 2013. The Wastewater Series included the term of 84 days and an interest rate of 0.11% as of June 30, 2014, and terms of 97 days and an interest rate of 0.17% as of June 30, 2013. There were no unused proceeds as of June 30, 2014. It is the District's practice to use extendable commercial paper as a portion of the District's long-term variable rate debt exposure.

**EAST BAY MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
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**NOTE 6 – LONG-TERM DEBT**

**A. Composition and Changes**

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

	Original Issue Amount	Balance June 30, 2013	Additions	Retirements	Balance June 30, 2014	Amount due within one year
<b>Water System Revenue Bonds:</b>						
<b>Subordinated Series 2005 A</b>						
5.00%, due 6/1/35	\$300,000	\$228,250		\$144,360	\$83,890	
<b>Subordinated Series 2007 A</b>						
5.00%, due 6/1/37	450,000	330,000			330,000	
<b>Subordinated Series 2007 B</b>						
3.75 - 5.00%, due 6/1/19	54,790	35,700		5,250	30,450	\$5,510
<b>Subordinated Series 2008 A</b>						
.04% variable rate, due 6/1/38	322,525	200,550		95,300	105,250	
<b>Subordinated Series 2008 B</b>						
.03% variable rate, due 6/1/35	160,000	15,100		15,100		
<b>Subordinated Series 2009 A</b>						
.26% variable rate, due 6/1/26	331,155	82,075			82,075	
<b>Subordinated Series 2010 A</b>						
3.00 - 5.00%, due 6/1/36	192,830	190,570		2,435	188,135	2,435
<b>Subordinated Series 2010 B</b>						
5.87%, due 6/1/40	400,000	400,000			400,000	
<b>Series 2011 A</b>						
.42% variable rate, due 6/1/25	159,210	148,170		148,170		
<b>Series 2012 A</b>						
5.00% , due 6/1/37	191,750	191,750			191,750	
<b>Series 2012 B</b>						
1.00 -5.00%, due 6/1/26	358,620	339,995		7,155	332,840	20,590
<b>Series 2013 A</b>						
5.00%, due 6/1/21	48,670	48,670		3,145	45,525	5,510
<b>Series 2014 A</b>						
3.00-5.00%, due 6/1/35	128,315		\$128,315		128,315	
<b>Series 2014 B</b>						
2.00-5.00%, due 6/1/30	242,730		242,730		242,730	630
<b>Series 2014C</b>						
5.00%, due 6/1/44	75,000		75,000		75,000	
Total water long-term bonds		2,210,830	446,045	420,915	2,235,960	34,675

(Continued)

**EAST BAY MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
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**NOTE 6 - LONG TERM DEBT (Continued)**

	Original Issue Amount	Balance June 30, 2013	Additions	Retirements	Balance June 30, 2014	Amount due within one year
<b><i>Wastewater System General</i></b>						
<b><i>Obligation Bonds:</i></b>						
<b>Series F</b>						
2.5 % - 5.00%, due 4/1/18	\$41,730	\$18,555		\$18,555		
<b>Series G</b>						
5.00%, due 4/1/18	14,160		\$14,160		\$14,160	\$3,250
<b><i>Wastewater System Revenue Bonds:</i></b>						
<b>Subordinated Series 2007 A</b>						
5.00%, due 6/1/37	80,630	60,630			60,630	
<b>Subordinated Series 2007 B</b>						
3.75 - 5.00%, due 6/1/26	46,670	35,290		2,700	32,590	2,775
<b>Subordinated Series 2008 C</b>						
.06% variable rate, due 6/1/27	65,300	51,690		2,590	49,100	2,740
<b>Subordinated Series 2010 A</b>						
2.00 - 5.00%, due 6/1/29	58,095	51,705		3,240	48,465	1,905
<b>Subordinated Series 2010 B</b>						
5.03 - 5.18%, due 6/1/40	150,000	150,000			150,000	
<b>Series 2011 A</b>						
.38% variable rate, due 6/1/38	65,905	60,845		1,750	59,095	1,800
<b>Series 2012 A</b>						
5.00% , due 6/1/37	20,000	20,000			20,000	
Total wastewater long-term bonds		448,715	14,160	28,835	434,040	12,470
<b>Total long-term bonds</b>		<b>2,659,545</b>	<b>460,205</b>	<b>449,750</b>	<b>2,670,000</b>	<b>47,145</b>
<b><i>Water Loans:</i></b>						
<b><i>State Water Resources Control Board</i></b>						
<b>2004 Upper San Leandro Reservoir Project</b>						
2.51%, due 1/1/24	2,188	1,283		108	1,175	111
<b>2008 East Bayshore, Recycled Water Project</b>						
2.40%, due 4/1/28	20,100	15,719		883	14,836	904
Total water loans		17,002		991	16,011	1,015
<b>Total long-term loans</b>		<b>17,002</b>		<b>991</b>	<b>16,011</b>	<b>1,015</b>
<b><i>Commercial Paper (see Note 5)</i></b>						
Water System Commercial Paper		372,900	1,615,500	(1,628,600)	359,800	
Wastewater System Commercial Paper		15,000	75,000	(75,000)	15,000	
Total commercial paper		387,900	1,690,500	(1,703,600)	374,800	
Amount due within one year		(33,156)		(15,004)	(48,160)	
Add: Unamortized premium, net		61,119	39,304		100,423	
<b>Total long-term liabilities, uet</b>		<b>\$3,092,410</b>	<b>\$2,175,005</b>	<b>\$2,154,341</b>	<b>\$3,113,074</b>	<b>\$48,160</b>



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

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

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

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

The District is subject to certain revenue bond covenants on outstanding debt, the most restrictive of which requires the setting of rates and charges to yield net revenue, as defined, equal to at least 110% of the current annual debt service requirements of the combined senior and subordinated Water System and Wastewater System Revenue Bonds, respectively. The District has designated \$102.6 million (\$85.0 million for the Water System and \$17.6 million for the Wastewater System) in net revenues as a rate stabilization fund, which is available to satisfy the coverage requirements for debt service in future years. There have never been any draws for this purpose.

***Water Issuance During the Year***

**2014 Water System Revenue Refunding Bonds, Series 2014A** – The District issued \$128.3 million principal amount of Series 2014A Bonds on May 19, 2014, to refund \$144.4 million principal amount of the District's Water System Subordinated Revenue Bonds, Series 2005A and to pay the costs of issuance of the Bonds. The Series 2014A 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, 2027 and are payable annually on June 1 thereafter. Interest payments are payable on June 1 and December 1 of each year, commencing December 1, 2014.

The refunding of Water System Revenue Bonds, Series 2014A created an economic gain of \$18.9 million.

**EAST BAY MUNICIPAL UTILITY DISTRICT**  
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<b>NOTE 6 – LONG-TERM DEBT (Continued)</b>
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**2014 Water System Revenue Refunding Bonds, Series 2014B** - The District issued \$242.7 million principal amount of Series 2014B Bonds on May 19, 2014. A portion of the proceeds of the Series 2014B Bonds was applied to refund \$95.3 million principal amount of the District's Water System Subordinated Revenue Refunding Bonds variable rate Series 2008A, as well as \$15.1 million principal amount of the District's Water System Subordinated Revenue Refunding Bonds variable rate Series 2008B Bonds, \$148.2 million principal amount of the District's Water System Subordinated Revenue Refunding Bonds variable rate Series 2011A Bonds, to pay the costs of terminating certain interest rate swap agreements related to the Water System Revenue Bonds to be refunded, and to pay the costs of issuance of the Bonds. The Series 2014B 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, 2015, and are payable annually on June 1 thereafter. Interest payments are payable on June 1 and December 1 of each year, commencing December 1, 2014.

The refunding of Water System Revenue Bonds, Series 2014B, created an economic gain of \$0.7 million.

**2014 Water System Revenue Bonds, Series 2014C** – The District issued \$75.0 million principal amount of Series 2014C Bonds on June 26, 2014, to provide additional funding to finance improvements to the Water System of the District and pay the costs of issuance of the Bonds. The Series 2014C 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, 2041 and are payable annually on June 1 thereafter. Interest payments are payable on June 1 and December 1 of each year, commencing December 1, 2014.

***Wastewater Issuance During the Year***

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

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

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

**C. Debt Service Requirements**

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

For the Year Ending June 30	Water System		Wastewater System		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$35,690	\$110,152	\$12,470	\$19,021	\$48,160	\$129,173
2016	49,260	108,827	13,430	18,460	62,690	127,287
2017	52,979	106,609	14,140	17,866	67,119	124,475
2018	59,119	104,081	14,280	16,871	73,399	120,952
2019	61,565	101,431	11,180	16,738	72,745	118,169
2020 - 2024	348,266	460,872	59,935	76,757	408,201	537,629
2025 - 2029	400,158	374,783	66,600	65,384	466,758	440,167
2030 - 2034	498,015	269,091	94,920	48,304	592,935	317,395
2035 - 2039	636,460	132,964	54,195	28,907	690,655	161,871
2040 - 2043	110,459	14,951	92,890		203,349	14,951
Totals	<u>\$2,251,971</u>	<u>\$1,783,761</u>	<u>\$434,040</u>	<u>\$308,308</u>	<u>\$2,686,011</u>	<u>\$2,092,069</u>

Interest payments on debt subject to swap agreements were calculated using the variable rates at June 30, 2014.

**D. Prior-Year Defeasances**

In prior years, the District defeased certain debt issues by placing proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the defeased debt are not included in the District's financial statements. On June 30, 2014, none of the bonds outstanding are considered defeased.

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

***E. Variable Rate Debt***

The District has a number of bond issues with variable interest rates. The Water Series 2008A Bonds, and Wastewater Series 2008C Bonds are subject to purchase on the demand of the holder with seven days prior notice at a price equal to the principal plus accrued interest. The remarketing agent is authorized to use its best efforts to sell the repurchased bonds at a price equal to 100 percent of the principal amount by adjusting the interest rate. In the event that they not sold, under Standby Bond Purchase Agreements (SBPAs) issued by banks for the above variable rate debt issues, the trustee or the remarketing agent is entitled to draw an amount sufficient to pay the purchase price of delivered bonds. The District is required to pay an annual commitment fee to the banks issuing SBPAs. Expiration dates of these SBPAs are presented below by debt issue. In addition, the remarketing agent receives an annual fee of seven basis points of the outstanding principal amount of the bonds.

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

Issue	Standby Purchase Agreement Terms		
	Expiration Date	Interest Rate	Rate Swap Swap Rate
Water System Revenue			
Subordinated Bonds:			
Series 2008A-1	12/9/2016	Reset Weekly	See below
Series 2008A-2	7/1/2015	Reset Weekly	See below
Series 2008A-3	7/1/2015	Reset Weekly	See below
Series 2008A-4	12/9/2016	Reset Weekly	See below
Series 2009A-1	12/1/2015	Weekly SIFMA Index + 0.20%	See below
Series 2009A-2	12/1/2015	Weekly SIFMA Index + 0.20%	See below
Wastewater System Revenue			
Subordinated Bonds:			
Series 2008C	12/9/2016	Reset Weekly	See below
Series 2011A	7/8/2015	Weekly SIFMA Index + 0.32%	See below

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

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

The District has entered into a number of matched interest rate swap contracts with providers in which the District contracted to pay a fixed rate on the nominal amount of outstanding bonds, in exchange for a floating rate payment, set monthly, two business days prior to the end of each month. The combination of variable rate bonds and a floating-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 June 30, 2014, are included below. The District's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to follow scheduled reductions in the associated bonds.

Related Bond Issue	Notional Amount	Effective Date	Counterparty	Counterparty Credit Ratings (Moody's/ S&P)	Issuer Pays	Issuer Receives	Maturity/ Termination Date
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
2009A Water System Refunding Bonds	61,725	6/1/2012	Deutsche Bank AG	A2/A	3.407%	91.0% of SIFMA	6/1/2026
2009A Water System Refunding Bonds	20,350	5/23/2007	Merrill Lynch Capital Services	Baa2/A-	3.407%	91.0% of SIFMA	6/1/2026
2011A Wastewater System Refunding Bonds	59,950	12/16/2008	Dexia Credit Local	Baa2/BBB	3.098%	62.3% of 3-month LIBOR	6/1/2038
2008C Wastewater System Refunding Bonds	24,550	3/5/2003	Citigroup, Inc.	Baa2/A-	3.468%	65% of 30-day LIBOR	6/1/2027
2008C Wastewater System Refunding Bonds	24,550	3/5/2003	JP Morgan Chase & Co.	Aa3/A+	3.468%	65% of 30-day LIBOR	6/1/2027

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

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

*Fair value.* The fair value of the swaps takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction and any upfront payments that may have been received. The fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the LIBOR swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps. The fair values of each swap at June 30, 2014, are included below:

Related Bond Issuance	Fair Value	
	2014	2013
<b>Water</b>		
2011A Water System Refunding Bonds		(\$28,005)
2008A Water System Refunding Bonds	(\$19,543)	(33,768)
2009A Water System Refunding Bonds	(11,213)	(13,075)
Total Water	<u>(30,756)</u>	<u>(74,848)</u>
<b>Wastewater</b>		
2011A Wastewater System Refunding Bonds	(8,131)	(8,417)
2008C Wastewater System Refunding Bonds	<u>(6,866)</u>	<u>(7,487)</u>
Total Wastewater	<u>(14,997)</u>	<u>(15,904)</u>
Totals	<u><u>(\$45,753)</u></u>	<u><u>(\$90,752)</u></u>

*Credit risk.* As of June 30, 2014, the District was not exposed to credit risk on its outstanding swaps because the swaps had a negative fair value of \$46 million. The District faces a maximum possible loss equivalent to the swaps' fair value. However, if interest rates increase and the fair value of the swaps were to become positive, the District would be exposed to credit risk.

The District will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated. The swap agreements contain provisions determining if and when the District or the counterparty must provide collateral. The agreements require full collateralization of the fair value of the swap should the counterparty's credit rating fall below a certain threshold. At June 30, 2014, the District provided no collateral between all SWAP counterparties.

*Basis risk.* Basis risk is the risk that the interest rate paid by the District on underlying variable rate bonds to bondholders temporarily differs from the variable swap rate received from the applicable counterparty. The District bears basis risk on its swaps. The swaps have basis risk since the District receives a percentage of LIBOR and/or SIFMA Municipal Swap Index to offset the actual variable bond rate the District pays on its bonds. The District is exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate the District pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost of the basis risk may vary. Currently, the District has basis difference on its swaps ranging from a positive 7 basis points (the District receives more from its swap floating rate payment than it pays out on its variable rate debt) to negative basis difference of 22 basis points.

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

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

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

*Swap payments and associated debt.* Using rates as of June 30, 2014, debt service requirements of the District's outstanding variable-rate debt and net swap payments are as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary. These payments below are included in the Debt Service Requirements at C. above:

For the Year Ending June 30	Variable-Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest	Interest	
2015	\$4,540	\$495	\$9,187	\$9,682
2016	4,705	487	9,036	9,523
2017	4,915	478	8,878	9,356
2018	5,125	469	8,713	9,182
2019	5,305	459	8,542	9,001
2020 - 2024	78,580	1,910	37,219	39,129
2025 - 2029	67,020	699	20,627	21,326
2030 - 2034	58,845	414	14,375	14,789
2035 - 2038	66,485	98	3,143	3,241
Totals	<u>\$295,520</u>	<u>\$5,509</u>	<u>\$119,720</u>	<u>\$125,229</u>

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**NOTE 7 – NET POSITION**

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

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

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

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

**NOTE 8 – EMPLOYEES' RETIREMENT PLAN**

***A. Description***

The Employees' Retirement System is a single-employer, contributory, defined benefit pension plan (the Plan) which provides retirement, disability, survivorship, and post-employment healthcare benefits for eligible directors, officers, and employees of the District. The Plan is administered by a Retirement Board composed of three members appointed by the District's Board of Directors and two members elected by and from the active membership of the Plan, and a nonvoting member elected by the retirees of the Plan. Retirement Ordinance No. 40 assigns the authority to establish Plan benefit provisions to the District's Board of Directors. A stand-alone financial report of the Employees' Retirement System is available. Please send request to the Controller, Accounting Division, P.O. Box 24055, Oakland, CA 94623-1055 or visit the District website at <http://www.ebmud.com>.

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

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

***B. Retirement Benefits and Allowances***

There are two tiers in effect currently, the 1980 Plan and the 2013 Plan. Employees who became Members of the retirement system prior to January 1, 2013, or who have reciprocal Membership are in the 1980 Plan, Employees who became Members on or after January 1, 2013 are in the 2013 Plan.



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

1980 Plan Members may elect voluntary reduced service retirement upon attaining the age of 54 and completing 5 years of continuous full-time employment. Members may elect voluntary unreduced service retirement upon attaining the age of 62 and completing 5 years of continuous full-time employment or age 65 without restriction. Members who continue to work upon attaining the normal retirement age of 65 continue to contribute to the Plan, and at the time they retire, computation of their retirement allowance is based upon their compensation and length of service as of the date of retirement. Service retirement allowances are computed by formulas specified in the Ordinance and are based on date of employment, length of employment, age at date of retirement, and compensation earned during employment.

2013 Plan Members may elect voluntary reduced service upon attaining the age of 52 and completing 5 years of continuous full-time employment. Members may elect voluntary unreduced service retirement upon attaining the age of 67, and completing 5 years of continuous full-time employment. Members who continue to work upon attaining the normal retirement age of 67 continue to contribute to the Plan, and at the time they retire, computation of their allowance is based upon their compensation and length of service as of the date of retirement. Service retirement allowances are computed by formulas specified in the Ordinance and are based on length of service, age at retirement, and compensation earned during employment.

***C. Post-employment Healthcare Cost***

In addition to retirement benefits, the District provides post-employment health benefits assistance (administered by the Employees’ Retirement System) for employees who retire from the District or their surviving spouses. As of June 30, 2014, there were 1,367 participants receiving these health care benefits.

Effective July 1, 1996, a 20-year vesting schedule for full benefits was implemented for all new participants. Effective January 1, 1999, retired members who had separated from the District prior to their retirement and who had at least 10 years of service also became eligible for the post-employment health benefits based on the same sliding scale. The scale provides for 25% of healthcare benefits for service from 5 through 10 years, 50% of healthcare benefits for service from 10 through 15 years, 75% of healthcare benefits for service from 15 through 20 years, and 100% of healthcare benefits for service of 20 years or more. Effective July 1, 2003, the District reimbursed up to \$450 per month (\$550 per month effective July 1, 2004, for membership of a spouse or registered domestic partner) for any health, dental, or long-term care insurance premiums paid by the retiree for themselves, current spouse, or domestic partner, or any health, dental, or long-term care insurance premiums paid by the eligible surviving spouse of a retiree. These benefits are paid from a separate post-employment healthcare benefits fund which up until June 17, 2002, was advance funded entirely by the District on an actuarially determined basis. Cash reimbursement of these benefits totaled \$7,033 in the year ended June 30, 2014. Effective June 18, 2002, a portion of the post-employment healthcare benefit costs is recovered through employee contributions.

