**OFFERING MEMORANDUM**

Ratings: S&P: A-1+
Moody's: P-1

# EAST BAY MUNICIPAL UTILITY DISTRICT
## (Alameda and Contra Costa Counties, California)

## COMMERCIAL PAPER NOTES (WATER SERIES)

| $200,000,000 | $160,000,000 |
|---|---|
| **Tax-Exempt Subseries A-1** | **Tax-Exempt Subseries A-2** |

The Commercial Paper Notes (Water Series), Tax-Exempt Subseries A-1 (the "Water Series A-1 Notes") and Commercial Paper Notes (Water Series), Tax-Exempt Subseries A-2 (the "Water Series A-2 Notes") to be offered hereby are part of an issue of Commercial Paper Notes of the East Bay Municipal Utility District (the "District") which are to be issued from time to time pursuant to an Issuing and Paying Agent Agreement (as herein defined). The Water Series A-1 Notes and the Water Series A-2 Notes are referred to herein collectively as the "Water Series A Notes." The Water Series A Notes, together with all other Commercial Paper Notes (Water Series) issued and outstanding from time to time under the Issuing and Paying Agent Agreement, are collectively referred to herein as the "Commercial Paper Notes (Water Series)." The Water Series A Notes are being issued as interest-bearing obligations, in book-entry form, in denominations of $100,000 and integral multiples of $1,000 in excess thereof.

The Commercial Paper Notes (Water Series) are limited obligations of the District, payable solely from and secured by a pledge of Available Water Revenues. Neither the full faith and credit nor the taxing power of the District is pledged for the payment of the Commercial Paper Notes (Water Series) or the interest thereon. The Commercial Paper Notes (Water Series) are payable from Available Water Revenues of the District's Water System on a basis that is subordinate to the payment of any Prior Water Obligations of the District presently outstanding or hereafter incurred by the District.

The District has entered into (i) a Standby Letter of Credit and Reimbursement Agreement (the "SMBC Reimbursement Agreement") with Sumitomo Mitsui Banking Corporation, acting through its New York Branch ("SMBC"), pursuant to which SMBC will issue a Standby Letter of Credit (the "SMBC Letter of Credit") for the account of the District which may be drawn upon, subject to certain conditions precedent, to pay the principal of maturing Water Series A-1 Notes and (ii) a Revolving Credit Agreement (the "BANA Credit Agreement") with Bank of America, N.A. ("BANA"), pursuant to which funds may be borrowed thereunder, subject to certain conditions precedent, to pay principal of maturing Water Series A-2 Notes. SMBC and BANA are each referred to herein as a "Bank" and are referred to herein collectively as the "Banks." The SMBC Letter of Credit (together with the SMBC Reimbursement Agreement) supporting the Water Series A-1 Notes and the BANA Credit Agreement supporting the Water Series A-2 Notes are each referred to herein as an "Initial Liquidity Facility" and are referred to herein collectively as the "Initial Liquidity Facilities." All interest payments on the Water Series A Notes are expected to be paid from Available Water Revenues of the District.

UNDER CERTAIN CIRCUMSTANCES, THE OBLIGATION OF THE RESPECTIVE BANK TO HONOR DRAWINGS OR MAKE ADVANCES, RESPECTIVELY, UNDER ITS INITIAL LIQUIDITY FACILITY FOR THE RELATED WATER SERIES A NOTES IS SUBJECT TO IMMEDIATE TERMINATION OR SUSPENSION WITHOUT NOTICE OR PAYMENT TO THE HOLDERS OF THE WATER SERIES A NOTES. IN SUCH EVENT, SUFFICIENT FUNDS MAY NOT BE AVAILABLE TO PAY THE RELATED WATER SERIES A NOTES. SEE "THE INITIAL LIQUIDITY FACILITIES AND THE BANKS" HEREIN FOR A DISCUSSION OF EVENTS THAT WOULD CAUSE IMMEDIATE TERMINATION OR AN IMMEDIATE SUSPENSION OF THE INITIAL LIQUIDITY FACILITIES.

*In the opinion of Orrick Herrington & Sutcliffe LLP, San Francisco, California, Special Tax Counsel, based on an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Water Series A Notes, when issued in accordance with the Issuing and Paying Agent Agreement and the Tax Certificate, is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Special Tax Counsel, interest on the Water Series A Notes is not a specific preference item for purposes of federal individual or corporate alternative minimum taxes, although Special Tax Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Special Tax Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Water Series A Notes. See "TAX MATTERS" herein.*

The Water Series A Notes have not been registered under the Securities Act of 1933, as amended, in reliance upon an exemption from registration contained in such Act.

**Dealers**

**BofA Merrill Lynch** **Goldman, Sachs & Co.** **J.P. Morgan** **Morgan Stanley**

Dated: November 25, 2015

## FURTHER INFORMATION AVAILABLE

Information herein concerning the District is limited. No attempt is made herein to summarize the terms of the Issuing and Paying Agent Agreement or any documents relating to the District's outstanding Prior Water Obligations. The District will provide upon request copies of its most recent audited financial statements, official statements concerning the District's Water Bonds and the Issuing and Paying Agent Agreement. In addition, pursuant to continuing disclosure undertakings of the District in connection with certain of its outstanding Water Bonds, the District is obligated to provide annually certain financial information and operating data relating to the District and the Water System to the Municipal Securities Rulemaking Board through the Electronic Municipal Marketplace Access ("EMMA") website by not later than 180 days following the end of each Fiscal Year of the District (presently June 30), copies of which are available from EMMA (each, an "Annual Report"), and to provide notices of the occurrence of certain enumerated events (each, an "Event Notice"). The information and opinions herein and in such Annual Reports, Event Notices, official statements and other EMMA filings are subject to change without notice, and neither the delivery thereof nor the delivery of this Offering Memorandum shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described therein or herein.

Capitalized terms used herein and not defined shall have the respective meanings given such terms in the Issuing and Paying Agent Agreement, dated as of December 1, 2015 (the "Issuing and Paying Agent Agreement"), by and between the District and U.S. Bank National Association, as issuing and paying agent (the "Issuing and Paying Agent").

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**(Alameda and Contra Costa Counties, California)**

**COMMERCIAL PAPER NOTES (WATER SERIES)**

| **$200,000,000** | **$160,000,000** |
|---|---|
| **Tax-Exempt Subseries A-1** | **Tax-Exempt Subseries A-2** |

## INTRODUCTION

The purpose of this Offering Memorandum is to provide certain general information in connection with the offering, from time to time, of Commercial Paper Notes (Water Series), Tax-Exempt Subseries A-1 (the "Water Series A-1 Notes") and Commercial Paper Notes (Water Series), Tax-Exempt Subseries A-2 (the "Water Series A-2 Notes") of the East Bay Municipal Utility District (the "District"). The Water Series A-1 Notes and Water Series A-2 Notes offered hereby are part of an issue of Commercial Paper Notes of the District which are to be issued from time to time pursuant to the Issuing and Paying Agent Agreement, by and between the District and U.S. Bank National Association, as Issuing and Paying Agent. The Water Series A-1 Notes and the Water Series A-2 Notes are each referred to herein separately as a "subseries" and are referred to herein collectively as the "Water Series A Notes." The Water Series A Notes, together with all other Commercial Paper Notes (Water Series) issued and outstanding from time to time under the Issuing and Paying Agent Agreement, are collectively referred to herein as the "Commercial Paper Notes (Water Series)."

The Commercial Paper Notes of the District are authorized under Chapter 7.5 of the Municipal Utility District Act, constituting Division 6 of the Public Utilities Code of the State of California (the "Act") and Resolution No. 34032-15, adopted by the Board of Directors of the District (the "Board") on April 28, 2015 ("Resolution No. 34032-15"). The Commercial Paper Notes (Water Series) are being issued pursuant to the Issuing and Paying Agent Agreement. The Water Series A-1 Notes are being offered hereby from time to time in an aggregate principal amount of up to $200,000,000 unless such amount is hereafter subsequently increased. The Water Series A-2 Notes are being offered hereby from time to time in an aggregate principal amount of up to $160,000,000 unless such amount is hereafter subsequently increased. The aggregate principal amount of the Commercial Paper Notes of the District may change from time to time as provided in the Issuing and Paying Agent Agreement.

The Commercial Paper Notes (Water Series) are special obligations of the District, payable solely from and secured by a pledge of Available Water Revenues. Neither the full faith and credit nor the taxing power of the District is pledged for the payment of the Commercial Paper Notes (Water Series) or the interest thereon.

The District has covenanted pursuant to the Issuing and Paying Agent Agreement that it will maintain in effect one or more Liquidity Facilities enabling it to borrow an aggregate amount at least equal to the sum of the principal amount of each series or subseries of Commercial Paper Notes (Water Series) then Outstanding under the Issuing and Paying Agent Agreement. As described herein, the District has arranged for a separate Liquidity Facility to be delivered for each of the subseries of the Water Series A Notes in order to provide an additional source of repayment of the principal amount of the Water Series A Notes on their respective maturity dates. See "THE INITIAL LIQUIDITY FACILITIES AND THE BANKS."

The information in this Offering Memorandum has been obtained from the District, the Banks, and other sources believed to be reliable. The references herein to the Issuing and Paying Agent Agreement, the Initial Liquidity Facilities and other documents referred to herein do not purport to be complete or definitive, do not constitute summaries thereof, and are qualified in their entirety by reference to the provisions thereof. The information and expressions of opinion in this Offering Memorandum are subject to change without notice after the date hereof and future use of this Offering Memorandum shall not otherwise create any implication that there has been no change in the matters referred to in this Offering Memorandum since the date hereof. The information contained herein will not typically be distributed or updated upon each new sale of Water Series A Notes.