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<b>NOTE 8 – EMPLOYEES' RETIREMENT PLAN (Continued)</b>
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Through June 30, 1999, the medical premium subsidy was not a vested benefit and the District reserved the right to modify or terminate the benefit at any time. If the medical subsidy were terminated, assets accumulated from contributions made for the subsidy would be used to provide other pension benefits. Effective July 1, 1999, the medical premium subsidy became a vested benefit to a maximum of \$200 per month, was changed effective October 1, 2000, to a maximum of \$250 per month, and was changed effective July 1, 2002, to a maximum of \$400 per month, and was changed effective July 1, 2003, to a maximum of \$450 per month, and was changed again effective July 1, 2004, to a maximum of \$450 per month for a single retiree or survivor and \$550 per month for retiree and a spouse or a registered domestic partner.

***D. Actuarial Assumptions and Funding Policy***

The Plan's funding policy provides for periodic District contributions at actuarially determined amounts sufficient to accumulate the necessary assets to pay benefits when due as specified by ordinance. The individual entry age normal method is used to determine the normal cost for other post-employment benefits (OPEB) and service cost for pension, and the OPEB unfunded actuarial accrued liability (past service liability) is amortized as a level percentage of future payroll over 30 years open period.

District contributions for the year ended June 30, 2014 are as follows:

1980 Plan:

Pension plan:

Employer service cost	16.04%
Toward unfunded pension liability	22.32%

Other post-employment benefits:

Employer normal cost	1.19%
Unfunded actuarial accrued liability	4.15%

2013 Plan:

Pension plan:

Employer service cost	8.81%
Toward unfunded pension liability	22.32%

Other post-employment benefits:

Employer normal cost	1.19%
Unfunded actuarial accrued liability	4.15%

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<b>NOTE 8 – EMPLOYEES’ RETIREMENT PLAN (Continued)</b>
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Effective June 30, 2014, contributions for fiscal year 2014/2015 are as follows:

1980 Plan:

Pension plan:

Employer service cost	15.02%
Toward unfunded pension liability	23.59%

Other post-employment benefits:

Employer normal cost	1.21%
Unfunded actuarial accrued liability	4.24%

2013 Plan:

Pension plan:

Employer service cost	8.65%
Toward unfunded pension liability	23.59%

Other post-employment benefits:

Employer normal cost	0.87%
Unfunded actuarial accrued liability	4.24%

Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing the costs between the employer and plan members to that point.

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<b>NOTE 8 – EMPLOYEES’ RETIREMENT PLAN (Continued)</b>
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Significant assumptions used to compute contribution requirements from the latest unaudited actuarial are as follows:

Valuation date	June 30, 2013
Actuarial cost method	Entry Age Normal Cost Method
Amortization method	Level percent of payroll
Remaining amortization period	Plan changes are amortized over separate decreasing 15-year periods; assumptions changes are amortized over separate decreasing 25-year periods; and experience gains/losses are amortized over separate decreasing 20-year periods.
Assets valuation method	Market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual market return and the expected return on the market value, and is recognized over a five year period, further adjusted, if necessary, to be within 30% of the market value.
Actuarial assumptions:	
Investment rate of return	7.75%
Average projected salary increases	0.50%
Inflation rate	3.25%
Cost-of-living adjustments	3.15%
Annual healthcare cost trend rates	7.25% reduced by increments to a rate of 5.00% after 10 years.

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

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

***E. Contributions Required and Contributions Made***

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

	2014		2013	
	Pension	Healthcare Benefit Plan	Totals	
Regular contributions:				
District contributions	\$61,660	\$8,457	\$70,117	\$61,567
Member contributions	11,933	170	12,103	10,530
	<u>73,593</u>	<u>8,627</u>	<u>82,220</u>	<u>72,097</u>
Other contributions:				
Member buybacks	30		30	36
	<u>\$73,623</u>	<u>\$8,627</u>	<u>\$82,250</u>	<u>\$72,133</u>

Regular District and member contributions in fiscal 2014 represent an aggregate of 43.83% and 7.58% of covered payroll, respectively. The District’s contributions include amounts for post-employment healthcare benefits at a rate of 5.45% of covered payroll, determined by the actuarial dated June 30, 2013. The actual payroll for the District employees covered by the Plan for the year ended June 30, 2014, was \$159,961 which was 90.34% of the total District payroll of \$177,063.

The total District contribution of \$70,491 as of June 30, 2014, consisted of \$70,117 regular contribution (\$27,584 for normal cost and \$42,533 for amortization of the unfunded actuarial accrued liability) and \$374 interest on contribution.

Regular District and member contributions in fiscal 2013 represent an aggregate of 39.94% and 6.85% of covered payroll, respectively. The District’s contributions include amounts for post-employment healthcare benefits at a rate of 5.10% of covered payroll, determined by the actuarial dated June 30, 2012. The actual payroll for the District employees covered by the Plan for the year ended June 30, 2013, was \$154,136 which was 90.49% of the total District payroll of \$170,336.

The total District contribution of \$61,849 as of June 30, 2013, consisted of \$61,567 regular contribution (\$24,294 for normal cost and \$37,273 for amortization of the unfunded actuarial accrued liability) and \$282 interest on contributions.

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

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<b>NOTE 8 – EMPLOYEES' RETIREMENT PLAN (Continued)</b>
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***F. Schedule of Employer Contributions***

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

	<u>Actual contribution</u>	<u>Annual OPEB cost</u>	<u>Percentage contributed</u>	<u>Net OPEB obligation</u>
Fiscal year ended June 30:				
2012	\$7,833	\$11,517	68%	\$15,943
2013	8,054	11,443	70%	19,332
2014	8,831	11,184	79%	21,685

The annual required contributions for fiscal years ended June 30, 2014, 2013 and 2012, include amounts for the pay-as-you-go amounts for post-employment healthcare benefits.

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

***Health Insurance Benefit Plan:***

During the fiscal year ended June 30, 2014, the District made contributions to the Health Insurance Benefit Plan toward the Annual Required Contribution (ARC) amounting to \$8,457 which represented 4.78% of the \$177,063 total District payroll. During the fiscal year ended June 30, 2013, the District made contributions toward the ARC amounting to \$7,772 to the plan which represented 4.56% of the \$170,336 total District payroll. As a result, the District has recorded the Net OPEB Obligation (NOO), representing the difference between the ARC and actual contributions, as presented below:

Net OPEB obligation at June 30, 2012		\$15,943
Annual required contribution (ARC)	\$11,145	
Interest on net OPEB obligation	1,164	
Adjustments to the ARC	(866)	
Annual OPEB cost - fiscal year 2012/2013	<u>11,443</u>	
Less contributions made during fiscal year:		
Contributions to Northern Trust	(7,772)	
Interest on Contributions to Northern Trust	<u>(282)</u>	
	(8,054)	
Contributions less than ARC		<u>3,389</u>
Net OPEB obligation at June 30, 2013		19,332
Annual required contribution (ARC)	11,196	
Interest on net OPEB obligation	1,362	
Adjustments to the ARC	(1,374)	
Annual OPEB cost - fiscal year 2013/2014	<u>11,184</u>	
Less contributions made during fiscal year:		
Contributions to Northern Trust	(8,457)	
Interest on Contributions to Northern Trust	<u>(374)</u>	
Contributions to Northern Trust	(8,831)	
Increase in net OPEB obligations		<u>2,353</u>
<b>Net OPEB obligation at June 30, 2014</b>		<u><u>\$21,685</u></u>

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

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013  
(Dollars in Thousands)**

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

**G. Net Pension Liability**

The net pension liability (i.e., the Plan’s liability determined in accordance with GASB No. 67 less the fiduciary net position) as of June 30 is as shown below:

	<u>2014</u>	<u>2013</u>
Total pension liability	\$1,737,847	\$1,646,936
Plan fiduciary net position	<u>(1,325,387)</u>	<u>(1,107,628)</u>
Employer net pension liability	<u>\$412,460</u>	<u>\$539,308</u>
Plan fiduciary net position as a percentage of total pension liability	76.27%	67.25%
Covered payroll	\$159,246	\$158,847
Liability as a percentage of covered employee payroll	259.01%	339.51%

Actuarial valuation of the ongoing Systems involve estimates of the reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Employers’ net pension liability presents multi-year trend information about whether the plan fiduciary net positions are increasing or decreasing over time relative to the total pension liability. These schedules are presented in the Required Supplementary Information section. The net pension liabilities measured as of June 30, 2014 and 2013 have been determined by rolling forward the results of the actuarial valuations as of June 30, 2013 and June 30, 2012, respectively. The District will record its net pension liability in fiscal year ending June 30, 2015, when it implements GASB No. 68, *Accounting and Financial Reporting for Pensions*.



**EAST BAY MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**  
(Dollars in Thousands)

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and projected arithmetic real rates of return, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumption for each major asset class are summarized below.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Large Cap Equity	45%	6.17%
Domestic Small Cap Equity	5%	6.90%
Developed International Equity	17%	6.75%
Emerging Markets Equity	3%	8.84%
Domestic Bonds	25%	1.08%
Real Estate	5%	4.90%
Total	100%	

The discount rates used to measure the total pension liability were 7.75% as of June 30, 2014 and June 30, 2013, respectively. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the Pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on Pension Plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of both June 30, 2014 and June 30, 2013.

In accordance with GASB 67 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the following table presents the net pension liability of the Plan as of June 30, 2014, calculated using the discount rate of 7.75%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	1% Decrease (6.75%)	Current Discount (7.75%)	1% Increase (8.75%)
Net Pension Liability	\$635,732	\$412,460	\$226,119

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013  
(Dollars in Thousands)**

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

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

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

The table below provides the details of the new provisions.

Benefit Formula	2.5% at Age 67
Final Compensation Period	Average of last 3 years
Employer Contribution Rate as a percentage payroll	8.81% of Reportable Compensation
Member Contribution Rate as a percentage of payroll	8.75% of Reportable Compensation

The employer contribution rate listed above is in effect until June 30, 2014. In accordance with the provisions of AB 340, the member contribution rate shown above was set at 50 percent of the expected total normal cost rate for the benefits that will apply to new members on January 1, 2013. The total normal cost rate used for this calculation is 17.56% of payroll for new members.

**NOTE 9 – RISK MANAGEMENT**

The District has purchased commercial insurance for general, property, public officials’ liability and workers’ compensation. During the fiscal year ended June 30, 2014, the District paid \$1,592 for current year coverage.

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

Selected other coverages are:

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.

**EAST BAY MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**  
(Dollars in Thousands)

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

Claim expenses and liabilities are recorded when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. As of June 30, 2014, the amount of these liabilities was \$43,397. This amount (which has not been discounted) has been actuarially determined and includes an estimate of incurred but not reported losses. Changes in the reported liability are as follows:

	2014	2013
Liability at beginning of year	\$42,201	\$43,623
Current year claims and changes in estimates	6,731	4,378
Payments of claims	<u>(5,535)</u>	<u>(5,800)</u>
Liability at end of year	<u>\$43,397</u>	<u>\$42,201</u>
Estimated liability:		
Due within one year	\$8,683	\$7,343
Due in more than one year	<u>34,714</u>	<u>34,858</u>
	<u>\$43,397</u>	<u>\$42,201</u>

**NOTE 10 – KNOWN ENVIRONMENTAL MATTERS**

Following is a summary of the District's known environmental matters as of June 30, 2014, that meets the requirements of GASB Statement No. 49:

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

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013  
(Dollars in Thousands)**

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

- The CVRWQCB has requested that the District and U.S. Bureau of Land Management (BLM) address three abandoned ponds near Camanche Reservoir that contain mine wastes. The District and BLM have both been named as Potential Responsible Parties and are jointly completing this site investigation/remediation project. An Engineering Evaluation/Cost Analysis was completed in 2013 to present remediation alternatives. The final site remedy and cost allocations between the District and BLM have yet to be determined as the parties are preparing a value engineering study which will be completed in 2014. The purpose of the value engineering study is to evaluate alternatives to achieve essential functions at the lowest life-cycle cost consistent with required performance, reliability, quality, safety, and achievement of mission priorities.
- The CVRWQCB has requested that the District address elevated concentrations of petroleum hydrocarbons in soil and groundwater associated with former underground storage tanks (USTs) at the District's Bixler facility. The District has completed site investigation work, including groundwater and soil gas monitoring and the production of a draft Fact Sheet to be distributed to the public in advance of regulatory closure of the site. However, the CVRWQCB has not officially closed the site or required further actions to be taken.
- The Alameda County Environmental Health Agency requested that the District conduct additional site investigations at the Adeline Maintenance Center Shops to further define the extent of petroleum hydrocarbons in soil and groundwater associated with former USTs. The District completed additional site investigations in accordance with an approved work plan. The results indicate that elevated concentrations of petroleum hydrocarbons still remain in onsite soil and groundwater in localized areas near the former USTs. The scope of additional work remaining at this site is unknown and the County has requested a meeting with the District to discuss the steps necessary to obtain regulatory closure of the site. The meeting with the County is scheduled to take place in fiscal year 2015.
- The Alameda County Environmental Health Agency has notified the District that they have initiated the path to closure for the South Area Service Center UST site. Sampling of the site has indicated that there is no contamination at this location and it is anticipated that the closure process should be straight forward. The most recent step in the path to closure was formal public notification which was completed by the County on January 27, 2014.
- The District operates many facilities throughout Northern California that have NPDES permits, waste discharge requirements, and air permits. The total estimated liability for all known violations is less than \$250 thousand.

**NOTE 11 - CONTINGENT LIABILITIES**

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

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013  
(Dollars in Thousands)**

<b>NOTE 12 – COMMITMENTS AND CONTINGENCIES</b>
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*Central Valley Project*

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

<b>NOTE 13 – SUBSEQUENT EVENT</b>
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On July 29, 2014, the District issued \$84.7 million in Wastewater System Revenue Refunding Bonds, for the purpose of providing funds, together with certain other available monies, to refund a portion of the District's outstanding variable rate Wastewater System Revenue Bonds, fund the costs of terminating (in whole or in part) certain interest rate swap agreements relating thereto and pay the costs of issuance in connection with the Series 2014 Bonds. The Wastewater Revenue Refunding 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 semi-annually on June 1 and December 1, commencing on December 1, 2014.

## **REQUIRED SUPPLEMENTAL INFORMATION**

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**EAST BAY MUNICIPAL UTILITY DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2014  
(Dollars in thousands)**

**(1) Pension Plan**

Schedule of Changes in Employer's Net Pension Liability (in thousands):

	2014	2013
<b>Total pension liability</b>		
Service cost	\$34,987	\$34,857
Interest	127,558	120,810
Change of benefit terms	0	0
Differences between expected and actual experience	(402)	(30,629)
Changes of assumptions	0	0
Benefit payments, including refunds of employee contributions	(71,232)	(65,427)
<b>Net change in total pension liability</b>	90,911	59,611
<b>Total pension liability - beginning</b>	1,646,936	1,587,325
<b>Total pension liability - ending (a)</b>	<u>\$1,737,847</u>	<u>\$1,646,936</u>
<b>Plan fiduciary net position</b>		
Contributions - employer	\$61,660	\$53,795
Contributions - employee	11,968	10,427
Net investment income	216,601	136,630
Benefit payments, including refunds of employee contributions	(71,232)	(65,427)
Administrative expense	(1,238)	(1,200)
<b>Net change in plan fiduciary net position</b>	217,759	134,225
<b>Plan fiduciary net position - beginning</b>	1,107,628	973,403
<b>Plan fiduciary net position - ending (b)</b>	<u>1,325,387</u>	<u>1,107,628</u>
<b>Plan's net pension liability - ending (a) - (b)</b>	<u>\$412,460</u>	<u>\$539,308</u>

Unaudited



**EAST BAY MUNICIPAL UTILITY DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2014  
(Dollars in thousands)**

**(2) Pension Plan**

Schedule of Employer's Net Pension Liability (in thousands):

	2014	2013
Total pension liability	\$1,737,847	\$1,646,936
Plan fiduciary net position	<u>(1,325,387)</u>	<u>(1,107,628)</u>
Net pension liability	<u>\$412,460</u>	<u>\$539,308</u>
Plan fiduciary net position as a percentage of total pension liability	76.27%	67.25%
Covered employee payroll	\$159,246	\$158,847
Plan net pension liability as percentage of covered employee payroll	259.01%	339.51%

*Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

**(3) Pension Plan**

Schedule of Employer's Contributions (in thousands):

Year ended June 30	Actuarially determined contributions	Contributions in relation to the actuarially determined contributions	Contributions deficiency (excess)	Covered-employee payroll *	Contributions as a percentage of covered employee payroll
2005	\$27,670	\$27,670	\$0	\$138,836	19.93%
2006	30,600	30,600	0	142,991	21.40%
2007	33,698	33,698	0	145,125	23.22%
2008	37,387	37,387	0	152,538	24.51%
2009	39,485	39,485	0	158,193	24.96%
2010	44,031	44,031	0	161,641	27.24%
2011	50,987	50,987	0	160,336	31.80%
2012	52,156	52,156	0	158,481	32.91%
2013	53,795	53,795	0	156,109	34.46%
2014	61,660	61,660	0	160,992	38.30%

\* "Derived" by dividing the contributions in relation to the actuarial determined contributions by the contributions as a percentage of covered employee payroll. These amounts may therefore be different from the actual payrolls of the District.

*Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

**EAST BAY MUNICIPAL UTILITY DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2014  
(Dollars in thousands)**

**(4) Pension Plan**

Schedule of Investment Returns:

	<u>2014</u>
Annual money weighted rate of return, net of investment expense	19.42%

*Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

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

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

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) – entry age (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
6/30/2002	\$1,265	\$50,358	\$49,093	2.5%	\$129,791	37.8%
6/30/2003	2,113	58,752	56,639	3.6%	133,678	42.4%
6/30/2004	2,715	62,357	59,642	4.4%	137,138	43.5%
6/30/2005	3,409	71,892	68,483	4.7%	139,514	49.1%
6/30/2006	3,608	71,409	67,801	5.1%	142,373	47.6%
6/30/2007	4,208	105,409	101,201	4.0%	153,394	66.0%
6/30/2008	7,010	137,055	130,045	5.1%	158,499	82.0%
6/30/2009	7,354	130,245	122,891	5.6%	161,893	75.9%
6/30/2010	10,061	135,379	125,318	7.4%	164,085	76.4%
6/30/2011	12,048	135,360	123,312	8.9%	159,505	77.3%
6/30/2012	14,240	138,240	123,999	10.3%	158,847	78.1%
6/30/2013	16,522	138,120	121,598	12.0%	159,246	76.4%

Unaudited

**EAST BAY MUNICIPAL UTILITY DISTRICT**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**FOR THE YEAR ENDED JUNE 30, 2014**  
(Dollars in thousands)

**(6) Notes to Required Supplementary Information**

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	June 30, 2013
Actuarial cost method	Entry Age Normal Cost Method
Amortization method	Level percent of payroll
Remaining amortization period	Plan changes are amortized over separate decreasing 15-year periods; assumptions changes are amortized over separate decreasing 25-year periods; experience gains/losses are amortized over separate decreasing 20-year periods.
Assets valuation method	Market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual market return and the expected return on the market value, and is recognized over a five year period, further adjusted, if necessary, to be within 30% of the market value.
Actuarial assumptions:	
Investment rate of return	7.75%
Average projected salary increases	0.50%
Inflation rate	3.25%
Cost-of-living adjustments	3.15%
Annual healthcare costs trend rates	7.75% reduced by increments to a rate of 5.00% after 10 years

All assumptions are the same for the post-employment health care benefits except for the discount rate, assumed at a rate of 7.00%, for the funded and unfunded portions.