## THE COMMERCIAL PAPER NOTES (WATER SERIES)

### Authorization and Amount; District Commercial Paper Programs

Pursuant to the Act and Resolution No. 34032-15, the District is authorized to borrow money and incur indebtedness by the issuance of bonds, notes or other forms of short-term indebtedness (including commercial paper notes and bank credit) for any or all of the purposes set forth in Chapter 7.5 of the Act. See "– Use of Proceeds of the Commercial Paper Notes (Water Series)" below. As provided in the Act and Resolution No. 34032-15, the maximum principal amount of all short-term indebtedness of the District outstanding pursuant to Chapter 7.5 of the Act, including amounts drawn on available bank lines of credit, shall not exceed the lesser of either *(1)* the annual average of the total revenue for the three preceding years or *(2)* 25 percent of the District's total outstanding bonds issued pursuant to Chapters 6, 7 and 8 of the Act. Pursuant to the authority of Chapter 7.5 of the Act, the District has previously authorized and has established a program for the issuance, from time to time, of its Extendable Municipal Commercial Paper Notes (Water Series) and its Extendable Municipal Commercial Paper Notes (Wastewater Series). In addition to the Commercial Paper Notes (Water Series), Commercial Paper Notes (Wastewater Series) of the District may also be issued under the Issuing and Paying Agent Agreement. The District's Commercial Paper Notes (Water Series) and Extendable Municipal Commercial Paper Notes (Water Series) are payable only from the Available Water Revenues of the District, and the District's Commercial Paper Notes (Wastewater Series) and Extendable Municipal Commercial Paper Notes (Wastewater Series) are payable only from the Available Wastewater Revenues of the District. Commercial Paper Notes (Water Series) and Commercial Paper Notes (Wastewater Series) issued under the Issuing and Paying Agent Agreement may be issued from time to time thereunder provided that no Commercial Paper Note (Water Series) or Commercial Paper Note (Wastewater Series) may be issued to mature after April 27, 2022, unless such authorization date is hereafter extended by the District. The Commercial Paper Notes (Water Series) and Commercial Paper Notes (Wastewater Series) issued from time to time pursuant to the Issuing and Paying Agent Agreement may be issued in subseries designated as either taxable or tax-exempt subseries. The Water Series A-1 Notes and Water Series A-2 Notes described herein constitute a part of the Commercial Paper Notes (Water Series) that may be issued under the program established pursuant to the Issuing and Paying Agent Agreement.

### Use of Proceeds of the Commercial Paper Notes (Water Series)

The proceeds of the Commercial Paper Notes (Water Series) will be used to provide funds 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; 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, and (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 Commercial Paper Notes (Water Series) or other obligations issued or incurred for such purposes.

### Description of the Water Series A Notes

The Water Series A Notes will be dated the date of their respective authentication and will be issued as interest-bearing obligations, in book-entry form, in denominations of $100,000 and integral multiples of $1,000 in excess thereof. Each Water Series A Note will bear interest from its respective date of issuance at a separately stated interest rate determined at the time of issuance thereof, not to exceed 12% per annum, payable on its respective maturity dates.

Interest on the Water Series A Notes will be calculated on the basis of a 365/366-day year and the actual number of days elapsed. Each Water Series A Note will mature on a Business Day not more than 270 days after its respective date of issuance, but in any event not later than the Business Day immediately preceding the scheduled expiration date of the applicable Liquidity Facility provided therefor. The Water Series A Notes will be sold at a price equal to 100% of the principal amount thereof.

The purchase price payable by an investor for the Water Series A Notes is required to be made, and the amount payable by the District at maturity will be paid, in immediately available funds.

The Water Series A Notes will be delivered as fully registered notes, registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Water Series A Notes. So long as the Water Series A Notes are held in book-entry only form only, the Issuing and Paying Agent will make all payments of principal of and interest on the Water Series A Notes by wire transfer directly to DTC or its nominee, as the sole registered owner of the Series A Notes. Payments to the beneficial owners are the responsibility of DTC and its participants. See "APPENDIX D – BOOK-ENTRY SYSTEM FOR THE WATER SERIES A NOTES."

**SECURITY FOR THE COMMERCIAL PAPER NOTES (WATER SERIES)**

## General

The Commercial Paper Notes (Water Series) of the District, including the Water Series A Notes, will be limited obligations of the District, payable solely from and secured by a pledge of Available Water Revenues. Neither the full faith and credit nor the taxing power of the District is pledged for the payment of the Commercial Paper Notes (Water Series) or the interest thereon. The Commercial Paper Notes (Water Series) are payable from Available Water Revenues of the District's Water System on a basis that is subordinate to the payment of any Prior Water Obligations (defined below) of the District presently outstanding or hereafter incurred by the District. See also "THE DISTRICT AND THE WATER SYSTEM – Senior and Parity Indebtedness."