Unaudited.

## **SUPPLEMENTAL INFORMATION**

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EAST BAY MUNICIPAL UTILITY DISTRICT  
EMPLOYEES' RETIREMENT SYSTEM  
(A Component Unit of the East Bay Municipal Utility District)  
STATEMENTS OF PLAN NET POSITION

June 30, 2014

(With summarized comparative financial information as of June 30, 2013)

(DOLLARS IN THOUSANDS)

	2014			2013
	Pension plan	Post-employment healthcare	Total	Total
	benefits	benefits		
Assets:				
Cash and cash equivalents, at fair value	\$36,094	\$564	\$36,658	\$34,397
Invested securities lending collateral	127,519	1,992	129,511	101,523
Prepaid expenses		477	477	459
Receivables:				
Brokers, securities sold	2,900	45	2,945	12,127
Employer	2,596	368	2,964	2,572
Plan members	537		537	401
Interest and dividends	2,042	32	2,074	2,278
Total receivables	8,075	445	8,520	17,378
Investments, at fair value:				
U.S. government obligations	81,110	1,267	82,377	86,483
Municipal bonds	4,318	67	4,385	5,774
Domestic corporate bonds	151,139	2,361	153,500	123,929
International bonds	10,680	167	10,847	13,877
Domestic stocks	771,131	12,046	783,177	604,676
International stocks	201,313	3,145	204,458	208,130
Real estate	67,145	1,049	68,194	53,222
Total investments	1,286,836	20,102	1,306,938	1,096,091
Total assets	1,458,524	23,580	1,482,104	1,249,848
Liabilities:				
Accounts payable and accrued expenses	1,484	23	1,507	1,472
Payables to brokers, securities purchased	4,134	64	4,198	22,525
Securities lending collateral	127,519	1,992	129,511	101,523
Total liabilities	133,137	2,079	135,216	125,520
Net position held in trust for pension benefits and post-employment healthcare benefits	\$1,325,387	\$21,501	\$1,346,888	\$1,124,328

EAST BAY MUNICIPAL UTILITY DISTRICT  
EMPLOYEES' RETIREMENT SYSTEM  
(A Component Unit of the East Bay Municipal Utility District)  
STATEMENTS OF CHANGES IN PLAN NET POSITION

For the Year Ended June 30, 2014

(With summarized comparative financial information for the year ended June 30, 2013)

(DOLLARS IN THOUSANDS)

	2014			2013
	Pension plan benefits	Post- employment healthcare benefits	Total	Total
Additions:				
Contributions:				
Employer	\$61,660	\$8,457	\$70,117	\$61,567
Plan members	11,963	170	12,133	10,566
Total contributions	73,623	8,627	82,250	72,133
Investment income:				
Net appreciation (depreciation) in fair value of investments:				
Traded securities	194,537	2,902	197,439	120,223
Real estate	2,098	31	2,129	877
Interest	7,087	106	7,193	7,794
Dividends	15,243	227	15,470	12,348
Real estate operating income, net	1,088	16	1,104	1,144
Total investment income	220,053	3,282	223,335	142,386
Less:				
Investment expense	(3,386)	(51)	(3,437)	(3,729)
Borrowers' rebates and other agent fees on securities lending transactions	(66)	(1)	(67)	(122)
Net investment income	216,601	3,230	219,831	138,535
Total additions, net	290,224	11,857	302,081	210,668
Deductions:				
Benefits paid	71,116	7,033	78,149	71,760
Refund of contributions	116		116	335
Administrative expenses	1,233	23	1,256	1,217
Total deductions	72,465	7,056	79,521	73,312
Change in net position	217,759	4,801	222,560	137,356
Net position:				
Beginning of year	1,107,628	16,700	1,124,328	986,972
End of year	<u>\$1,325,387</u>	<u>\$21,501</u>	<u>\$1,346,888</u>	<u>\$1,124,328</u>

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

Board of Directors  
East Bay Municipal Utility District  
Oakland, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the East Bay Municipal Utility District, as of and for the year ended June 30, 2014 and the related notes to the financial statements, and have issued our report thereon dated September 5, 2014. Our report included an emphasis of a matter paragraph disclosing the implementation of new accounting principles.

***Internal Control Over Financial Reporting***

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

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

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



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

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

We have also issued a separate Memorandum on Internal Control dated September 5, 2014 which is an integral part of our audit and should be read in conjunction with this report.

### ***Purpose of this Report***

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



Pleasant Hill, California  
September 5, 2014

## **Financial Trends**

These schedules contain trend information to help understand how the District's financial performance and well-being have changed over time.

## **Revenue Capacity**

These schedules contain information to help the reader assess the District's revenue sources and rate structures.

## **Debt Capacity**

These schedules contain information to help the reader assess the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt in the future.

## **Demographic and Economic Information**

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

## **Operating Information**

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

## **Financial Trends Section**

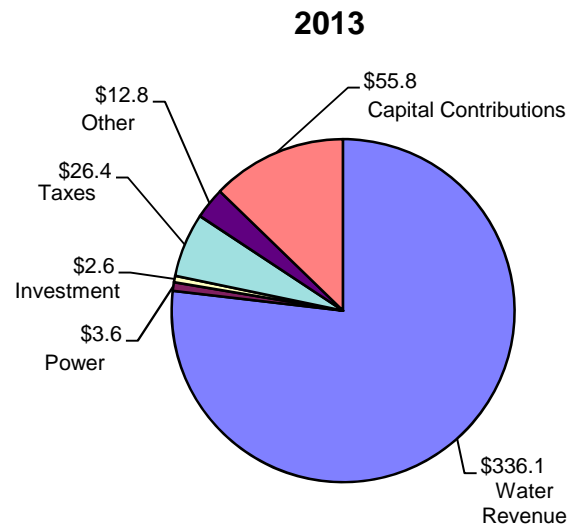
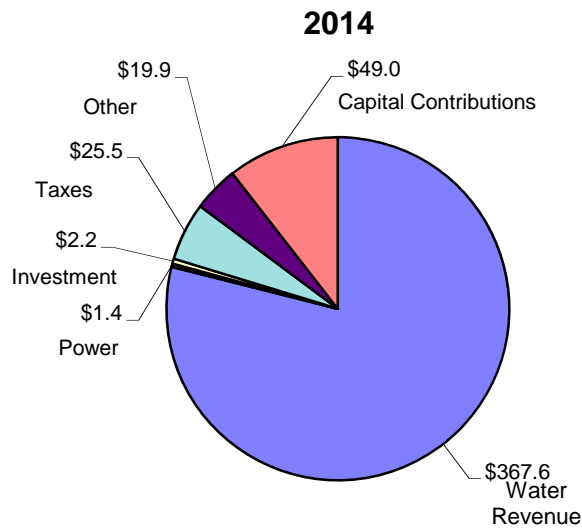
- Comparative Highlights
- Ten-Year Summary of Financial Data
- Changes in Net Position
- Net Position by Component

**Financial Trends**  
**Comparative Highlights**

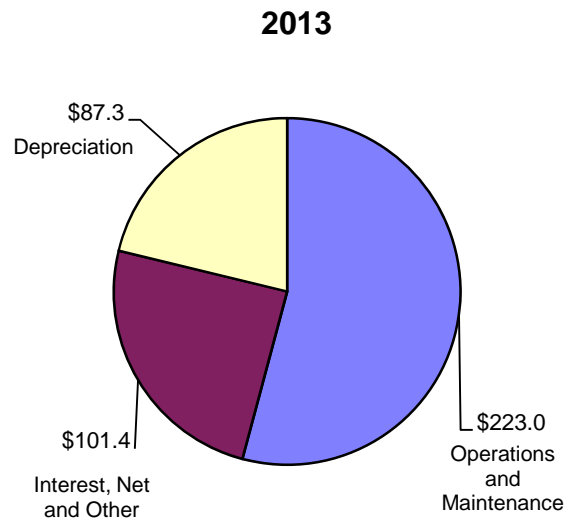
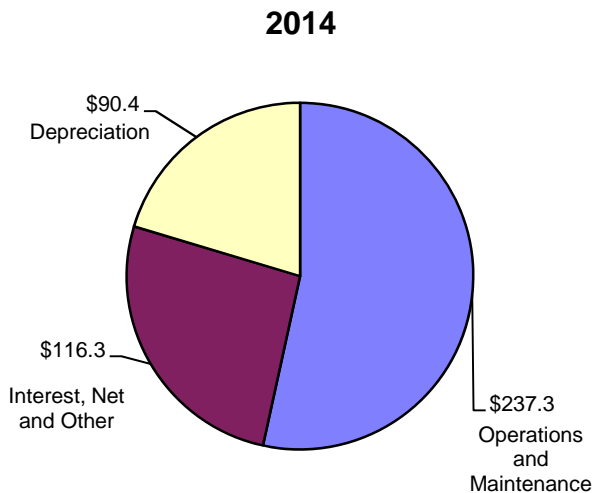
Fiscal Year 2014 and 2013

**Water System**

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



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



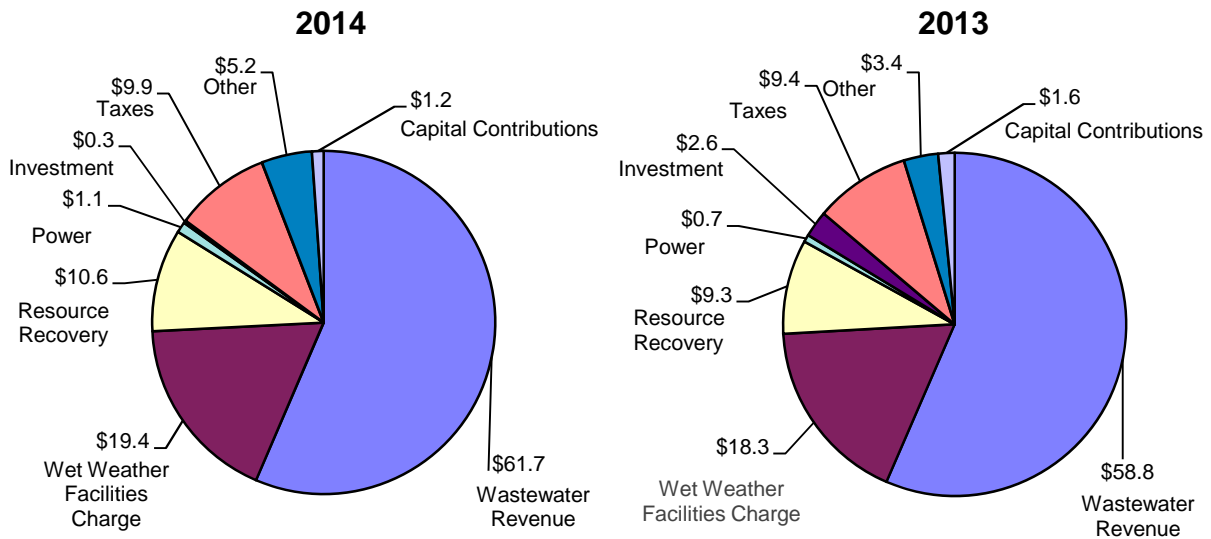
Sources: Financial Statements

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

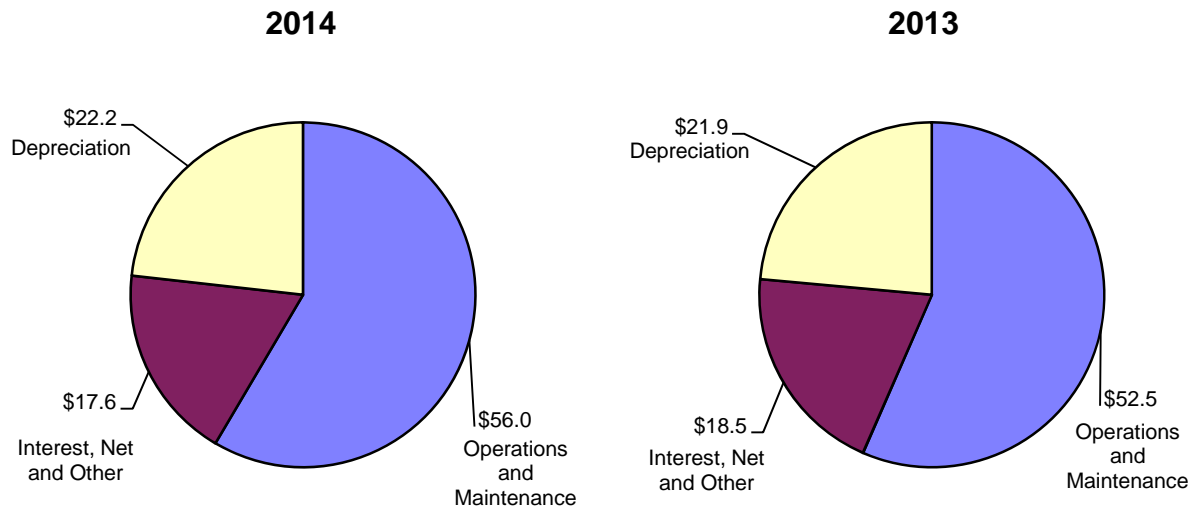
Fiscal Year 2014 and 2013

**Wastewater System**

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



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



Sources: Financial Statements

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

Fiscal Years 2005 to 2014  
(in Millions)

	Fiscal Year Ended June 30									
	2014	2013	2012	2011	2010*	2009*	2008*	2007*	2006*	2005*
<b>Water System</b>										
Revenues										
Water Revenue	\$ 367.6	\$ 336.1	\$ 306.2	\$ 283.6	\$ 271.0	\$ 287.3	\$ 270.6	\$ 260.7	\$ 244.3	\$ 235.8
Taxes	25.5	26.4	23.4	22.2	22.9	23.4	22.7	21.7	19.1	18.3
Investment	2.2	2.6	4.7	5.3	10.8	25.6	40.4	21.8	18.4	7.7
Power	1.4	3.6	4.6	8.1	6.2	4.3	3.1	4.2	11.0	7.0
Capital Contributions	49.0	55.8	45.2	45.8	39.9	38.3	50.5	64.1	67.3	44.9
Other <sup>(1)</sup>	19.9	12.8	16.2	68.3	7.7	6.2	29.4	7.8	5.3	6.2
<b>Total Revenues</b>	<b>465.6</b>	<b>437.3</b>	<b>400.3</b>	<b>433.3</b>	<b>358.5</b>	<b>385.1</b>	<b>416.7</b>	<b>380.2</b>	<b>365.4</b>	<b>319.9</b>
Expenses										
Operations and										
Maintenance	237.3	223.0	215.2	211.2	206.5	224.5	209.9	179.2	174.9	160.9
Depreciation	90.4	87.3	83.7	76.2	74.5	71.5	70.7	71.7	64.3	67.8
Interest, Net										
and Other <sup>(2)(3)</sup>	116.3	101.3	133.2	146.5	69.9	81.8	93.2	77.2	76.5	69.3
<b>Total Expenses</b>	<b>444.0</b>	<b>411.6</b>	<b>432.1</b>	<b>433.9</b>	<b>350.9</b>	<b>377.8</b>	<b>373.8</b>	<b>328.1</b>	<b>315.7</b>	<b>298.0</b>
<b>Changes in Net Position</b>	<b>\$ 21.6</b>	<b>\$ 25.7</b>	<b>\$ (31.8)</b>	<b>\$ (0.6)</b>	<b>\$ 7.6</b>	<b>\$ 7.3</b>	<b>\$ 42.9</b>	<b>\$ 52.1</b>	<b>\$ 49.7</b>	<b>\$ 21.9</b>

\* Restated to meet current formatting.

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

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

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

Sources: Financial Statements

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

Fiscal Years 2005 to 2014  
(in Millions)

	Fiscal Year Ended June 30									
	2014	2013	2012	2011	2010	2009	2008*	2007*	2006*	2005*
<b>Wastewater System</b>										
Revenues										
Wastewater Revenue	\$ 61.7	\$ 58.8	\$ 55.2	\$ 50.9	\$ 48.8	\$ 47.1	\$ 46.2	\$ 44.6	\$ 42.6	\$ 42.2
Wet Weather										
Facilities Charges	19.4	18.3	17.2	16.1	15.3	14.3	13.7	13.7	13.8	13.9
Resource Recovery	10.6	9.3	9.1	9.4	7.6	7.7	6.9	5.8	4.5	3.4
Power	1.1	0.7	0.3							
Taxes	9.9	9.4	8.3	7.4	7.4	7.4	7.2	6.8	5.3	4.7
Investment	0.3	2.6	0.6	1.3	0.8	3.1	5.8	2.7	2.1	1.9
Capital Contributions	1.2	1.6	2.8	3.1	2.9	9.0	2.8	7.0	2.5	1.7
Other	5.2	3.4	3.1	2.4	1.2	0.9	0.7	1.4	0.7	0.7
Total Revenues	109.4	104.1	96.6	90.6	84.0	89.5	83.3	82.0	71.5	68.5
Expenses										
Operations and Maintenance	56.0	52.5	52.5	51.8	46.2	50.1	47.6	42.2	40.0	38.4
Depreciation	22.2	21.9	19.7	19.1	19.4	18.3	16.4	16.8	16.4	16.4
Interest, Net and Other	17.6	18.5	19.9	16.0	13.0	13.6	15.1	12.6	13.5	15.7
Total Expenses	95.8	92.9	92.1	86.9	78.6	82.0	79.1	71.6	69.9	70.5
<b>Changes in Net Position</b>	\$ 13.6	\$ 11.2	\$ 4.5	\$ 3.7	\$ 5.4	\$ 7.5	\$ 4.2	\$ 10.4	\$ 1.6	\$ (2.0)

\* Restated to meet current formatting.

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

Fiscal Years 2005 to 2014  
(In Millions)

	Fiscal Year Ended June 30									
	2014	2013	2012	2011	2010	2009	2008*	2007*	2006*	2005*
<b>Operating Revenues</b>										
Charges for services:										
Water	\$ 367.6	\$ 336.1	\$ 306.2	\$ 283.6	\$ 271.0	\$ 287.3	\$ 270.6	\$ 260.7	\$ 244.3	\$ 235.8
Wastewater	91.7	86.4	81.5	76.4	71.7	69.1	66.7	64.1	60.9	59.5
Power	2.5	4.3	4.9	8.1	6.2	4.3	3.1	4.2	11.0	7.0
Total Operating Revenues	461.8	426.8	392.6	368.1	348.9	360.7	340.4	329.0	316.2	302.3
<b>Operating Expenses</b>										
Water	327.8	310.3	299.0	287.4	281.1	296.0	280.5	250.9	239.2	228.7
Wastewater	78.3	74.4	72.2	70.9	65.5	68.4	64.0	59.0	56.4	54.8
Total Operating Expenses	406.1	384.7	371.2	358.3	346.6	364.4	344.5	309.9	295.6	283.5
Operating Activities	55.7	42.1	21.4	9.8	2.3	(3.7)	(4.1)	19.1	20.6	18.8

\* Restated to meet current formatting.