To provide security for the payment of the principal of and interest on the Commercial Paper Notes (Water Series) as the same shall become due and payable, the Issuing and Paying Agent Agreement grants a pledge of the Available Water Revenue to such payment and to the payment of all other obligations of the District relating to the Commercial Paper Notes (Water Series), including the District's obligations under any liquidity or credit agreement therefor (including the Initial Liquidity Facilities) payable from or secured by Available Water Revenues, subject only to the provisions of the Issuing and Paying Agent Agreement permitting the application thereof for purposes of the terms and conditions therein. The Available Water Revenues constitute a trust fund for the security and payment of the interest on and principal of the Commercial Paper Notes (Water Series) and all obligations of the District relating to such Commercial Paper Notes (Water Series) under the Issuing and Paying Agent Agreement, all obligations of the District relating to any Water Note Parity Debt and all obligations of the District under any liquidity or credit agreement (including the Initial Liquidity Facilities) payable from or secured by Available Water Revenues relating to any of the foregoing.

The Issuing and Paying Agent Agreement additionally pledges to the payment of each respective subseries of the Commercial Paper Notes (Water Series), all amounts held by the Issuing and Paying Agent under the Issuing and Paying Agent Agreement in the respective funds and accounts (or subaccounts therein) related to such Series or subseries, as applicable, including the proceeds of Commercial Paper Notes (Water Series) issued for the purpose of paying Commercial Paper Notes (Water Series) and Advances (as defined in the Issuing and Paying Agent Agreement) made available under the Liquidity Facility for a subseries of the Commercial Paper Notes (Water Series) deposited into the applicable subaccount of the Commercial Note Payment Account established therefor, subject only to the provisions of this Issuing and Paying Agent Agreement permitting the application thereof for the purposes and on the terms and conditions set forth therein.

The District expects to pay the principal of the Water Series A Notes with proceeds of other Water Series A Notes until the District provides permanent financing for the Water System improvements refinanced with the Water Series A Notes or until, from time to time, revenues of the Water System are made available therefor.

**Liquidity Facilities**

To provide an additional source of funds for the repayment of the Water Series A-1 Notes, the District has entered into a Standby Letter of Credit and Reimbursement Agreement, dated as of December 1, 2015 (the "SMBC Reimbursement Agreement") with Sumitomo Mitsui Banking Corporation, acting through its New York Branch ("SMBC"), with respect to the Water Series A-1 Notes only. Pursuant to the SMBC Reimbursement Agreement, SMBC will issue a Standby Letter of Credit (the "SMBC Letter of Credit") for the account of the District in favor of the Issuing and Paying Agent which SMBC Letter of Credit may be drawn upon, subject to certain conditions precedent as specified therein and in such SMBC Reimbursement Agreement, in an amount not to exceed $200,000,000 to pay the principal of any maturing Water Series A-1 Notes. The SMBC Letter of Credit may not be drawn on for any purpose other than as stated in the immediately preceding sentence. Unless terminated earlier or extended in accordance with its terms, the SMBC Letter of Credit has a stated expiration date of December 1, 2020.

To provide an additional source of funds for the repayment of the Water Series A-2 Notes, the District has entered into a Revolving Credit Agreement, dated as of December 1, 2015 (the "BANA Credit Agreement") with Bank of America, N.A. ("BANA"), with respect to the Water Series A-2 Notes only. Pursuant to the BANA Credit Agreement, funds can be borrowed thereunder for the benefit of the District, subject to certain conditions precedent as specified in such BANA Credit Agreement, in an amount not to exceed $160,000,000 to fund the payment of the principal of any maturing Water Series A-2 Notes. Funds may not be borrowed under the BANA Credit Agreement for any purpose other than as stated in the immediately preceding sentence. Unless terminated earlier or extended in accordance with its terms, the BANA Credit Agreement will terminate on November 30, 2018.

All interest payments on the outstanding Water Series A Notes are expected to be paid from Available Water Revenues of the District.

SMBC and BANA are each referred to herein as a "Bank" and are referred to herein collectively as the "Banks." The SMBC Letter of Credit (together with the SMBC Reimbursement Agreement) supporting the Water Series A-1 Notes and the BANA Credit Agreement supporting the Water Series A-2 Notes are each referred to herein as an "Initial Liquidity Facility" and are referred to herein collectively as the "Initial Liquidity Facilities."

UNDER CERTAIN CIRCUMSTANCES, THE OBLIGATION OF THE RESPECTIVE BANK TO HONOR DRAWINGS OR MAKE ADVANCES, RESPECTIVELY, UNDER ITS LIQUIDITY FACILITY FOR THE RELATED WATER SERIES A NOTES IS SUBJECT TO IMMEDIATE TERMINATION OR SUSPENSION WITHOUT NOTICE OR PAYMENT TO THE HOLDERS OF THE WATER SERIES A NOTES. IN SUCH EVENT, SUFFICIENT FUNDS MAY NOT BE

AVAILABLE TO PAY THE RELATED WATER SERIES A NOTES. SEE "THE INITIAL LIQUIDITY FACILITIES AND THE BANKS" FOR A DISCUSSION OF EVENTS THAT WOULD CAUSE IMMEDIATE TERMINATION OR AN IMMEDIATE SUSPENSION OF THE INITIAL LIQUIDITY FACILITIES.