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

Fiscal Years 2005 to 2014  
 (In Millions)

	Fiscal Year Ended June 30									
	2014	2013	2012	2011	2010	2009	2008*	2007*	2006*	2005*
<b>General Revenues and</b>										
<b>Other Changes in Net Position</b>										
Non-Operating Activities										
Investment income	2.5	5.2	5.2	6.6	11.6	28.6	46.3	24.4	20.5	9.6
Taxes and subventions	35.4	35.8	31.7	29.6	30.3	30.8	29.9	28.5	24.5	22.9
Interest and amortization										
of bond expenses	(121.1)	(116.3)	(121.3)	(105.8)	(80.9)	(92.3)	(106.7)	(88.9)	(88.9)	(84.1)
Other income (expense)	12.4	12.7	(12.3)	14.0	6.9	4.1	28.4	8.3	4.8	6.0
Capital grants										
and contributions	50.2	57.4	48.0	48.9	42.8	47.3	53.3	71.0	69.8	46.5
Total Non-Operating Activities	(20.6)	(5.2)	(48.7)	(6.7)	10.7	18.5	51.2	43.3	30.7	0.9
<b>Changes in Net Position<sup>(1)</sup></b>	\$ 35.1	\$ 36.9	\$ (27.3)	\$ 3.1	\$ 13.0	\$ 14.8	\$ 47.1	\$ 62.4	\$ 51.3	\$ 19.7

\* Restated to meet current formatting.

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

**Financial Trends**  
**Net Position by Component**

Fiscal Years 2005 to 2014  
(In Millions)

	Fiscal Year Ended June 30									
	2014	2013	2012*	2011	2010	2009	2008	2007	2006	2005
<b><u>Business-type activities</u></b>										
Net investment in										
capital assets	\$ 1,083.4	\$ 1,031.4	\$ 983.5	\$ 1,202.7	\$ 1,293.5	\$ 1,304.6	\$ 1,182.8	\$ 1,174.5	\$ 1,226.1	\$ 1,213.2
Restricted for construction	21.8	21.1	22.7	42.9	66.8	84.5	85.4	89.6	78.6	54.0
Restricted for debt service	32.8	36.9	73.5	63.8	66.5	58.8	55.1	38.1	37.7	35.2
Restricted-other	243.0	256.5	251.4	25.5	3.0	3.1	3.0	2.9	2.9	2.9
Unrestricted	282.7	282.7	260.5	297.5	199.5	165.3	275.2	249.2	146.5	135.3
Total business-type activities										
net position	\$ 1,663.7	\$ 1,628.6	\$ 1,591.6	\$ 1,632.4	\$ 1,629.3	\$ 1,616.3	\$ 1,601.5	\$ 1,554.3	\$ 1,491.8	\$ 1,440.6

\*Restated for GASB 65

## **Revenue Capacity Section**

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

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

Fiscal Years 2005 to 2014

**Water System**  
(In Millions)

	Fiscal Year Ended June 30									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Water	\$367.6	\$336.1	\$306.2	\$283.6	\$271.0	\$287.3	\$270.6	\$260.7	\$244.3	\$235.8
Taxes	25.5	26.4	23.4	22.2	22.9	23.4	22.7	21.7	19.1	18.3
Construction from SCC	0.0	0.0	0.0	0.0	0.0	0.0	0.0	19.7	13.7	12.8
Interest	1.7	3.7	6.4	5.7	9.7	24.5	40.6	20.3	16.5	7.6
Power	1.4	3.6	4.6	8.1	6.2	4.3	3.1	4.2	11.0	7.0
Rental & Other <sup>(1)</sup>	20.4	11.7	14.5	67.9	7.0	4.1	27.7	8.4	6.3	5.5
Total	\$416.6	\$381.5	\$355.1	\$387.5	\$316.8	\$343.6	\$364.7	\$335.0	\$310.9	\$287.0

<sup>(1)</sup> Includes revenue of \$53 million from the sale of the RARE facilities to Chevron in 2011 and \$6 million from the sale of land in 2014.

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

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

Fiscal Years 2005 to 2014

**Wastewater System**  
(In Millions)

	Fiscal Year Ended June 30									
	2014	2013	2012	2011	2010	2009	2008*	2007*	2006*	2005*
Wastewater	\$ 61.7	\$ 58.8	\$ 55.2	\$ 50.9	\$ 48.8	\$ 47.1	\$ 46.2	\$ 44.6	\$ 42.6	\$ 42.2
Wet Weather Facilities	19.4	18.3	17.2	16.1	15.3	14.3	13.7	13.7	13.8	13.9
Resource Recovery	10.6	9.3	9.1	9.4	7.6	7.7	6.9	5.8	4.5	3.4
Power	1.1	0.7	0.3	-	-	-	-	-	-	-
Taxes	9.9	9.4	8.3	7.4	7.4	7.4	7.2	6.8	5.3	4.7
Interest	0.2	0.9	1.7	2.0	1.2	2.9	5.7	2.1	1.8	2.1
Other	5.3	5.0	2.1	1.6	0.6	1.2	0.8	2.0	0.7	0.5
Total	\$ 108.2	\$ 102.4	\$ 93.9	\$ 87.4	\$ 80.9	\$ 80.6	\$ 80.5	\$ 75.0	\$ 68.7	\$ 66.8

\* Restated to meet current formatting.

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

**Revenue Capacity  
Rate History**

Fiscal Years 2005 to 2014

Fiscal Year	Water		Wastewater	
	Monthly Base Rate	Rate per 748 (1ccf) Gallons	Monthly Base Rate	Rate per 748 (1ccf) Gallons
2005	8.04	1.53	8.56	0.46
2006	8.34	1.59	8.93	0.47
2007	8.65	1.65	9.27	0.49
2008	9.08	1.73	9.64	0.51
2009	9.53	1.82	10.02	0.53
2010	10.13	2.00	10.42	0.56
2011	10.89	2.15	10.95	0.59
2012	11.54	2.28	11.61	0.63
2013	12.23	2.42	12.30	0.66
2014	13.42	2.66	13.18	0.73

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

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

Fiscal Years 2005 to 2014

**Water System**

(In Millions)

<b>Fiscal Year</b>	<b>Total Revenue (1)</b>	<b>Operations &amp; Maintenance Expense (2)</b>	<b>Net Revenue Available for Debt Service</b>	<b>Debt Service</b>	<b>Coverage Ratio</b>
2005*	283.6	136.1	147.5	81.7	1.81
2006*	305.0	143.9	161.1	96.9	1.66
2007*	327.1	141.2	185.9	98.6	1.89
2008*	378.2	154.9	223.3	119.5	1.87
2009*	353.8	176.2	177.6	121.3	1.46
2010*	351.7	156.1	195.6	126.6	1.54
2011*	374.7	159.5	215.2	143.7	1.50
2012*	381.4	174.4	207.0	130.7	1.58
2013	399.4	170.8	228.6	133.7	1.71
2014	433.6	223.2	210.4	126.4	1.66

\* Restated to match current format which includes capacity fees

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

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

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

Fiscal Years 2005 to 2014

**Wastewater System**

(In Millions)

<b>Fiscal Year</b>	<b>Total Revenue (1)</b>	<b>Operations &amp; Maintenance Expense (2)</b>	<b>Net Revenue Available for Debt Service</b>	<b>Debt Service</b>	<b>Coverage Ratio</b>
2005*	62.2	37.0	25.2	15.9	1.58
2006*	63.3	38.0	25.3	15.8	1.60
2007*	67.6	39.1	28.5	16.0	1.78
2008*	75.3	41.6	33.7	20.2	1.67
2009*	74.6	44.6	30.0	20.4	1.47
2010*	74.7	41.3	33.4	19.6	1.70
2011*	82.3	46.3	36.0	21.4	1.68
2012	88.7	48.8	39.9	26.4	1.51
2013	92.0	47.0	45.0	28.3	1.59
2014	99.1	53.4	45.7	28.6	1.60

\* Restated to match current format which includes capacity fees

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

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



## Debt Capacity Section

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

**Debt Capacity**
**Debt Ratings**

June 30, 2014

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

**Debt Capacity**  
**Outstanding Debt by Type**

Fiscal Years 2005 to 2014

**Water System**

(In thousands)

<b>Fiscal Year</b>	<b>General Obligation Bonds</b>	<b>Revenue Bonds</b>	<b>Loans Payable</b>	<b>Total</b>
2005	3,922	1,540,834	20,476	1,565,232
2006	0	1,516,562	18,855	1,535,417
2007	0	1,970,254	17,189	1,987,443
2008	0	1,935,620	15,480	1,951,100
2009	0	1,899,360	32,769	1,932,129
2010	0	2,354,095	29,028	2,383,123
2011	0	2,314,425	26,501	2,340,926
2012	0	2,273,090	17,970	2,291,060
2013	0	2,210,830	17,002	2,227,832
2014	0	2,235,960	16,011	2,251,971

**Wastewater System**

(In thousands)

<b>Fiscal Year</b>	<b>General Obligation Bonds</b>	<b>Revenue Bonds</b>	<b>Loans Payable</b>	<b>Total</b>
2005	40,031	238,237	42,668	320,936
2006	38,252	234,345	38,539	311,136
2007	34,298	315,863	34,277	384,438
2008	32,165	343,235	29,879	405,279
2009	29,785	305,165	25,338	360,288
2010	27,255	298,215	20,652	346,122
2011	24,545	449,680	0	474,225
2012	21,650	440,085	0	461,735
2013	18,555	430,160	0	448,715
2014	14,160	419,880	0	434,040

Sources: Financial Summary

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

As of June 30, 2014  
(In Thousands)

**Water System**

Authorized but unissued revenue bonds	\$	527,330
Outstanding short-term debt (due within one year)	\$	34,675

**Wastewater System**

Authorized but unissued revenue bonds	\$	204,360
Outstanding short-term debt (due within one year)	\$	12,470

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

Fiscal Years 2005 to 2014  
(In Thousands)

<b>Water System</b>					
<b>Fiscal Year</b>	<b>Accounts (1)</b>	<b>General Obligation Bonded Debt (2)</b>	<b>General Bonded Debt Per Account (In Dollars)</b>	<b>Annual Billings (2)</b>	<b>Percentage of General Bonded Debt To Annual Billings</b>
2005	376	3,922	10	235,790	1.66%
2006	379	0	0	244,280	0.00%
2007	381	0	0	260,678	0.00%
2008	382	0	0	270,564	0.00%
2009	382	0	0	287,313	0.00%
2010	382	0	0	271,022	0.00%
2011	383	0	0	283,644	0.00%
2012	378	0	0	306,228	0.00%
2013	379	0	0	336,066	0.00%
2014	381	0	0	367,547	0.00%

<b>Wastewater System</b>					
<b>Fiscal Year</b>	<b>Accounts (1)</b>	<b>General Obligation Bonded Debt (2)</b>	<b>General Bonded Debt Per Account (In Dollars)</b>	<b>Annual Billings (2)</b>	<b>Percentage of General Bonded Debt To Annual Billings</b>
2005*	175	40,031	229	42,244	94.76%
2006*	175	38,252	219	42,581	89.83%
2007*	176	34,298	195	44,593	76.91%
2008*	176	32,165	183	46,161	69.68%
2009*	176	29,785	169	47,085	63.26%
2010*	176	27,255	155	48,764	55.89%
2011*	177	24,545	139	50,910	48.21%
2012	174	21,650	124	55,191	39.23%
2013	175	18,555	106	58,784	31.56%
2014	176	14,160	80	61,775	22.92%

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

Source: (1) Customer Information System

(2) Financial and Statistical Reports

**Debt Capacity**  
**Direct and Overlapping Debt**

Fiscal Year 2014

**Wastewater System (Special District No. 1)**

**2013-14 Assessed Valuation:** **\$ 79,442,671,208**

<u>Direct and Overlapping Tax and Assessment Debt:</u>	<u>% Applicable</u>	<u>Debt 6/30/14</u>
Bay Area Rapid Transit District	15.110 %	\$ 97,973,801
Peralta Community College District	100.000	401,375,000
Alameda Unified School District	100.000	63,105,326
Albany Unified School District	100.000	36,635,000
Berkeley Unified School District	100.000	241,214,222
Oakland Unified School District	100.000	842,680,000
Piedmont Unified School District	100.000	73,475,301
West Contra Costa Unified School District	19.950	179,615,518
Other School Districts	Various	98,866,298
City of Alameda	100.000	9,010,000
City of Albany	100.000	16,565,000
City of Berkeley	100.000	87,565,000
City of Oakland	99.981	224,145,962
<b>East Bay Municipal Utility District, Special District No. 1</b>	<b>100.000</b>	<b>14,160,000</b>
East Bay Regional Park District	23.413	47,177,615
West Contra Costa Healthcare District Parcel Tax Obligations	16.188	10,856,639
City of El Cerrito Parcel Tax Obligations	99.858	2,167,331
City of Alameda Community Facilities District Nos. 1 and 2	100.000	7,785,000
City of Berkeley Community Facilities District No. 1	100.000	5,040,000
1915 Act bonds	100.000	23,870,850
<b>Sub-total Direct Tax and Assessment Debt</b>		<b>\$ 14,160,000</b>
<b>Sub-total Overlapping Tax and Assessment Debt</b>		<b>2,469,123,863</b>
<b>Total Direct and Overlapping Tax and Assessment Debt</b>		<b>\$ 2,483,283,863</b>
<u>Ratios to 2013-14 Assessed Valuation:</u>		
<b>Direct Debt (\$14,160,000)</b>	<b>0.02 %</b>	
Total Direct and Overlapping Tax and Assessment Debt	3.13 %	

(continued)

Sources: California Municipal Statistics, Inc.

**Debt Capacity**  
**Direct and Overlapping Debt (Continued)**

Fiscal Year 2014

**Wastewater System (Special District No. 1)**

<u>Overlapping General Fund Debt:</u>	<u>(1) % Applicable</u>	<u>Debt 6/30/14</u>
Alameda County General Fund Obligations	36.054 %	\$ 322,250,472
Alameda County Pension Obligations	36.054	31,650,878
Contra Costa County General Fund Obligations	3.017	8,284,691
Contra Costa County Pension Obligations	3.107	7,798,945
Alameda-Contra Costa Transit District Certificates of Participation	45.218	12,731,128
Peralta Community College District Pension Obligations	100.000	167,209,090
Oakland Unified School District Certificates of Participation	100.000	43,365,000
Other School District Certificates of Participation	Various	2,418,767
City of Alameda Cetificates of Participation	100.000	11,855,000
City of Berkeley General Fund Obligations and Pension Obligations	100.000	33,075,000
City of Oakland General Fund Obligations	99.981	237,902,290
City of Oakland Pension Obligations	99.981	348,446,162
Other City General Fund Obligations	Various	19,299,544
Morada-Orinda Fire Protection District Pension Obligation Bonds	0.023	5,072
<b>Total Overlapping General Fund Debt</b>		\$ 1,246,292,039
Less: Contra Costa County Obligations supported from revenue funds		3,280,566
City of Richmond oblifations supported from port revenues		2,166,720
<b>Total Net Overlapping General Fund Debt</b>		\$ 1,240,844,753
<u>Overlapping Tax Increment Debt (Successor Agencies):</u>	.512-100.000 %	\$ 682,067,247
<b>Total Direct Debt</b>		\$ 14,160,000
<b>Gross Overlapping Debt</b>		\$ 4,397,483,149
<b>Net Overlapping Debt</b>		\$ 4,392,035,863
Gross Combined Total Debt		\$ 4,411,643,149
Net Combined Total Debt		\$ 4,406,195,863

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

Ratios to Adjusted Assessed Valuation:

Gross Combined Total Debt	5.55 %
Net Combined Total Debt	5.55 %

Ratios to Redevelopment Incremental Valuation (\$15,389,049,304)

Total Overlapping Tax Increment Debt	4.43 %
--------------------------------------	--------

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

As of June 30, 2014  
(Thousands of Dollars)

**Water System**
**Revenue Bonds**

Series 2005A	\$	83,890
Series 2007A		330,000
Series 2007B		30,450
Series 2008A		105,250
Series 2009A		82,075
Series 2010A		188,135
Series 2010B		400,000
Series 2012A		191,750
Series 2012B		332,840
Series 2013A		45,525
Series 2014A		128,315
Series 2014B		242,730
Series 2014C		75,000

<b>Total Water System Debt Outstanding</b>	<b>\$</b>	<b>2,235,960</b>
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**Wastewater System**
**General Obligation Bonds**

Series G	\$	14,160
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**Revenue Bonds**

Series 2007A	60,630
Series 2007B	32,590
Series 2008C	49,100
Series 2010A	48,465
Series 2010B	150,000
Series 2011A	59,095
Series 2012A	20,000

<b>Total Wastewater System Debt Outstanding</b>	<b>\$</b>	<b>434,040</b>
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\*Debt outstanding does not include State low interest loans, commercial paper or outstanding refunded but not yet called debt.

Sources: Financial Statements



## **Demographic and Economic Information Section**

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

## Demographic and Economic Information

### District Information

Fiscal Year 2014

		<u>Water System</u>	<u>Wastewater System</u>
<b>Established</b>		1923	1944
<b>Service Area</b>	(square miles)	332	88
<b>Population Served</b>	(in thousands)	1,300	650
<b>Unemployment Rate</b>	(Alameda County - %)	5.8	5.8
<b>Facilities:</b>			
Miles of aqueducts		91.5	-
Miles of pipeline		4,115	-
Miles of tunnels		23.6	-
Miles of interceptors		-	29
Number of treatment plants*		10	-
Number of pumping stations		141	24
Number of treated water reservoirs		160	-
Number of reservoirs		166	-
Total District untreated water reservoir capacity	(acre feet)	766,740	-
<b>Water demand per fiscal year</b>			
District-provided water	(acre feet)	210,304	-
<b>Water recycling per day</b>	(in million gallons)	-	10.51
<b>Wastewater treatment capacity</b>			
Primary treatment		-	320
Secondary treatment		-	168
<b>Energy Recovery</b>	(%)	-	130
<b>Number of employees</b>		1,506	254
<b>Average years of service of employees</b>		13.5	14.6

\* Includes one standby treatment plant

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

Demographic and Economic Information

Principal Water Rate Payers

Fiscal Years 2005 to 2014  
(In Thousands)

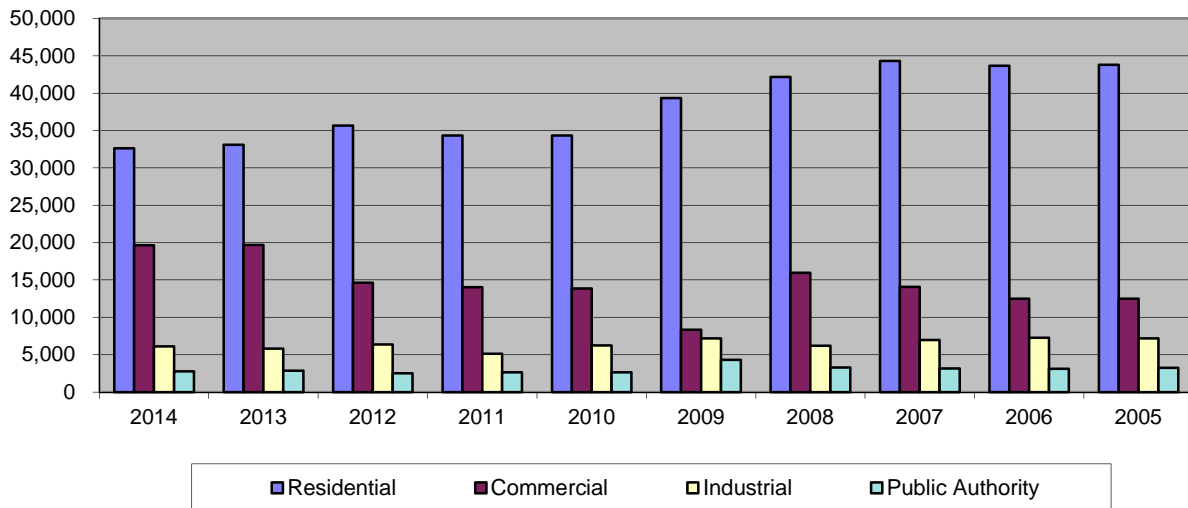
	2014		2013		2012		2011		2010		2009		2008		2007		2006		2005	
	Billings	%	Billings	%	Billings	%	Billings	%	Billings	%	Billings	%	Billings	%	Billings	%	Billings	%	Billings	%
Chevron USA*	\$ 12,638	3.44%	\$ 9,175	2.73%	\$ 9,402	3.09%	\$ 9,957	3.56%	\$ 13,120	4.94%	\$ 12,075	4.61%	\$ 11,380	4.21%	\$ 12,457	4.78%	\$ 11,940	4.89%	\$ 12,343	5.49%
ConocoPhillips	7,185	1.95%	7,210	2.15%	5,691	1.87%	5,686	2.03%	5,520	2.07%	5,584	2.13%	5,639	2.08%	4,893	1.88%	5,207	2.13%	4,402	1.96%
UC Berkeley**	4,023	1.09%	3,836	1.14%	3,358	1.10%	3,235	1.15%	2,325	0.88%	1,440	0.55%	1,473	0.54%	-	-	-	-	-	-
Golden Rain Foundation	2,922	0.80%	2,746	0.82%	2,199	0.72%	1,724	0.61%	1,727	0.64%	1,773	0.67%	1,863	0.69%	1,766	0.68%	1,477	0.60%	1,436	0.64%
C & H Sugar	2,219	0.60%	2,029	0.60%	2,506	0.82%	2,374	0.84%	2,251	0.84%	2,975	1.13%	2,058	0.76%	2,331	0.89%	2,064	0.84%	2,104	0.94%
City of Alameda	2,114	0.58%	1,820	0.54%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
City of San Ramon	1,290	0.35%	1,255	0.37%	-	-	-	-	-	-	725	0.27%	857	0.32%	-	-	-	-	-	-
City of Oakland	1,232	0.34%	843	0.25%	404	0.13%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
San Ramon Unified Schools	1,106	0.30%	1,080	0.32%	525	0.17%	579	0.20%	599	0.23%	613	0.23%	637	0.24%	-	-	524	0.21%	524	0.23%
Blackhawk Corporation	1,057	0.29%	1,015	0.30%	624	0.21%	638	0.22%	600	0.23%	768	0.29%	910	0.34%	750	0.29%	650	0.27%	594	0.26%
Oakland Housing Authority	1,031	0.28%	938	0.28%	663	0.22%	688	0.24%	-	-	827	0.31%	790	0.29%	789	0.30%	778	0.32%	720	0.32%
Oakland Unified School District	973	0.26%	879	0.26%	698	0.23%	694	0.24%	597	0.22%	617	0.23%	620	0.23%	670	0.26%	-	-	-	-
Port of Oakland	943	0.26%	962	0.29%	701	0.23%	692	0.24%	652	0.25%	523	0.20%	568	0.21%	757	0.29%	694	0.28%	675	0.30%
Kaiser Permanente	929	0.25%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Safeway Stores	827	0.23%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
West Contra Costa Unified School Dist.	766	0.21%	693	0.21%	483	0.16%	500	0.17%	499	0.18%	566	0.21%	-	-	-	-	-	-	-	-
City of Richmond	731	0.20%	706	0.21%	518	0.17%	503	0.17%	-	-	-	-	-	-	-	-	-	-	-	-
Coca Cola Bottling Company	727	0.20%	652	0.19%	607	0.20%	550	0.19%	531	0.20%	581	0.22%	587	0.22%	608	0.23%	550	0.23%	-	-
Town of Danville	691	0.19%	736	0.22%	581	0.19%	-	-	491	0.18%	-	-	-	-	-	-	-	-	-	-
Bayer	648	0.18%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Oakland Parks and Recs	-	-	903	0.27%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
University of California	-	-	-	-	-	-	-	-	723	0.26%	1,725	0.65%	1,569	0.58%	3,244	1.24%	2,728	1.12%	2,498	1.11%
Alameda County Medical Center	-	-	-	-	-	-	-	-	-	-	-	-	483	0.18%	-	-	524	0.21%	527	0.23%
Total annual billing	\$44,052	11.99%	\$ 37,478	11.15%	\$ 28,960	9.53%	\$ 27,820	9.84%	\$ 29,635	11.11%	\$ 30,792	11.69%	\$ 29,434	10.88%	\$ 28,265	10.84%	\$ 27,136	11.11%	\$ 25,823	11.50%
<b>Total annual billings</b>	<b>\$367,547</b>		<b>\$336,066</b>		<b>\$303,901</b>		<b>\$279,567</b>		<b>\$264,828</b>		<b>\$261,411</b>		<b>\$270,564</b>		<b>\$260,678</b>		<b>\$244,280</b>		<b>\$224,631</b>	

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

Source: Customer Information System

**Demographic and Economic Information**  
**Billed Water Consumption by Type of Customer**  
(In millions of gallons)

Fiscal Years 2005 to 2014



Type of Customer					
Fiscal Year	Residential	Commercial	Industrial	Public Authority	Total
2005	43,796	12,483	7,177	3,254	66,710
2006	43,660	12,495	7,270	3,102	66,527
2007	44,300	14,084	6,973	3,178	68,535
2008	42,172	15,971	6,198	3,280	67,621
2009	39,366	8,323	7,189	4,332	59,210
2010	34,317	13,880	6,228	2,652	57,077
2011	34,330	14,016	5,145	2,646	56,137
2012	35,657	14,632	6,363	2,521	59,173
2013	33,083	19,686	5,818	2,878	61,465
2014	32,604	19,666	6,120	2,752	61,142

Source: Customer Information System

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

Fiscal Years 2014 and 2013

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<b>Water System</b>	<b>2014</b>	<b>2013</b>
<b>During the Year:</b>		
Total Water Production, millions of gallons	68,528	67,089
Average Daily Water Production, MGD*	187	184
Maximum Daily Water Production, MGD	288	253
Minimum Daily Water Production, MGD	106	116
<b>At Year End:</b>		
Number of Accounts	380,542	378,852
Number of Employees	1,506	1,473
Miles of Water Distribution Pipe	4,115	4,110
Operating Distribution Storage Capacity, millions of gallons	678	637
<b>Wastewater System</b>		
<b>During the Year:</b>		
Average Daily Wastewater Flow, MGD	60	61
<b>At Year End:</b>		
Number of Accounts	175,467	174,536
Number of Employees	254	252

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\*=millions of gallons per day

**Demographic and Economic Information  
Area Employment Information**

Fiscal Year 2013 to 2014

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	<b>Company</b>	<b>Employment</b>	<b>City</b>
1	University of California, Berkeley	Educational Services	Berkeley
2	Kaiser Permanente Medical Group Inc.	Health Care and Social Assistance	Oakland
3	County of Alameda	Public Administration	Oakland
4	Lawrence Livermore National Lab	Professional, Scientific, and Technical Services	Livermore & Berkeley
5	Safeway Inc.	Retail Trade	Pleasanton
6	Oakland Unified School Dist	Educational Services	Oakland
7	Novartis Vaccines & Diagnostics	Research and Development in Biotech	Emeryville
8	City of Oakland	Public Administration	Oakland
9	Alta Bates Summit Medical Center	Health Care and Social Assistance	Oakland
10	Tesla Motors	General Automotive Repair	Fremont

Previous years data unavailable, no change between 2013 and 2014.

Source: County of Alameda and County of Contra Costa Area Employment, CAFR FY2013.

## **Operating Information Section**

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

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

Fiscal Years 2005 to 2014

<b>Function/Program</b>	<b>Fiscal Year Ended June 30</b>									
	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Maintenance and Construction	732.5	732.0	699.0	660.0	660.0	603.5	603.5	611.5	574.5	578.5
Water Operations and Maintenance	196.5	197.5	196.5	232.5	235.5	282.5	279.5	278.5	309.5	311.5
Water Resources	40.0	44.0	46.0	44.0	44.0	42.0	42.0	42.0	42.0	43.0
Natural Resources	69.5	69.5	69.5	69.5	70.5	68.0	68.0	68.0	68.0	63.0
Engineering and Construction	250.5	250.5	258.5	255.5	257.5	253.5	254.5	260.5	266.5	275.5
Office of the General Manager	25.5	25.5	29.5	29.5	29.5	33.5	33.5	34.5	34.5	37.5
Finance	96.5	97.5	55.0	57.0	57.0	54.0	54.0	65.0	67.0	68.0
Information Systems	93.0	95.0	94.0	94.0	94.0	93.0	93.0	91.0	92.0	79.0
Administration Department	56.0	57.0	103.5	106.5	106.5	107.5	107.5	99.5	100.5	103.5
Customer and Community Services <sup>(1)</sup>	101.0	104.0	138.0	138.0	144.0	137.0	137.0	137.0	138.0	130.0
Human Resources	47.5	47.5	49.5	48.5	48.5	49.5	49.5	49.5	49.5	50.5
Office of General Counsel	17.0	17.0	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5
Water Recycling Program	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	9.0
Wastewater	286.5	286.5	284.5	286.5	283.5	285.5	284.5	286.5	284.5	281.0
<b>Total</b>	<b>2,020.0</b>	<b>2,031.5</b>	<b>2,048.0</b>	<b>2,046.0</b>	<b>2,055.0</b>	<b>2,034.0</b>	<b>2,031.0</b>	<b>2,048.0</b>	<b>2,051.0</b>	<b>2,046.5</b>

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



**Operating Information**  
**Assessed Valuation of Taxable Property**

Fiscal Years 2005 to 2014  
(In Millions)

	Fiscal Year Ended June 30									
	2014	2013	2012	2011	2010*	2009*	2008	2007	2006	2005
<b>Water System</b>										
Alameda County	103,645	\$ 98,957	\$ 94,461	\$ 92,498	\$ 91,896	\$ 93,523	\$ 95,616	\$ 90,960	\$ 83,810	\$ 76,078
Contra Costa County	89,683	83,101	81,232	79,611	79,539	82,362	85,734	83,512	77,161	70,537
<b>Total</b>	<b>\$ 193,328</b>	<b>\$ 182,058</b>	<b>\$ 175,693</b>	<b>\$ 172,109</b>	<b>\$ 171,435</b>	<b>\$ 175,885</b>	<b>\$ 181,350</b>	<b>\$ 174,472</b>	<b>\$ 160,971</b>	<b>\$ 146,615</b>
<b>Wastewater System</b>										
Alameda County	79,134	\$ 75,006	\$ 71,934	\$ 70,659	\$ 70,004	\$ 71,451	\$ 72,332	\$ 68,416	\$ 62,758	\$ 56,980
Contra Costa County	4,843	4,437	4,216	4,335	4,368	4,319	4,395	4,213	3,918	3,581
<b>Total</b>	<b>\$ 83,977</b>	<b>\$ 79,443</b>	<b>\$ 76,150</b>	<b>\$ 74,994</b>	<b>\$ 74,372</b>	<b>\$ 75,770</b>	<b>\$ 76,727</b>	<b>\$ 72,629</b>	<b>\$ 66,676</b>	<b>\$ 60,561</b>

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

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

Source: Alameda and Contra Costa Counties

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

Fiscal Years 2005 to 2014

**Water System**  
(In Millions)

	Fiscal Year Ended June 30									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Structures, Buildings and Equipment	\$4,779.4	\$ 4,600.4	\$ 4,473.1	\$ 4,040.1	\$ 3,864.4	\$ 3,705.1	\$ 3,591.6	\$ 3,470.3	\$ 3,221.5	\$ 3,037.4
Less Accumulated Depreciation	(1,510.2)	(1,423.7)	(1,337.9)	(1,253.7)	(1,177.5)	(1,104.2)	(1,035.0)	(965.3)	(917.9)	(857.1)
Subtotal	<u>3,269.2</u>	<u>3,176.7</u>	<u>3,135.2</u>	<u>2,786.4</u>	<u>2,686.9</u>	<u>2,600.9</u>	<u>2,556.6</u>	<u>2,505.0</u>	<u>2,303.6</u>	<u>2,180.3</u>
Land and Rights-of-Way	55.2	55.5	55.4	52.9	53.5	50.9	49.9	48.9	49.0	49.0
Construction in Progress	<u>243.2</u>	<u>252.5</u>	<u>209.8</u>	<u>716.6</u>	<u>783.1</u>	<u>705.6</u>	<u>422.7</u>	<u>243.7</u>	<u>314.1</u>	<u>295.8</u>
Total Capital Assets, Net	<u>\$ 3,567.6</u>	<u>\$ 3,484.7</u>	<u>\$ 3,400.4</u>	<u>\$ 3,555.9</u>	<u>\$ 3,523.5</u>	<u>\$ 3,357.4</u>	<u>\$ 3,029.2</u>	<u>\$ 2,797.6</u>	<u>\$ 2,666.7</u>	<u>\$ 2,525.1</u>

Sources: Financial Statements

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

Fiscal Years 2005 to 2014

**Wastewater System**  
(In Millions)

	Fiscal Year Ended June 30									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Structures, Buildings and Equipment	\$ 969.6	\$ 899.9	\$ 877.7	\$ 815.8	\$ 797.2	\$ 768.5	\$ 744.8	\$ 711.6	\$ 703.6	\$ 677.7
Less Accumulated Depreciation	<u>(371.9)</u>	<u>(353.6)</u>	<u>(331.9)</u>	<u>(312.1)</u>	<u>(293.0)</u>	<u>(273.6)</u>	<u>(255.6)</u>	<u>(239.2)</u>	<u>(224.9)</u>	<u>(208.3)</u>
Subtotal	<u>597.7</u>	<u>546.3</u>	<u>545.8</u>	<u>503.7</u>	<u>504.2</u>	<u>494.9</u>	<u>489.2</u>	<u>472.4</u>	<u>478.7</u>	<u>469.4</u>
Land and Rights-of-Way	20.2	20.0	20.0	19.9	19.7	19.7	19.5	16.1	5.6	5.6
Construction in Progress	<u>59.1</u>	<u>100.3</u>	<u>87.6</u>	<u>112.2</u>	<u>81.8</u>	<u>57.9</u>	<u>46.3</u>	<u>50.9</u>	<u>30.0</u>	<u>21.3</u>
Total Capital Assets, Net	\$ 677.0	\$ 666.6	\$ 653.4	\$ 635.8	\$ 605.7	\$ 572.5	\$ 555.0	\$ 539.4	\$ 514.3	\$ 496.3

Sources: Financial Statements

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

Fiscal Years 2005 to 2014

<u>Function/Program</u>	Fiscal Year Ended June 30									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
<b>Water System</b>										
Water mains (miles)	4,115	4,110	4,110	4,110	4,110	4,110	4,110	4,110	4,085	4,065
Fire hydrants	30,576	30,453	30,421	30,319	30,247	30,203	30,050	29,916	29,532	28,817
Reservoir storage at June 30 (in acre feet)	466,250	610,000	631,580	670,580	719,680	657,270	472,330	560,290	719,460	730,720
<b>Wastewater System</b>										
Sanitary sewers (miles)	Owned by various communities									
Storm sewers (miles)	Owned by various communities									
Treatment capacity (thousands of gallons per day)	168,000	168,000	168,000	168,000	168,000	168,000	168,000	168,000	168,000	168,000

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

Fiscal Years 2005 to 2014

<u><b>Function/Program</b></u>	<b>Fiscal Year Ended June 30</b>									
	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>Water System</b>										
New connections	621	534	426	477	514	735	1,535	1,994	2,230	1,928
Water main breaks	980	813	825	726	852	1,238	916	938	842	855
Average daily production (millions of gallons)	187	184	178	174	174	182	205	211	211	205
Peak daily production (millions of gallons)	288	253	251	260	253	262	288	336	311	310
<b>Wastewater System</b>										
Average daily sewage treatment (millions of gallons)	60	61	62	71	68	66	69	67	82	76

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

Fiscal Years 2005 to 2014  
(In Millions)

	Fiscal Year Ended June 30									
	2014	2013	2012	2011*	2010*	2009*	2008*	2007*	2006*	2005*
Interest and Amortization of Bonds	\$ 121.1	\$ 116.3	\$ 121.3	\$ 105.8	\$ 80.9	\$ 92.3	\$ 106.7	\$ 88.9	\$ 88.9	\$ 84.1
Depreciation on Utility Plant	112.7	109.2	103.5	95.2	94.0	89.8	87.1	88.5	80.7	84.2
Water Treatment and Distribution	97.6	89.6	91.8	84.2	86.0	83.5	80.8	77.0	76.0	72.7
General Administration	57.7	61.7	46.9	52.2	49.5	63.7	61.9	37.2	34.7	28.9
Raw Water <sup>(1)</sup>	41.1	33.1	31.8	31.1	28.9	36.3	29.6	25.3	24.2	23.1
Sewer Treatment Plant Operations	31.7	28.7	30.4	28.7	25.2	25.9	24.8	23.0	22.1	20.9
Financial and Risk Management	17.0	17.2	18.2	18.1	17.5	20.8	17.9	15.7	17.5	15.2
Customer Accounting and Collecting	20.3	18.5	18.9	17.5	16.1	16.5	14.8	14.0	13.3	13.0
Facilities Management	9.0	8.8	11.8	12.2	8.1	5.7	6.9	7.6	7.1	7.0
Sewer Lines and Pumping	13.7	12.5	12.5	13.4	12.9	13.2	12.0	12.3	11.7	10.7
Recreation Areas, Net	<u>5.2</u>	<u>5.3</u>	<u>5.5</u>	<u>5.7</u>	<u>8.4</u>	<u>9.0</u>	<u>8.6</u>	<u>9.4</u>	<u>8.3</u>	<u>7.8</u>
<b>Total:</b>	<b>\$ 527.1</b>	<b>\$ 500.9</b>	<b>\$ 492.6</b>	<b>\$ 464.1</b>	<b>\$ 427.5</b>	<b>\$ 456.7</b>	<b>\$ 451.1</b>	<b>\$ 398.9</b>	<b>\$ 384.5</b>	<b>\$ 367.6</b>

\* Restated to meet current formatting.