The District may deliver an alternate or substitute Liquidity Facility to replace any Liquidity Facility then in effect; provided, however, that any such substitute or alternate Liquidity Facility for a subseries of the Water Series A Notes must go into effect on a date on which all of the Outstanding Water Series A Notes of the applicable subseries to be supported thereby then Outstanding are scheduled to mature.

**Rate Covenant**

Pursuant to the Issuing and Paying Agent Agreement, the District covenants to establish, maintain and collect rates and charges with respect to the Water System (after giving effect to the expected receipt of refinancing proceeds from the sale of Commercial Paper Notes (Water Series) or Water Bonds and taking into account the amounts, if any, made available for treatment as Water Revenues from the Rate Stabilization Fund) to pay the Commercial Paper Notes (Water Series) and all other obligations which are payable from Water Revenues.

**Certain Definitions**

For purposes of the foregoing discussion,

"Available Water Revenues" for any fiscal period means the sum of (a) the Water Revenues for such fiscal period plus (b) the amounts, if any, withdrawn by the District from the Rate Stabilization Fund referenced in the Water Bond Indenture for treatment as Water Revenues for such fiscal period, less the sum of (1) all Water operation and maintenance costs for such fiscal period, (2) the amounts, if any, withdrawn by the District from Water Revenues for such fiscal period for deposit in such Rate Stabilization Fund, and (3) all amounts required to be paid with respect to all Prior Water Obligations under the Prior Water Obligation Documents as the same become due and payable.

"Prior Water Obligations" means the Water Bonds and any other securities, evidences of indebtedness or obligations of the District (including for purposes hereof, obligations under credit and liquidity facilities and obligations under interest rate swap agreements or other hedging instruments, including termination payments related thereto) issued or incurred pursuant to a Prior Water Obligation Document.

"Prior Water Obligation Documents" means the Water Bond Indenture and any other indenture, resolution or other instrument of the District providing for the issuance of indebtedness or incurrence of any other obligation of the District (including for purposes hereof, obligations under credit and liquidity facilities and obligations under interest rate swap agreements and other hedging instruments, including termination payments related thereto) secured in whole or in part by Water Revenues and which by its terms is superior in right of payment to the Commercial Paper Notes (Water Series) or any Water Note Parity Debt.

"Water Bonds" means all bonds and other obligations and securities of the District issued and secured pursuant to the Water Bond Indenture.

"Water Bond Indenture" means the Water System Subordinated Revenue Bond Indenture dated as of April 1, 1990, by and between the District and The Bank of New York Mellon Trust Company, N.A., as successor trustee (or any other trustee appointed by the District), as amended and supplemented.

“Water Note Parity Debt” means any indebtedness, installment sale obligation, lease obligation or other obligation of the District for borrowed money or any interest rate swap agreement or other hedging instrument having an equal lien and charge upon all or part of the Available Water Revenues and therefore payable on a parity with the Commercial Paper Notes (Water Series), including but not limited to Extendable Municipal Commercial Paper Notes (Water Series) of the District issued under Resolution No. 33705-09 of the District adopted on March 10, 2009, as the same may be amended from time to time.

“Water Revenues” means 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, together with income from the investment of any moneys in any fund or account established under the Water Bond Indenture.

“Water operation and maintenance costs” means the reasonable and necessary costs of maintaining and operating the Water System, calculated on sound accounting principles, including (among other things) the reasonable expenses of management, repair and other expenses necessary to maintain and preserve the Water System in good repair and working order, the cost of purchasing water and reasonable amounts for administration, overhead, insurance, taxes and other similar costs, but excluding in all cases depreciation and obsolescence charges or reserves therefor and amortization of intangibles or other bookkeeping entries of a similar nature, and excluding all costs paid from the proceeds of taxes received by the District.

## THE DISTRICT AND THE WATER SYSTEM

### The District

The District is a municipal utility district, created in 1923 by vote of the electorate in portions of Alameda and Contra Costa Counties in the State of California. The District is formed under the authority of the Act. Under the Act, municipal utility districts are empowered to acquire, construct, own, operate or control works for supplying the district and public agencies in the district with light, water, power, heat, transportation, telephone service or other means of communications, means for the collection, treatment or disposition of garbage, sewage or refuse matter, and public recreation facilities appurtenant to its reservoirs and may do all things necessary and convenient to the full exercise of powers granted in the Act. The District presently exercises only those functions relating to water supply, power generation and recreational facilities through its water system (the “Water System”), and, within an area known as Special District No. 1, those functions relating to sewerage and wastewater interception, treatment and disposal, and power generation through its wastewater system (the “Wastewater System”). Special District No. 1 covers only a portion of the service area of the District. The District presently does not intend to exercise other functions. Such other functions and the related facilities, if exercised, would not constitute part of the Water System or the Wastewater System. The Commercial Paper Notes (Water Series), including the Water Series A Notes, are not payable from or secured by the revenues of the Wastewater System of the District.

The District is governed by an elected seven member Board of Directors which determines such matters as rates and charges for services, approval of contracts and District policy.

### The Water System

The District occupies an area of approximately 332 square miles in the San Francisco – Oakland metropolitan region, extending from Crockett on the north, southward to and including San Lorenzo, encompassing the major cities of Oakland and Berkeley, and eastward from San Francisco Bay to Walnut Creek. The District’s Water System serves approximately 1.4 million persons, or approximately 53% of the population of Alameda and Contra Costa Counties. During wet and normal rainfall years, the

District's water supply is obtained from three sources: the 627-square mile Mokelumne River watershed in the Sierra Nevada mountains, runoff from streams within the District, and recycled water produced at various locations in the service area. Water from the Mokelumne River watershed is transported from the watershed reservoirs through pipelines to the District's service area, where it is stored in terminal reservoirs or delivered directly to treatment plants prior to distribution. During drought times, the District has access to substantial additional supplies from the Sacramento River via the Freeport Regional Water Project and may also seek to secure additional supplemental water supply under contractual arrangements such as water transfers. The District can also utilize water stored within a local aquifer through its Bayside Groundwater Project.

Further description of the District's Water System, service area, sources of water supply and seismic considerations may be found in the District's most recent official statement or other offering document for its Water Bonds filed with the MSRB. See also "FURTHER INFORMATION AVAILABLE" on the inside cover of this Offering Memorandum and "OTHER MATTERS" herein.

**Capital Improvement Program**

Since fiscal year 2002, the District has implemented a biennial budget. The District's biennial budget planning process includes a review of its projected long-term (10 years or longer) facilities needs and the development of a capital expenditure forecast for the ensuing five fiscal years. A series of master plans document the identified facilities needs by asset classes (such as pipes, reservoirs and other assets) and include assessments of the District's key facilities, taking into consideration condition assessments, operational performance and maintenance histories. Facilities in need of rehabilitation or replacement are identified and prioritized. Project scopes are also defined (for example, replacement of aging mechanical or electrical gear, seismic upgrades, or other defined scopes). The results of the master plans are considered during the biennial update to the District's Capital Improvement Program (the "CIP") and the development of the five-year capital expenditure forecast.

The District's CIP is funded primarily from the following sources: (i) revenues of the District's Water System; (ii) commercial paper proceeds; (iii) proceeds from the issuance of District Water Bonds; and (iv) advances, contributions and grants. It is the current policy of the District to fund no more than 65% of its CIP over each five-year planning period from debt.

A description of the District's most recent five-year CIP may be found in the District's most recent official statement or other offering document for its Water Bonds filed with the MSRB. See also "FURTHER INFORMATION AVAILABLE" on the inside cover of this Offering Memorandum and "OTHER MATTERS" herein.

**Sources of Revenues**

The Water System's principal source of revenues is water sales. Sources of funds other than water sales include taxes, income from the sale of energy from the District's hydroelectric power plants, investment income, and grants and contributions in aid of construction. 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 include, 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 debt. 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 Water Revenues pledged to the repayment of debt.

The District's rates and rate structure are established by the District's Board after a public hearing process, and are not subject to regulation by any other agency. All water service customers are billed directly by the District bimonthly, with the exception of approximately 1,000 accounts consisting of the largest users in the District, which are billed monthly. Billing is staggered throughout the billing cycle by geographic location within the District. Service may be discontinued if an overdue account is not paid after appropriate customer notification.

In addition to basic water rates (which are composed of two components: a monthly service charge and a commodity charge for water delivered), in times of drought the District imposes drought surcharges for four stages of drought. The drought surcharges, corresponding to increasingly severe stages of water shortages, are applied to each unit of water used during the relevant billing period when the Board declares a specific drought stage pursuant to its water shortage contingency plan. The District also imposes a system capacity charge on new accounts designed to recover from such accounts a portion of the costs of existing facilities, as well as the costs of additional facilities (primarily water supply projects) to be constructed in the future to provide water service to new customers based on land use plans, as well as certain recreation fees, installation charges and one-time fees and charges. The imposition of taxes, assessments, rates and charges by the District is subject to various constitutional and statutory limitations, including certain requirements of Articles XIIIA, XIIIB, XIIIC and XIIID of the California Constitution, and are subject to reduction or repeal through the initiative process as provided in Article XIIIC of the California Constitution.

Additional information regarding the District's current water rates and rate structure, procedural requirements for the establishment of rates and charges, and certain constitutional and statutory limitations applicable thereto, may be found in the District's most recent official statement or other offering document for its Water Bonds filed with the MSRB. See also "FURTHER INFORMATION AVAILABLE" on the inside cover of this Offering Memorandum and "OTHER MATTERS" herein.