<sup>(1)</sup> Includes \$6 million from the purchase of additional drought water supply in 2014.

Sources: Financial Statements

## Other Information

*East Bay Municipal Utility District*

Capacity Charge Funds

**Capacity Charge Funds**

Government Code Section 66013 requires local agencies that collect capacity charges to deposit and account for these fees in a separate capital facilities fund. In addition, local agencies are required to annually provide the information in this report to the public upon request.

The District has the following capacity charge funds:

Future Water Supply (FWS) Fund. This fund collects System Capacity Charges for new water service connections to pay for their share of the debt service costs of FWS projects. Changes in this fund for FY14 are shown in the table below.

<b>FY14 Future Water Supply Fund</b>	
Balance 7/1/13	18,993,589
Additions	5,846,104
Costs Applied	(5,846,104)
Interest Earnings	42,921
Balance 6/30/14	19,036,510

Wastewater Equipment Replacement Fund (ERF). This fund collects a fee for the amount of capacity used by new wastewater connections, and is used to pay for equipment replacements. Changes in this fund for FY14 are shown in the table below.

<b>FY14 Wastewater Equipment Replacement Fund</b>	
Balance 7/1/13	7,524,953
Additions	807,055
Costs Applied	(3,442,879)
Interest Earnings	17,942
Balance 6/30/14	4,907,071

Current and projected project spending and the percentage funded from capacity charges for FY14 and FY15 are shown in the following tables:



## Recorded Spending By Fund (Fiscal Year 2014)

Project	% of Project Funded by Capacity Fees (Percent)	FY14 Expenditures Funded by Capacity Fees (\$thousands)
<b><u>Future Water Supply Fund</u></b>		
East Bayshore Recycled Water Project	70	839
North Richmond Recycled Water Facility	70	761
SRV Recycled Water Project	70	242
Water Recycling WSMP	70	9
Additional Supplemental Supply Projects	70	1,083
Bayside Groundwater Project	49	78
Hayward SF Intertie	70	9
Folsom South Canal Connection	70	2,855
Freeport Regional Water Project	70	123
<b><u>Wastewater Equipment Replacement Fund</u></b>		
Routine Capital Equipment Replacement	100	3,442

## Projected Spending By Fund (Fiscal Year 2015)

Project	% of Project Funded by Capacity Fees (Percent)	FY15 Projected Expenditures Funded by Capacity Fees (\$thousands)
<b><u>Future Water Supply Fund</u></b>		
East Bayshore Recycled Water Project	70	2,135
North Richmond Recycled Water Facility	70	122
SRV Recycled Water Project	70	1,230
Water Recycling WSMP	70	77
Additional Supplemental Supply Projects	70	1,358
Bayside Groundwater Project	49	55
Hayward SF Intertie	70	0
Folsom South Canal Connection	70	232
Freeport Regional Water Project	70	9
<b><u>Wastewater Equipment Replacement Fund</u></b>		
Routine Capital Equipment Replacement	100	2,240

General Information and Purpose

Water System

Wastewater System

Trustee Contacts by Issue

Contacts at East Bay Municipal Utility District

EBMUD Web site

**EAST BAY MUNICIPAL UTILITY DISTRICT**  
**CONTINUING DISCLOSURE INFORMATION STATEMENT**  
(OPERATING AND FINANCIAL DATA PROVIDED IN ADDITION TO  
AUDITED FINANCIAL STATEMENTS SEPARATELY FILED)

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**GENERAL INFORMATION AND PURPOSE**

The purpose of this document is to provide information about the East Bay Municipal Utility District (the “District”). The information in this Continuing Disclosure Information Statement is provided in order to comply with the District’s contractual commitment established by certain continuing disclosure undertakings of the District, entered into in accordance with Securities and Exchange Commission Rule 15c2-12 (the “Rule”), to provide certain information specified therein. Certain information in this Continuing Disclosure Information Statement is not required to be provided by the District’s continuing disclosure undertakings. By providing such information, the District does not undertake or agree to provide such information in any future year. The District makes no representation that this Continuing Disclosure Information Statement contains all information material to a decision to purchase or sell any of the District’s bonds.

The information set forth herein has been furnished by the District and includes information obtained from other sources, which are believed to be reliable. Any statements herein involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that such opinion or estimates will be realized. The information and expressions of opinion contained in this Continuing Disclosure Information Statement are provided as of the respective dates specified herein and are subject to change without notice, and the filing of this Continuing Disclosure Information Statement shall not, under any circumstances, create any implication that there has been no change in the affairs of the District or in the other matters described herein since the date as of which such information is provided. The District reserves the right to amend this information at any time.

Investors may obtain further information about the District by obtaining a copy of the District’s most recent official statement from the Municipal Securities Rulemaking Board at <http://emma.msrb.org/>. Information requests may also be directed to:

Director of Finance  
East Bay Municipal Utility District  
375 Eleventh Street  
Oakland, California 94607-4240  
Phone: (510) 287-0310  
Fax: (510) 287-0293

This information statement provides information about the East Bay Municipal Utility District. Generally, this document relates to debt issued by the District under three security structures:

- **General Obligation Bonds**
- **Water System Revenue Bonds**
- **Wastewater System Revenue Bonds**

As of September 15, 2010, the District covenanted and agreed that it will not in the future issue any additional senior lien water system revenue bonds or senior lien wastewater system revenue bonds previously issued under the District's Senior Water Bond Resolution and Senior Wastewater Bond Resolution, respectively. Certain of the District's bonds that were once designated as Water System Subordinated Revenue Bonds and Wastewater System Subordinated Revenue Bonds, respectively, are now referred to as Water System Revenue Bonds and Wastewater System Revenue Bonds, respectively, in order to reflect that the lien of the prior senior lien water system revenue bonds and prior senior lien wastewater system revenue bonds has been closed. There are no senior lien water system revenue bonds or senior lien wastewater system revenue bonds remaining outstanding.

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**Debt Outstanding**

The following Table 1 summarizes the District's Water System outstanding long-term debt. All information is presented as of June 30, 2014.

**TABLE 1: SUMMARY OF WATER SYSTEM DEBT OUTSTANDING**

<i>Issue</i>	<i>Date of Issue</i>	<i>Last Maturity</i>	<i>Amount Issued</i>	<i>Outstanding June 30, 2014</i>
<b>Water System Revenue Bonds</b>				
Revenue Bonds, Series 2005A	6/02/05	6/01/35	\$ 300,000,000	\$ 83,890,000
Revenue Bonds, Series 2007A	5/23/07	6/01/37	450,000,000	330,000,000
Revenue Refunding Bonds, Series 2007B	5/23/07	6/01/19	54,790,000	30,450,000
Revenue Refunding Bonds, Series 2008A <sup>(1)</sup>	3/20/08	6/01/38	322,525,000	105,250,000
Revenue Refunding Bonds, Series 2009A <sup>(2)</sup>	3/12/09	6/01/26	331,155,000	82,075,000
Revenue Refunding Bonds, Series 2010A	2/03/10	6/01/36	192,830,000	188,135,000
Revenue Bonds, Series 2010B (Build America Bonds)	2/23/10	6/01/40	400,000,000	400,000,000
Revenue Refunding Bonds, Series 2012A	10/10/12	6/01/37	191,750,000	191,750,000
Revenue Refunding Bonds, Series 2012B	11/13/12	6/01/26	358,620,000	332,840,000
Revenue Refunding Bonds, Series 2013A	3/05/13	6/01/21	48,670,000	45,525,000
Revenue Refunding Bonds, Series 2014A	6/11/14	6/01/35	128,315,000	128,315,000
Revenue Refunding Bonds, Series 2014B	6/11/14	6/01/30	242,730,000	242,730,000
Revenue Bonds, Series 2014C	6/26/14	6/01/44	<u>75,000,000</u>	<u>75,000,000</u>
Total Water System Revenue Bonds			\$3,096,385,000	\$2,235,960,000
<b>Parity Debt:</b>				
Safe Drinking Water State Revolving Fund Loan (Upper San Leandro Reservoir)	1/01/03	1/01/24	2,188,000	1,175,435
State Water Resources Control Board Loan (East Bayshore Recycled Water Project)	5/22/08	4/01/28	<u>20,100,000</u>	<u>14,836,015</u>
Total Parity State Loans			\$ 22,288,000	\$16,011,450
<b>Subordinate Debt:</b>				
Extendable Municipal Commercial Paper Notes (Water Series)	Various	Various	<u>359,800,000<sup>(3)</sup></u>	<u>359,800,000</u>
Total Debt			<u>\$3,478,473,000</u>	<u>\$2,611,771,450</u>

<sup>(1)</sup> Liquidity support currently provided by Standby Bond Purchase Agreements with Wells Fargo Bank, National Association (Series 2008A-1 Bonds and Series 2008A-4 Bonds, expiring December 9, 2016) and U.S. Bank National Association (Series 2008A-2 and Series 2008A-3 Bonds, expiring July 1, 2015). The District has entered into interest rate swap agreements that provide a hedge for the Series 2008A Bonds.

<sup>(2)</sup> The District has entered into interest rate swap agreements that provide a hedge for the Series 2009A Bonds.

<sup>(3)</sup> Extendable Municipal Commercial Paper Notes (Water Series) may be issued in an amount up to the statutory limit described herein.

Source: The District.

The following Table 2 summarizes the District's Wastewater System outstanding long-term debt. All information is presented as of June 30, 2014, except as footnoted with respect to certain subsequent or anticipated events.

**TABLE 2: SUMMARY OF WASTEWATER SYSTEM DEBT OUTSTANDING**

	<i>Date of Issue</i>	<i>Last Maturity</i>	<i>Amount Issued</i>	<i>Outstanding June 30, 2014</i>
<b>Wastewater System Revenue Bonds:</b>				
Revenue Bonds, Series 2007A	06/06/07	06/01/37	\$ 80,630,000	\$ 60,630,000
Revenue Refunding Bonds, Series 2007B	06/06/07	06/01/26	46,670,000	32,590,000
Revenue Refunding Bonds, Series 2008C (Refunded) <sup>(1)</sup>	03/27/08	06/01/27	65,300,000	49,100,000
Revenue/Refunding Bonds, Series 2010A	10/20/10	06/01/29	58,095,000	48,465,000
Revenue Bonds, Series 2010B	10/20/10	06/01/40	150,000,000	150,000,000
Revenue Refunding Bonds, Series 2011A (Refunded in Part) <sup>(2)</sup>	01/19/11	06/01/38	65,905,000	59,095,000
Revenue Refunding Bonds, Series 2012A	10/10/12	06/01/37	<u>20,000,000</u>	<u>20,000,000</u>
Total Wastewater System Revenue Bonds			<u>\$486,600,000</u>	<u>\$419,880,000</u>
<b>Subordinate Debt:</b>				
Extendable Municipal Commercial Paper Notes (Wastewater Series) <sup>(3)</sup>	Various	Various	15,000,000 <sup>(3)</sup>	15,000,000
<b>General Obligation Bonds:</b>				
Refunding Series G	02/27/14	04/01/18	<u>14,160,000</u>	<u>14,160,000</u>
<b>Total Debt</b>			<u><b>\$515,760,000</b></u>	<u><b>\$449,040,000</b></u>

<sup>(1)</sup> On August 28, 2014, the District issued its \$82,150,000 Wastewater System Revenue Refunding Bonds, Series 2014A and its \$2,505,000 Wastewater System Revenue Refunding Bonds, Series 2014B (Federally Taxable) for the purpose of refunding the \$49,100,000 then outstanding principal amount of Wastewater System Revenue Refunding Bonds, Series 2008C in full, refunding \$42,710,000 principal amount of the \$59,095,000 then outstanding principal amount of Wastewater System Revenue Refunding Bonds, Series 2011A and funding the costs of terminating (in whole or in part) certain interest rate swap agreements related thereto.

<sup>(2)</sup> On August 28, 2014, the District issued its \$82,150,000 Wastewater System Revenue Refunding Bonds, Series 2014A and its \$2,505,000 Wastewater System Revenue Refunding Bonds, Series 2014B (Federally Taxable) for the purpose of refunding the \$49,100,000 then outstanding principal amount of Wastewater System Revenue Refunding Bonds, Series 2008C in full, refunding \$42,710,000 principal amount of the \$59,095,000 then outstanding principal amount of Wastewater System Revenue Refunding Bonds, Series 2011A and funding the costs of terminating (in whole or in part) certain interest rate swap agreements related thereto. The District has entered into an interest rate swap agreement in connection with the Series 2011A Bonds remaining outstanding.

<sup>(3)</sup> Extendable Commercial Paper Notes (Wastewater Series) may be issued in an amount up to the statutory limit described herein.

Source: The District.

### Commercial Paper Program

The District has authorized a short-term extendable commercial paper borrowing program of up to the lesser of either (1) the annual average of the total revenue for the three preceding years or, (2) 25% of the District's outstanding bonds. As of May 2013, this limit was determined to be approximately \$475,000,000. Under this program, the Water System or the Wastewater System may issue commercial paper notes at prevailing interest rates for periods of not more than 120 days from the date of issuance with the option by the District to extend the maturity for another 150 days. The program is not supported by any liquidity or revolving credit agreement.

The Water System and the Wastewater System Commercial Paper Notes are payable from and secured by a pledge of the respective System's revenues on a basis subordinate to the Water System and Wastewater System revenue bonds.

As of June 30, 2014, \$374,800,000 principal amount of commercial paper notes was outstanding under the program, consisting of \$359,800,000 of Extendable Municipal Commercial Paper Notes (Water Series) and \$15,000,000 of Extendable Municipal Commercial Paper Notes (Wastewater Series), with an average weighted remaining life to maturity of 49 days.

The proceeds of the Extendable Commercial Paper Notes may be used to finance or refinance the costs of (i) the planning, design, engineering, acquisition or construction of facilities for the storage, transmission or distribution of water; the storage, transmission or treatment of sewage or byproducts of sewage treatment; or the generation or transmission of electricity, (ii) the replacement of works of the District that have been damaged or demolished by reason of fire, flood, earthquake, sabotage or acts of God or the public enemy, (iii) any expenses or charges incurred in connection with the foregoing purposes and to reimburse the District for expenditures for any such purposes, or for the purpose of paying Extendable Commercial Paper Notes issued for the foregoing purposes. There were no unused proceeds on June 30, 2014.

### **Investment Policy**

The District's investment policy can be summarized as follows:

Funds of the District are invested in accordance with the Government Code of the State of California, the Municipal Utility District Act and the District's Investment Policy. Investments shall be in securities with a range of maturities to provide a high rate of return on investments while providing adequate security and liquidity to pay demands when due. Criteria for selecting investments, in order of priority, are:

1. *Safety* - The District's ability to recover principal and interest. Investments shall be made that will seek to insure the preservation of principal and interest and minimize the risk to the greatest extent possible. It is the primary duty of the Treasurer to protect, preserve and maintain cash on behalf of the District.
2. *Liquidity* - The District's ability to have cash available when needed to support expenditure cycles and budgetary objectives. The average maturity of the portfolio shall not exceed 720 days in order to balance liquidity and yields. No single investment can have a maturity of more than 5 years or, in the case of California municipal bonds, must have a put option within 5 years of the date of purchase.
3. *Yield* - Ability to provide maximum return on the District's investments while conforming to the safety and liquidity criteria above.
4. *Diversity* - Ability to maintain a broad investment portfolio for the District. In order to accomplish this, no more than 40% of the total cash portfolio shall be invested in any one type of security. Other than federally backed securities, no more than 10% of the total cash portfolio will be invested in any one investment issue, and no more than 10% with any one issuer.

### **Investment Options**

The following are investment options for the District under the Government Code of the State of California.

1. US Treasury Notes, Bonds and Bills
2. The State of California Local Agency Investment Fund
3. Obligations issued by Federal Agencies
4. Banker's Acceptances
5. Commercial Paper
6. Medium Term Corporate Notes
7. Collateralized Repurchase Agreements
8. Certificates of Time Deposit
9. Negotiable Certificates of Deposit
10. Money Market Mutual Funds
11. California Municipal Bonds
12. California Asset Management Program (CAMP)

The District does not enter into reverse repurchase agreements or otherwise borrow for purposes of investing. The District does not invest in highly volatile derivatives and other such securities. Pursuant to the District's investment policy, all securities purchased from dealers and brokers are held in safekeeping by the trust department of a state or national bank on a payment vs. delivery basis. Collateral is delivered or assigned under a tri-party agreement for all repurchase agreements. Trade confirmations are reviewed for conformity to the original transaction by an individual other than the one who originated the transaction. Transactions are ratified by the General Manager and reported quarterly to the Finance/Administration Committee of the Board of Directors.

### **District Population**

The District occupies approximately 332 square miles in 20 incorporated and 15 unincorporated communities in both Alameda and Contra Costa Counties. It covers the eastern shore of San Francisco Bay from Carquinez Strait in the north to and including San Lorenzo in the south and it extends approximately 20 miles east, beyond the Oakland-Berkeley hills, into Contra Costa County.

The District's Water System serves this entire area, reaching approximately 1.3 million people, or approximately 53% of the combined population of Alameda County and Contra Costa County. The District's Wastewater System treats and disposes of the wastewater from an area within the District designated as Special District No. 1, serving approximately 650,000 people in an approximately 88 square mile area of the two counties, extending from Richmond in the north, southward to San Leandro.

Table 3 shows the population trends for the six largest cities in the District, Alameda and Contra Costa Counties and the State for the current and last four years.



**TABLE 3: DISTRICT WATER SYSTEM SIX LARGEST CITIES  
ALAMEDA, CONTRA COSTA COUNTIES AND CALIFORNIA  
POPULATION TRENDS<sup>(1)</sup>**

	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Oakland	390,757	392,333	394,838	399,699	404,355
Berkeley	112,621	113,925	114,690	115,814	117,372
Richmond	103,661	104,382	105,004	105,715	106,138
San Leandro	84,977	85,364	85,943	86,748	87,691
Alameda	73,835	74,052	74,546	75,197	75,988
Walnut Creek	64,140	64,710	65,306	65,780	66,183
Total Six Cities	829,991	834,766	840,327	848,953	857,727
Alameda County	1,509,240	1,517,756	1,530,206	1,550,119	1,573,254
Contra Costa County	1,047,948	1,056,306	1,066,597	1,076,429	1,087,008
California	37,223,900	37,427,946	37,668,804	37,984,138	38,340,074

<sup>(1)</sup> As of January 1 of each year.

Source: 2010: State of California, Department of Finance, E-8 Historical Population and Housing Estimates, 2000-2012 Report, by Year, Sacramento, California, November 2012 (Revised Estimates).

2011-2014: State of California, Department of Finance, E-5 Population and Housing Estimates for Cities, Counties and the State — January 1, 2011- 2014 (with 2010 Benchmark). Sacramento, California, May 2014.

Table 4 shows the population trends for the seven largest cities within the District's Wastewater System service area, Alameda and Contra Costa Counties and the State for the current and last four years. The District's Wastewater System treats domestic, commercial and industrial wastewater for the six cities of Alameda, Albany, Berkeley, Emeryville, Oakland and Piedmont (the "six participating cities"), and for the Stege Sanitary District, which includes El Cerrito, Kensington and part of Richmond.

**TABLE 4: SEVEN LARGEST CITIES IN DISTRICT WASTEWATER SYSTEM SERVICE AREA  
ALAMEDA, CONTRA COSTA COUNTIES AND CALIFORNIA  
POPULATION TRENDS<sup>(1)</sup>**

	2010	2011	2012	2013	2014
Oakland	390,724	392,333	394,838	399,699	404,355
Berkeley	112,580	113,925	114,690	115,814	117,372
Alameda	73,812	74,052	74,546	75,197	75,988
El Cerrito	23,549	23,649	23,801	23,945	24,087
Albany	18,539	18,345	18,468	18,446	18,472
Piedmont	10,667	10,710	10,793	10,900	11,023
Emeryville	10,080	10,110	10,186	10,278	10,491
Total Seven Cities	639,951	643,124	647,322	654,279	661,788
Alameda County	1,510,271	1,517,756	1,530,206	1,550,119	1,573,254
Contra Costa County	1,049,025	1,056,306	1,066,597	1,076,429	1,087,008
California	37,253,956	37,427,946	37,668,804	37,984,138	38,340,074

<sup>(1)</sup> 2010 as of April 1. 2011-2014 as of January 1. Includes the six participating cities and El Cerrito, the largest incorporated portion of the Stege Sanitary District service area.

Source: State of California, Department of Finance, E-4 Population Estimates for Cities, Counties and the State—2011-2014 (with 2010 Benchmark). Sacramento, California, May 2014.

**Taxable Property/Assessed Valuations**

Table 5 shows a five-year record of assessed valuations, secured roll levies and delinquencies for the taxable property included within the District.

**TABLE 5: TAXABLE PROPERTY WITHIN THE WATER SYSTEM  
ASSESSED VALUATION AND TAX COLLECTION RECORD**

<b>Fiscal Year</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>ASSESSED VALUATION FOR TAXATION PURPOSES<sup>(1)</sup></b>					
Alameda County	\$ 91,896,215,219	\$ 92,498,938,097	\$ 94,461,089,218	\$ 98,956,612,301	\$103,645,001,483
Contra Costa County	<u>79,539,647,643</u>	<u>79,611,319,471</u>	<u>81,232,708,213</u>	<u>83,100,933,502</u>	<u>89,682,673,562</u>
<b>TOTAL</b>	<b>\$171,435,862,862</b>	<b>\$172,110,257,568</b>	<b>\$175,693,797,431</b>	<b>\$182,057,545,803</b>	<b>\$193,327,675,045</b>
<b>COUNTY 1% ALLOCATED PROPERTY TAX REVENUES TO DISTRICT<sup>(2)</sup></b>					
Alameda County	\$11,820,322	\$11,404,014	\$12,463,643	\$14,417,608	\$13,669,336
Contra Costa County	<u>11,068,795</u>	<u>10,831,553</u>	<u>10,921,960</u>	<u>12,018,366</u>	<u>11,823,055</u>
<b>TOTAL</b>	<b>\$22,889,117<sup>(4)</sup></b>	<b>\$22,235,567</b>	<b>\$23,385,603</b>	<b>\$26,435,974</b>	<b>\$25,492,391</b>
<b>DELINQUENCIES<sup>(3)</sup></b>					
Delinquent June 30					
Amount	\$463,326	\$377,242	\$353,191	\$260,612	\$211,831
Percent	2.02%	1.70%	1.51%	0.99%	0.83%

<sup>(1)</sup> Net of all exemptions except homeowner's exemptions, the taxes on which are paid by the State. All valuations are stated on a 100% of full cash value basis as defined by law. Assessed valuations shown include redevelopment project area incremental valuations.

<sup>(2)</sup> Net basis excluding all exemptions. Levies reflect the tax reductions effected by the adoption of Article XIII A of the State Constitution in 1978, the "Jarvis-Gann Initiative." For Alameda County, receipts include District's share of prior years' delinquencies when collected.

<sup>(3)</sup> Amounts apply to Alameda County only, since Contra Costa County guarantees 100% payment of the District's secured roll levy. The delinquency percentages are calculated based on the two counties' secured roll levies.

<sup>(4)</sup> The 2009-10 State budget provided for the borrowing of 8% of property taxes from local jurisdictions, including the District, under Proposition 1A. This borrowing resulted in a reduction of approximately \$1.85 million from property tax revenues allocable to the Water System. Under Proposition 1A, the State was required to repay the property taxes with interest within three years. State legislation allowed the District to sell its right to receive this repayment to a joint powers authority, which sold bonds payable from the receivables it purchased from participating local jurisdictions. The District participated in this program in order to replace the lost property taxes at no cost to the District, and treated amounts received under the program as it would have treated the State borrowed property tax revenues replaced thereby.

Sources: Auditor-Controller's Office, Alameda and Contra Costa Counties, as compiled by the District.

Table 6 shows a five-year record of assessed valuations, secured roll levies and delinquencies for the taxable property included within Special District No. 1.

**TABLE 6: TAXABLE PROPERTY WITHIN THE WASTEWATER SYSTEM  
ASSESSED VALUATION AND TAX COLLECTION RECORD**

Fiscal Year	2010	2011	2012	2013	2014
<b>ASSESSED VALUATION FOR TAXATION PURPOSES<sup>(1)</sup></b>					
Alameda County	\$70,004,422,511	\$70,659,732,542	\$71,934,582,382	\$75,005,826,233	\$79,134,556,452
Contra Costa County	<u>4,369,735,559</u>	<u>4,336,045,012</u>	<u>4,216,260,569</u>	<u>4,436,844,975</u>	<u>4,842,733,668</u>
TOTAL	\$74,374,158,070	\$74,995,777,554	\$76,150,842,951	\$79,442,671,208	\$83,977,290,120
<b>COUNTY 1% ALLOCATED PROPERTY TAX REVENUES TO DISTRICT<sup>(2)</sup></b>					
Alameda County	\$3,091,674	\$3,002,026	\$3,407,488	\$4,111,766	\$3,557,107
Contra Costa County	<u>292,357</u>	<u>297,289</u>	<u>290,580</u>	<u>301,272</u>	<u>973,382</u>
TOTAL	\$3,384,031 <sup>(4)</sup>	\$3,299,315	\$3,698,068	\$4,413,038	\$4,530,489
<b>DISTRICT G. O. BOND AD VALOREM TAX LEVY</b>					
Alameda County	\$3,823,706	\$3,819,476	\$4,340,344	\$4,712,548	\$5,054,513
Contra Costa County	<u>239,172</u>	<u>260,298</u>	<u>268,200</u>	<u>282,625</u>	<u>296,047</u>
TOTAL	\$4,062,878	\$4,079,774	\$4,608,544	\$4,995,173	\$5,350,560
<b>TOTAL PROPERTY TAX/AD VALOREM TAX REVENUES</b>					
Alameda County	\$6,915,380	\$6,821,501	\$7,747,832	\$8,824,314	\$8,611,620
Contra Costa County	<u>531,529</u>	<u>557,588</u>	<u>558,780</u>	<u>583,897</u>	<u>1,269,429</u>
TOTAL	\$7,446,909 <sup>(4)</sup>	\$7,379,089	\$8,306,612	\$9,408,211	\$9,881,049
<b>DELINQUENCIES<sup>(3)</sup></b>					
Delinquent June 30					
Amount	\$305,905	\$255,170	\$214,184	\$172,212	\$143,118
Percent	4.11%	3.46%	2.58%	1.83%	1.45%

<sup>(1)</sup> Net of all exemptions except homeowner's exemptions, the taxes on which are paid by the State. All valuations are stated on a 100% of full cash value basis as defined by law. Assessed valuations shown include redevelopment project area incremental valuations.

<sup>(2)</sup> Net basis excluding all exemptions. Levies reflect the tax reductions effected by the adoption of Article XIII A of the State Constitution in 1978, the "Jarvis-Gann Initiative." For Alameda County, receipts include District's share of prior years' delinquencies when collected.

<sup>(3)</sup> Amounts apply to Alameda County only, since Contra Costa County guarantees 100% payment of the District's secured roll levy. The delinquency percentages are calculated based on the two counties' secured roll levies.

<sup>(4)</sup> The 2009-10 State budget provided for the borrowing of 8% of property taxes from local jurisdictions, including the District, under Proposition 1A (discussed below). This borrowing resulted in a reduction of approximately \$260,000 from property tax revenues allocable to Special District No. 1 for the Fiscal Year 2009-10. Under Proposition 1A, the State was required to repay the property taxes with interest within three years. State legislation allowed the District to sell its right to receive this repayment to a joint powers authority, which sold bonds payable from the receivables it purchased from participating local jurisdictions. The District participated in this program in order to replace the lost property taxes at no cost to the District, and treated amounts received under the program as it would have treated the State borrowed property tax revenues replaced thereby.

Sources: Auditor-Controller's Office, Alameda and Contra Costa Counties, as compiled by the District.

**WATER SYSTEM****Material Changes in Water Supply**

There have been no material changes in the District's sources of water supply. However, the availability of these sources is impacted by California hydrology, which is highly variable from year to year. Water Year 2014 (which ended on September 30, 2014), was the fifth driest on record for precipitation. On January 17, 2014, Governor Jerry Brown declared a statewide drought emergency. On February 11, 2014, due to the continuing unusually dry conditions, decreasing reservoir levels and potentially low precipitation forecasts for the rest of the rainy season, the District Board requested all District customers to voluntarily curtail water consumption by 10%. On August 12, 2014, the District Board adopted the mandatory statewide watering restrictions requested by the State Water Resources Control Board for all District customers. The District monitors precipitation and its reservoir levels daily. To the extent dry weather patterns persist, the District will continue to assess water supply conditions, including customer conservation patterns and reservoir levels, to determine what action may be warranted and manage unbudgeted pressures as necessary. Investors may obtain additional information regarding the District's water supply and its responses to ongoing dry weather conditions by obtaining a copy of the District's most recent official statement from the Municipal Securities Rulemaking Board at <http://emma.msrb.org/> or from the District's website at <http://www.ebmud.com>.

**Gross Water Production**

Annual water production in the District since Fiscal Year 2004 is shown in Table 7 below. Note that this information has been re-labeled as "production" rather than "consumption" to more accurately characterize the data. Water production includes the total water produced at the District's water treatment plants and water moved through the distribution system that was delivered to customers, as well as water lost through leaks in the transmission system, water used in the treatment process, evaporation, water used for fighting fires and other miscellaneous causes.

**TABLE 7: WATER PRODUCTION BY FISCAL YEAR<sup>(1)</sup>**

<i><b>Fiscal Year</b></i>	<i><b>Annual Production (Acre-Feet)</b></i>	<i><b>Annual Production (Thousands of Ccf)</b></i>	<i><b>Annual Production (Million Gallons)</b></i>	<i><b>Average Production Per Day (Million Gallons per Day)</b></i>
2005	229,155	99,820	74,666	205
2006	236,866	103,179	77,174	211
2007	236,111	102,850	76,932	211
2008	230,363	100,346	75,059	205
2009	203,423	88,611	66,281	182
2010	195,158	85,011	63,588	174
2011	194,642	84,786	63,420	174
2012	200,220	87,216	65,242	178
2013	205,889	89,685	67,089	184
2014	209,467	91,244	68,255	184

<sup>(1)</sup> Water production includes water lost through leaks in the transmission system, used in the treatment process, evaporation, fighting fires and other miscellaneous causes, which approximates 10.0% of gross production.

Source: The District.

**Sources of Funds/Summary of Revenues and Contributions**

The following Table 8 sets forth the District's Water System sources of funds for the five most recent Fiscal Years ended June 30, 2014. The sources of funds in the table below include certain funds which do not constitute Subordinated Water Revenues for purposes of the Indenture. Subordinated Water Revenues include all charges received for, and all other income and receipts derived by the District from, the operation of the Water System or arising from the Water System, which includes, without limitation, the District's water rates, system capacity charge and seismic surcharge, as well as investment income. Property taxes are applied to reduce Operation and Maintenance Costs and are not pledged to the repayment of the Water System Revenue Bonds. Contributions received for facility relocations, main extensions and service installations, and grants and other reimbursements, which are restricted to use for the specified purposes are not included in Subordinated Water Revenues for purposes of the Indenture. Only Subordinated Water Revenues are pledged to the payment of the Water System Revenue Bonds.

**TABLE 8: WATER SYSTEM SOURCES OF FUNDS/SUMMARY OF REVENUES AND CONTRIBUTIONS  
FIVE FISCAL YEARS ENDED JUNE 30, 2014  
(MILLIONS)**

	<i>Fiscal Year Ending June 30</i>				
	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>
Operating Revenue and Other Income:					
Water sales	\$271.0	\$283.6	\$306.2	\$336.1	\$367.5
Power sales	6.2	8.1	4.6	3.6	1.4
Interest <sup>(1)</sup>	9.6	5.7	5.5	3.7	1.7
Taxes	22.9	22.2	23.4	26.4	25.5
Other <sup>(2)</sup>	<u>7.7</u>	<u>13.4</u>	<u>16.2</u>	<u>12.8</u>	<u>19.9</u>
Total Operating Revenue and Other Income	<u>\$317.4</u>	<u>\$333.0</u>	<u>\$355.9</u>	<u>\$382.6</u>	<u>\$416.0</u>
Capital Contributions:					
Seismic Surcharge	\$ 16.7	\$ 18.1	\$ 19.2	\$ 20.6	\$ 22.6
System Capacity Charge <sup>(3)</sup>	12.5	17.6	16.1	22.7	20.4
Earned contributions on construction <sup>(4)</sup>	6.0	6.5	5.8	4.5	5.2
Grants and reimbursements	<u>4.7</u>	<u>3.6</u>	<u>4.1</u>	<u>8.0</u>	<u>0.8</u>
Total Contributions	<u>\$ 39.9</u>	<u>\$ 45.8</u>	<u>\$ 45.2</u>	<u>\$ 55.8</u>	<u>\$ 49.0</u>
Total	<u>\$357.3</u>	<u>\$378.8</u>	<u>\$401.1</u>	<u>\$438.4</u>	<u>\$465.0</u>

<sup>(1)</sup> Includes interest earnings on Water System Fund, including earnings on proceeds of the District's Water System Revenue Bonds.

<sup>(2)</sup> Other Revenues include receipts from property sales, rental of District property, fees for use of District recreational facilities and other miscellaneous receipts. Beginning in Fiscal Year 2010, Other Revenues also includes interest subsidy payments received in each year by the District in connection with its Series 2010B Bonds which are Build America Bonds. Excludes reimbursements and other receipts applied directly to operating expenses.

<sup>(3)</sup> System capacity charge collections presented in the table above include the "buy-in" portion and the "future water supply" portion of SCC charges when collected. Does not include the "future water supply" portion of SCC charges applied from the Future Water Supply Fund to offset debt service costs. See "– System Capacity Charge" below.

<sup>(4)</sup> Includes contributions for facility relocations, main extensions and service installations.

Source: The District.

**Water Sales Revenues, Number of Connections (Accounts) and Metered Consumption**

The following Table 9 sets forth water sales revenues, consumption and number of connections by customer type.

**TABLE 9: WATER SALES REVENUES, CONSUMPTION AND NUMBER OF CONNECTIONS  
BY CUSTOMER TYPE  
FISCAL YEAR ENDED JUNE 30, 2014**

<i>Type of Customer</i>	<i>Sales Revenues <sup>(1)</sup></i>	<i>Percent of Revenues</i>	<i>Consumption (MGD)</i>	<i>Percent of Consumption</i>	<i>Number of Connections</i>	<i>Percent of Connections</i>
Residential	\$209,326,775	57.0%	89.3	53.3%	346,544	89.2%
Commercial	116,131,513	31.6	53.9	32.2	37,981	9.8
Industrial	26,845,633	7.3	16.8	10.0	1,450	0.4
Other <sup>(2)</sup>	<u>15,243,348</u>	<u>4.1</u>	<u>7.5</u>	<u>4.5</u>	<u>2,444</u>	<u>0.6</u>
Total <sup>(3)</sup>	<u>\$367,547,268</u>	<u>100.0%</u>	<u>167.5</u>	<u>100.0%</u>	<u>388,419</u>	<u>100.0%</u>

<sup>(1)</sup> Excludes proceeds from the seismic surcharge which the District capitalizes in its audited financial statements in accordance with Generally Accepted Accounting Principles. Seismic surcharge revenues are Water Revenues for purposes of the Indenture. Does not include account establishment fees, recycled water fees and certain other miscellaneous charges.

<sup>(2)</sup> Includes public agencies, recycled water customers and late charges.

<sup>(3)</sup> Totals may not add due to rounding.

Source: The District.

**Rates and Charges**

From Fiscal Year 2009 through Fiscal Year 2015, residential rates for water service have increased by an average of 7.5% per Fiscal Year. The District's most recent rate increase included the adoption on June 11, 2013 of a 9.75% and a 9.50% system-wide rate increase for Fiscal Years 2014 and 2015, respectively. Table 10 sets forth the average residential rate increases enacted by the District for the Fiscal Years 2009 through 2015:

**TABLE 10: WATER RATE INCREASES**

<i><u>Fiscal Year</u></i>	<i><u>Average Rate Increase (Residential)</u></i>
2009	5.10%
2010	8.70 <sup>(1)</sup>
2011	7.50
2012	6.00
2013	6.00
2014	9.75
2015	9.50

<sup>(1)</sup> The system-wide rate increase in Fiscal Year 2010 was 7.5%; however, residential customers accounted for a higher portion of such system-wide rate increase to reflect the results of a cost allocation study conducted by the District in 2009. The average rate increases for commercial and industrial users for Fiscal Year 2010 were 5.2% and 4.9%, respectively.

Source: The District.

Table 11 shows the rate schedule effective July 1, 2014 for Fiscal Year 2015, which, as noted above, represents an average increase of 9.50% for residential customers from Fiscal Year 2014 rates. The monthly water bill for a typical residential account consuming 1,000 cubic feet (10 Ccf or 7,480 gallons) per month is \$48.60.

**TABLE 11: WATER SYSTEM RATES AND CHARGES<sup>(1)</sup>**  
**EFFECTIVE JULY 1, 2014**

**Service Charge**

<i>Meter Size</i>	<i>Per Month</i>
5/8-inch and 3/4-inch	\$14.69
1-inch	23.63
1 1/2-inch	38.10
2-inch	55.66
Over 2-inch	Various

**Charge for Water Delivered**

<i>Rate Class</i>	<i>Per Hundred Cubic Feet (Ccf)</i>
Basic Rate – Single Family <sup>(2)</sup>	2.91
Basic Rate – Multi Family	3.68
Basic Rate – Other	3.81
Elevation Surcharges <sup>(3)</sup> – Pressure Zones 2 through 5	0.55
Pressure Zones 6 and higher	1.12

<sup>(1)</sup> A seismic surcharge is added to each customer's water bill. The surcharge consists of a meter charge component that varies by meter size and a volume surcharge. See "– Seismic Surcharge" below.