**Senior and Parity Water System Indebtedness**

As of September 30, 2015, the District had outstanding $2,319,730,000 aggregate principal amount of Water Bonds, which are senior in payment priority to the Commercial Paper Notes (Water Series), including the Water Series A Notes.

The District's outstanding Water Bonds include fixed rate bonds, outstanding in the aggregate principal amount of $2,214,480,000 as of September 30, 2015, and variable rate demand obligations, outstanding in the aggregate principal amount of $105,250,000 as of September 30, 2015. The variable rate demand obligations are currently in a weekly mode during which the per annum interest rate thereon is re-set weekly (the "Weekly Rate Bonds"). The District has entered into liquidity agreements with various banks to provide liquidity facilities for such variable rate outstanding Water Bonds that are Weekly Rate Bonds, The obligation of the District to repay any draws on such liquidity facilities is payable on a parity with the outstanding Water Bonds to the extent such repayment is not thereafter provided from remarketing proceeds of the related outstanding Water Bonds and is payable senior in payment priority to the Commercial Paper Notes (Water Series), including the Water Series A Notes. In connection with the outstanding Weekly Rate Bonds, the District has entered into and has outstanding interest rate swap agreements (the "Water Interest Rate Swap Agreements") with various counterparties in the aggregate notional amount of $105,250,000 as of September 30, 2015. The obligation of the District to make regularly scheduled payments to the counterparties under the respective Water Interest Rate Swap Agreements is on a parity with the District's obligation to make payments on the Water Bonds and is payable senior in payment priority to the Commercial Paper Notes (Water Series), including the Water Series A Notes. Further, any termination payment that may be payable to a swap counterparty under the Water Interest Rate Swap Agreements in the event of termination of any such Water Interest

Rate Swap Agreement would be payable on a basis that is prior to the Commercial Paper Notes (Water Series), including the Water Series A Notes.

In addition to the outstanding Water Bonds, as of September 30, 2015, the District had outstanding loans with the State of California's State Water Resources Control Board and the Department of Water Resources in the aggregate principal amount of $14,996,255, the payments under which are payable from Water Revenues on a parity with the Water Bonds and are senior in payment priority to the Commercial Paper Notes (Water Series), including the Water Series A Notes.

The District has maintained a commercial paper note program since 1988. In March 2009, the District implemented an extendable municipal commercial paper note program for the purpose of retiring its then existing commercial paper note program. As of September 30, 2015, the District had outstanding $359,800,000 aggregate principal amount of tax-exempt Extendable Municipal Commercial Paper Notes (Water Series) which are payable from and secured by a pledge of Available Water Revenues on parity with Commercial Paper Notes (Water Series), including the Water Series A Notes. The District intends to refinance all of its currently outstanding $359,800,000 principal amount of outstanding Extendable Municipal Commercial Paper Notes (Water Series) with proceeds of the Water Series A Notes.

There is no limitation in the Act or the Issuing and Paying Agent Agreement on District indebtedness senior to the Commercial Paper Notes (Water Series), including the Water Series A Notes. The Board of the District can authorize additional Water Bonds or other Prior Water Obligations (which are defined to include any obligations of the District payable from net revenues of the Water System superior in right of payment to the Commercial Paper Notes (Water Series)) subject to the satisfaction of certain provisions (if any) contained in the related documents. The Board can authorize additional indebtedness on parity with the Commercial Paper Notes (Water Series), including the Water Series A Notes, without notice to or the consent of any holder of Commercial Paper Notes (Water Series).

### Investment Policy

Funds of the District are invested in accordance with the Government Code of the State of California, the Act and the District's investment policy. The investment policy of the District is reviewed and submitted annually to the Board of the District and is subject to change. A copy of the District's current Annual Statement of Investment Policy is attached hereto as Appendix C.

### District Financial Statements

The audited financial statements of the District for the fiscal years ended June 30, 2015 and 2014 are attached hereto as Appendix A. Additional financial and operating data relating to the District and the Water System may be found in the District's most recent continuing disclosure Annual Report filed with the MSRB. See "FURTHER INFORMATION AVAILABLE" on the inside cover of this Offering Memorandum and "OTHER MATTERS" herein.