<sup>(2)</sup> Applies to first 172 gallons per day (7 Ccf) for single family residential customers. Additional consumption by residential customers is billed at \$3.60 per Ccf for consumption between 173 and 393 gallons per day (16 Ccf) and \$4.42 for all water used in excess of 393 gallons per day. For a household using 10 Ccf, the water usage charge for the first 7 Ccf at the first tier rate of \$2.91 per Ccf would be \$20.37 and the water usage charge for the additional 3 Ccf at the second tier rate of \$3.60 per Ccf would be \$10.80, for a total charge for water delivered of \$31.17; the monthly service charge would be \$14.69 and the seismic surcharge would include a \$1.37 monthly meter charge component and a \$1.37 water service availability component, resulting in a total monthly bill of \$48.60.

<sup>(3)</sup> The water elevation surcharge provides for the increased power and facility costs needed to pump water to locations (zones) 200 or more feet above sea level.

Source: The District.

**Historical Operating Results**

Table 12 sets forth the historical operating results and the calculation of the debt service coverage ratio for the Water System for each of the last five Fiscal Years.



**TABLE 12: WATER SYSTEM HISTORICAL OPERATING RESULTS AND DEBT SERVICE COVERAGE<sup>(1)</sup>  
FISCAL YEARS 2010 THROUGH 2014**

	2010	2011	2012	2013	2014
<b>WATER REVENUES<sup>(2)</sup>:</b>					
Water Sales <sup>(3)</sup>	\$271,022,353	\$283,643,516	\$306,228,357	\$336,065,516	\$367,547,268
Power Revenue	6,232,524	8,081,710	4,609,259	3,595,948	1,380,348
Interest	9,567,239	5,333,109	4,551,068	3,731,406	1,691,927
SCC Revenue <sup>(4)</sup>	40,490,369	46,190,321	30,733,972	22,673,134	20,365,047
Seismic Rate Surcharge <sup>(5)</sup>	16,657,412	18,102,265	19,172,928	20,536,924	22,628,261
Other Revenue <sup>(6)</sup>	<u>7,726,627</u>	<u>13,363,139</u>	<u>16,159,977</u>	<u>12,842,012</u>	<u>19,937,710</u>
<b>TOTAL WATER REVENUES</b>	<b><u>\$351,696,524</u></b>	<b><u>\$374,714,060</u></b>	<b><u>\$381,455,561</u></b>	<b><u>\$399,444,940</u></b>	<b><u>\$433,550,561</u></b>
<b>RATE STABILIZATION FUND TRANSFERS:</b>					
Deposits to the Rate Stabilization Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$(35,000,000)
Withdrawals from Rate Stabilization Fund for Inclusion in revenues	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>WATER REVENUES AFTER RATE STABILIZATION TRANSFER</b>	<b><u>\$351,696,524</u></b>	<b><u>\$374,714,060</u></b>	<b><u>\$381,455,561</u></b>	<b><u>\$399,444,940</u></b>	<b><u>\$398,550,561</u></b>
<b>WATER OPERATION &amp; MAINTENANCE COSTS:</b>					
Operating Expenses	\$178,964,687	\$181,709,853	\$197,818,566	\$197,249,098	\$213,692,428
(Less Tax Receipts) <sup>(7)</sup>	<u>(22,889,117)</u>	<u>(22,235,567)</u>	<u>(23,385,603)</u>	<u>(26,435,974)</u>	<u>(25,492,391)</u>
<b>TOTAL WATER OPERATION &amp; MAINTENANCE COSTS</b>	<b><u>\$156,075,570</u></b>	<b><u>\$159,474,286</u></b>	<b><u>\$174,432,963</u></b>	<b><u>\$170,813,124</u></b>	<b><u>\$188,200,037</u></b>
<b>NET WATER REVENUES</b>	<b>\$195,620,954</b>	<b>\$215,239,774</b>	<b>\$207,022,598</b>	<b>\$228,631,816</b>	<b>\$210,350,524</b>
<b>PARITY DEBT SERVICE:</b>					
Water System Revenue Bonds <sup>(8)</sup>	\$125,218,271	\$142,284,287	\$129,330,308	\$132,270,442	\$125,016,887
Parity State Loans	<u>1,400,108</u>	<u>1,400,108</u>	<u>1,400,105</u>	<u>1,400,105</u>	<u>1,400,107</u>
<b>TOTAL PARITY DEBT SERVICE</b>	<b>\$126,618,379</b>	<b>\$143,684,395</b>	<b>\$130,730,413</b>	<b>\$133,670,547</b>	<b>\$126,416,994</b>
<b>PARITY DEBT SERVICE COVERAGE</b>	<b>1.54</b>	<b>1.50</b>	<b>1.58</b>	<b>1.71</b>	<b>1.66</b>
<b>SUBORDINATE WATER SYSTEM DEBT SERVICE<sup>(9)</sup></b>	<b>\$ 4,425,458</b>	<b>\$ 3,086,117</b>	<b>\$ 8,495,107</b>	<b>\$ 687,369</b>	<b>\$ 13,562,675</b>
<b>TOTAL PARITY AND SUBORDINATE DEBT SERVICE</b>	<b>\$131,043,837</b>	<b>\$146,770,512</b>	<b>\$139,225,520</b>	<b>\$134,357,916</b>	<b>\$139,979,669</b>
<b>PARITY AND SUBORDINATE DEBT SERVICE COVERAGE</b>	<b>1.49</b>	<b>1.47</b>	<b>1.49</b>	<b>1.70</b>	<b>1.50</b>

<sup>(1)</sup> Calculated in accordance with the Indenture as footnoted.

<sup>(2)</sup> Revenues exclude grant receipts, taxes, and certain developer contributions which are treated as contributions (not Water Revenues).

<sup>(3)</sup> Reflects average daily billed consumption of 160.4 MGD in Fiscal Year 2010, 160.5 MGD in Fiscal Year 2011, 162.1 MGD in Fiscal Year 2012, 168.4 MGD in Fiscal Year 2013 and 167.5 MGD in Fiscal Year 2014.

<sup>(4)</sup> System Capacity Charge ("SCC") Revenues presented in the table above include the "buy-in" portion of SCC charges when collected and the "future water supply" portion of SCC charges when applied from the Future Water Supply Fund to offset such debt service costs. SCC Revenues are capitalized and are not recognized as operating revenues for purposes of the District's audited financial statements.

<sup>(5)</sup> Seismic rate surcharge revenues are capitalized and are not recognized as operating revenues for purposes of the District's audited financial statements.

<sup>(6)</sup> Includes BABs Interest Subsidy Payments received in connection with the Series 2010B Bonds. In Fiscal Year 2011, does not include payment received by the District from Chevron for reimbursement of capital costs incurred by the District for the RARE Water Project.

<sup>(7)</sup> Operation and Maintenance Costs exclude those expenses paid from District's share of countywide 1% property tax revenues. Under current District policy, District's share of countywide 1% property tax revenues are used to pay for operations allocable to maintenance of fire protection capacity.

<sup>(8)</sup> Includes net swap payments. Debt service on the Series 2010B Bonds is gross of the BABs Interest Subsidy Payments received by the District.

<sup>(9)</sup> Includes outstanding Water System commercial paper notes and certain federal and State subordinate loans (which subordinate loans have been retired). Commercial paper notes debt service includes interest and a one-time principal pay down in Fiscal Year 2014 of \$13.1 million.

Source: The District.

**WASTEWATER SYSTEM****Wastewater Flows**

Table 13 presents a ten-year record of wastewater flows through the District's Main Wastewater Treatment Plant, expressed as the average daily flow for each Fiscal Year.

**TABLE 13: AVERAGE DAILY WASTEWATER FLOW**  
(MILLION GALLONS PER DAY)

<i>Fiscal Year Ended</i>	<i>Flow</i>
<i>June 30</i>	
2005	78
2006	82
2007	67
2008	69
2009	66
2010	68
2011	71
2012	62
2013	61
2014	60

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Source: The District.

**Sources of Funds/Summary of Revenues and Contributions**

The following Table 14 sets forth the District's Wastewater System sources of funds for the five most recent Fiscal Years ended June 30, 2014. The sources of funds in the table below include certain funds that do not constitute Subordinated Wastewater Revenues for purposes of the Indenture. Subordinated Wastewater Revenues include all charges received for, and all other income and receipts derived by the District from, the operation of the Wastewater System or arising from the Wastewater System, which includes, without limitation, the District's dry weather user charges, wet weather facilities charges, wastewater capacity fees and resource recovery program revenues, as well as investment income. Property taxes are applied to reduce Operation and Maintenance Costs and are not pledged to the repayment of the Wastewater System Revenue Bonds. Certain grants and contributions earned on construction which are restricted to use for specified purposes are not included in Subordinated Wastewater Revenues for purposes of the Indenture. Only Subordinated Wastewater Revenues are pledged to the payment of the Wastewater System Revenue Bonds.

**TABLE 14: WASTEWATER SYSTEM SOURCES OF FUNDS**  
**FIVE FISCAL YEARS ENDED JUNE 30, 2014**  
**(MILLIONS)**

	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>
<b>Operating Revenue and Other Income:</b>					
Dry Weather User Charges	\$48.8	\$50.9	\$55.2	\$58.8	\$61.8
Wet Weather Facilities Charges	15.3	16.1	17.2	18.3	19.4
Resource Recovery	7.6	9.4	9.1	9.2	10.6
Interest <sup>(1)</sup>	1.2	2.0	1.6	0.3	0.2
Taxes <sup>(2)</sup>	7.4	7.4	8.3	9.4	9.9
Other Revenues <sup>(3)</sup>	<u>1.1</u>	<u>2.4</u>	<u>3.5</u>	<u>4.1</u>	<u>6.3</u>
<b>Total Revenues</b>	<b>\$81.4</b>	<b>\$88.2</b>	<b>\$94.9</b>	<b>\$100.1</b>	<b>\$108.2</b>
<b>Capital Contributions:</b>					
Wastewater Capacity Fees	0.7	2.4	2.8	1.3	0.8
Earned contributions on construction	2.0	0.7	0.0	0.0	0.0
Grants	<u>0.2</u>	<u>0.0</u>	<u>0.0</u>	<u>0.3</u>	<u>0.4</u>
<b>Total Contributions</b>	<b>\$ 2.9</b>	<b>\$ 3.1</b>	<b>\$ 2.8</b>	<b>\$ 1.6</b>	<b>\$ 1.2</b>
<b>TOTAL</b>	<b><u>\$84.3</u></b>	<b><u>\$91.3</u></b>	<b><u>\$97.7</u></b>	<b><u>\$101.7</u></b>	<b><u>\$109.4</u></b>

<sup>(1)</sup> Includes interest earnings on Wastewater System Fund, including earnings on proceeds of the District's Wastewater System Revenue Bonds.

<sup>(2)</sup> Includes the District's share of 1% countywide property tax and the *ad valorem* tax levied for repayment of Special District No. 1's general obligation bonds.

<sup>(3)</sup> Beginning in Fiscal Year 2011, Other Revenues includes interest subsidy payments received by the District in connection with its Series 2010B Bonds which are Build America Bonds. In Fiscal Years 2012 and 2013, Other Revenues also includes revenues received from the sale of energy to the utility grid. See "THE WASTEWATER SYSTEM – Power Generation/Energy Recovery." Other Revenues excludes reimbursements and certain other receipts applied directly to operating expenses.

Source: The District.

### Rates and Charges

The District's current (Fiscal Year 2014) wastewater rates are set forth in Table 15 below. The District's most recent rate increase included the adoption on June 11, 2013 of rate increases to both its dry weather user charges and wet weather facilities charges of 9.00% and 8.50% for Fiscal Years 2014 and 2015, respectively.

**TABLE 15: WASTEWATER SYSTEM RATES AND CHARGES**  
**EFFECTIVE JULY 1, 2014**

**Residential Charge:**

Service Charge (per account)	\$ 7.13	per month
Strength Charge (per dwelling unit)	7.20	per month
Flow Charge	0.787	per 100-cubic foot unit, to a maximum of 10 units
San Francisco Bay Pollution Prevention Fee	0.20	per month per dwelling unit

**Non-Residential Charge:**

Service Charge (per account)	7.13	per month
Treatment Charge	0.92-13.09	per unit, depending on the nature of the business
San Francisco Bay Pollution Prevention Fee	5.48	per month

**Minimum Monthly Charge:**

Duplex	21.53	per month
Triplex	28.78	per month

**Permit Accounts:**

Flow Charge	0.787	per hundred cubic feet
COD	0.294	per pound of discharge
Suspended Solids	0.431	per pound of discharge

**Wet Weather Facilities Charge:**

Residential Property	\$ 89.34	per year per dwelling unit per land parcel
Commercial/Industrial Property	\$ 134.00	per year per connection

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Source: The District.

**Historical Operating Results**

Table 16 sets forth the historical operating results and the calculation of the debt service coverage ratio for the Wastewater System for each of the last five Fiscal Years. The presentation below differs from that previously reported in that Wastewater Capacity Fees previously excluded are now reflected as a component of Wastewater Revenues for purposes of the coverage calculation as permitted by the Indenture.

**TABLE 16: WASTEWATER SYSTEM HISTORICAL OPERATING RESULTS  
AND DEBT SERVICE COVERAGE<sup>(1)</sup>  
FISCAL YEARS 2010 THROUGH 2014**

	2010	2011	2012	2013	2014
<b>WASTEWATER REVENUES<sup>(2)</sup></b>					
Dry Weather User Charges	\$48,764,326	\$50,909,726	\$55,191,460	\$58,783,692	\$61,774,568
Wet Weather Facilities Charges	15,311,295	16,063,834	17,228,380	18,320,550	19,388,979
Interest	1,197,034	1,076,342	856,218	368,315	223,672
Resource Recovery	7,590,010	9,403,337	9,061,029	9,226,468	10,570,194
Wastewater Capacity Fees	675,293	2,423,103	2,824,137	1,278,961	805,590
Other Revenue <sup>(3)</sup>	<u>1,146,241</u>	<u>2,407,895</u>	<u>3,507,474</u>	<u>4,061,513</u>	<u>6,315,048</u>
<b>TOTAL WASTEWATER REVENUE</b>	<b>\$74,684,199</b>	<b>\$82,284,237</b>	<b>\$88,668,698</b>	<b>\$92,039,499</b>	<b>\$99,078,051</b>
<b>RATE STABILIZATION FUND</b>					
<b>TRANSFERS</b>					
Deposits to the Rate Stabilization Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$(2,590,000)
Withdrawals from Rate Stabilization Fund for Inclusion in Revenues	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>WASTEWATER REVENUES AFTER RATE STABILIZATION TRANSFER</b>	<b><u>\$74,684,199</u></b>	<b><u>\$82,284,237</u></b>	<b><u>\$88,668,698</u></b>	<b><u>\$92,039,499</u></b>	<b><u>\$96,488,051</u></b>
<b>WASTEWATER OPERATION &amp; MAINTENANCE COSTS</b>					
Operating Expenses	\$44,712,916	\$49,553,385	\$52,482,539	\$51,435,631	\$55,318,873
(Less Tax Receipts) <sup>(4)</sup>	<u>(3,384,031)</u>	<u>(3,299,315)</u>	<u>(3,698,069)</u>	<u>(4,413,039)</u>	<u>(4,530,489)</u>
<b>TOTAL WASTEWATER OPERATION &amp; MAINTENANCE COSTS</b>	<b><u>\$41,328,885</u></b>	<b><u>\$46,254,070</u></b>	<b><u>\$48,784,470</u></b>	<b><u>\$47,022,592</u></b>	<b><u>\$50,788,384</u></b>
<b>NET WASTEWATER REVENUES</b>	<b>\$33,355,314</b>	<b>\$36,030,167</b>	<b>\$39,884,228</b>	<b>\$45,016,907</b>	<b>\$45,699,667</b>
<b>PARITY DEBT SERVICE</b>					
Wastewater System Revenue Bonds <sup>(5)</sup>	\$18,026,658	\$20,084,078	\$26,385,738	\$28,284,129	\$28,559,257
Parity State Loans	<u>1,551,097</u>	<u>1,326,979</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL PARITY DEBT SERVICE</b>	<b><u>\$19,577,755</u></b>	<b><u>\$21,411,057</u></b>	<b><u>\$26,385,738</u></b>	<b><u>\$28,284,129</u></b>	<b><u>\$28,559,257</u></b>
<b>PARITY DEBT SERVICE COVERAGE</b>	<b>1.70</b>	<b>1.68</b>	<b>1.51</b>	<b>1.59</b>	<b>1.60</b>
<b>SUBORDINATE WASTEWATER SYSTEM DEBT SERVICE<sup>(6)</sup></b>	<b>\$ 4,008,493</b>	<b>\$ 3,922,392</b>	<b>\$ 33,300</b>	<b>\$ 33,910</b>	<b>\$ 20,116</b>
<b>TOTAL PARITY AND SUBORDINATE DEBT SERVICE</b>	<b>\$23,586,268</b>	<b>\$25,333,449</b>	<b>\$26,419,038</b>	<b>\$28,318,039</b>	<b>\$28,579,373</b>
<b>PARITY AND SUBORDINATE DEBT SERVICE COVERAGE</b>	<b>1.41</b>	<b>1.42</b>	<b>1.51</b>	<b>1.59</b>	<b>1.60</b>

<sup>(1)</sup> Calculated in accordance with the Indenture as footnoted.

<sup>(2)</sup> Wastewater Revenues exclude grant receipts, taxes and certain reimbursements.

<sup>(3)</sup> Beginning in Fiscal Year 2011, Other Revenues includes BABs Interest Subsidy Payments received in connection with Series 2010B Bonds. In Fiscal Years 2012 through 2014, Other Revenues also includes revenues received from the sale of energy to the utility grid of \$333,812, \$693,272 and \$1,099,418, respectively.

<sup>(4)</sup> Wastewater Operation and Maintenance Costs exclude those expenses paid from the share of the 1% countywide *ad valorem* tax levy allocated to Special District No. 1. Under current District policy, taxes are used to pay for operations allocable to storm water processing and infiltration/inflow processing.

<sup>(5)</sup> Includes net swap payments. Net of capitalized interest. Debt service on the Series 2010B Bonds is gross of the BABs Interest Subsidy Payments received by the District.

<sup>(6)</sup> Includes outstanding Wastewater System commercial paper notes and certain subordinate State Loans (which State Loans have subsequently been retired or refunded by Wastewater System Revenue Bonds). With respect to commercial paper notes includes interest only with no principal amortization.

Source: The District.

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**EBMUD WEB SITE**

Since September 1996, the District has made available general financial information on its web site: (<http://www.ebmud.com>.) The site is updated periodically and is designed to assist ratepayers, investors and other interested parties in learning more about the District's financial condition. However, the information presented therein is not part of this Continuing Disclosure Information Statement and must not be relied upon in making any investment decision with respect to the District's bonds.