## THE INITIAL LIQUIDITY FACILITIES AND THE BANKS

### Water Series A-1 Notes

***SMBC Letter of Credit and SMBC Reimbursement Agreement.*** *The following description is a summary of certain provisions of the SMBC Letter of Credit and the SMBC Reimbursement Agreement. Such summary does not purport to be a complete description or restatement of the material provisions of the SMBC Letter of Credit and the SMBC Reimbursement Agreement. Investors should obtain and review a copy of both the SMBC Letter of Credit and the SMBC Reimbursement Agreement in order to understand all of the terms of those documents. All capitalized terms appearing under this subheading*

*"– SMBC Letter of Credit and SMBC Reimbursement Agreement" not otherwise defined herein shall have the meanings assigned to them in the SMBC Letter of Credit and the SMBC Reimbursement Agreement.*

The SMBC Letter of Credit is a conditional obligation of SMBC issued pursuant to the SMBC Reimbursement Agreement, which contains various provisions, covenants and conditions that affect the SMBC Letter of Credit, certain of which are summarized below. The Issuing and Paying Agent is authorized to make drawings under the SMBC Letter of Credit in accordance with the terms thereof to pay the principal of Water Series A-1 Notes at the stated maturity thereof to the extent proceeds of any sale of Water Series A-1 Notes or any other funds are unavailable therefor. The maximum amount available under the SMBC Letter of Credit, subject to reduction or reinstatement as set forth therein, is $200,000,000. The SMBC Letter of Credit is scheduled to expire on December 1, 2020, subject to extension or earlier termination in accordance with the terms thereof. Upon the occurrence of certain events of default under the SMBC Reimbursement Agreement described below, SMBC's commitment under the SMBC Letter of Credit may be automatically and immediately terminated or suspended without notice.

The occurrence of any of the events described under the subheadings "*– Events of Default Resulting in Immediate Termination*," "*– Events of Default Resulting in Immediate Suspension*," and "*– Events of Default not Resulting in Immediate Termination or Suspension*" below shall constitute an "Event of Default" under the SMBC Reimbursement Agreement. Upon the occurrence of an Event of Default, SMBC may exercise those rights and remedies applicable to such Event of Default as described under the subheading "*– Remedies*" below.

*Events of Default Resulting in Immediate Termination.* Each of the following Events of Default shall also constitute a "Special Event of Default" under the SMBC Reimbursement Agreement:

(a) the District shall fail to pay when due and payable (whether by scheduled maturity, required prepayment, acceleration or otherwise) (i) any interest on any Water Series A-1 Notes in accordance with its terms or (ii) any principal of or interest on any Loan or the Advance Note or the Term Loan Note (other than solely as a result of acceleration of the payment of the Advance Note or the Term Loan Note as described in paragraph (d) under the subheading "*– Remedies*" below); or

(b) (i) the District shall fail to pay when due and payable (whether by scheduled maturity, required prepayment or acceleration) any principal of or interest on any Modified Revenues Secured Debt of the District (or, in the case of Modified Revenues Secured Debt consisting of obligations in respect of Swap Contracts, any regularly scheduled payment thereunder) and such failure shall continue beyond any applicable period of grace specified in any underlying resolution, indenture, contract or instrument pursuant to which such Modified Revenues Secured Debt have been issued or incurred, or (ii) pursuant to the provisions of any such resolution, indenture, contract or instrument, any Modified Revenues Secured Debt, as a result of the failure to pay principal of or interest on such Modified Revenues Secured Debt (or, in the case of Modified Revenues Secured Debt consisting of obligations in respect of Swap Contracts, any regularly scheduled payment thereunder), shall have been or may be accelerated or required to be prepaid prior to the stated maturity thereof (or, in the case of Modified Revenues Secured Debt consisting of obligations in respect of Swap Contracts, the stated termination thereof) (with respect to both clauses (i) and (ii), other than as a result of acceleration of the payment of any such Modified Revenues Secured Debt that is owned by a liquidity provider pursuant to the provisions of the related liquidity facility); or

(c) one or more final, unappealable judgments against the District for the payment of money payable from the Water Revenues or attachments against the Water Revenues, the operation or result of which, individually or in the aggregate, equal or exceed $15,000,000 shall remain unpaid, unstayed, undischarged, unbonded or undismissed for a period of sixty (60) days; or

(d) (i) The District shall commence any case, proceeding or other action (A) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it as bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its Water System Related Debt, or (B) seeking appointment of a receiver, trustee, custodian or other similar official for it or for all or any substantial part of the assets of the Water System, or the District shall make a general assignment for the benefit of its creditors; or (ii) there shall be commenced against the District any case, proceeding or other action of a nature referred to in clause (i) above which (x) results in an order for such relief or in the appointment of a receiver or similar official or (y) remains undismissed, undischarged or unbonded for a period of sixty (60) days; or (iii) there shall be commenced against the District, any case, proceeding or other action seeking the issuance of a warrant of attachment, execution, restraint or similar process against all or any substantial part of the assets of the Water System or the Water Revenues, which results in the entry of a final and non-appealable order or ruling for any such relief which shall not have been vacated, discharged, or stayed or bonded pending appeal within sixty (60) days from the entry thereof; or (iv) the District shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (i), (ii) or (iii) above; or (v) the District shall admit in writing its inability to pay its debts; or

(e) (i) Any provision of the SMBC Reimbursement Agreement, the Act, the Resolution, the Water Series A-1 Notes or the Issuing and Paying Agent Agreement relating to (A) the ability or obligation of the District to pay, when due, the principal or interest payable on the Water Series A-1 Notes, the Advance Note or the Term Loan Note or (B) the Lien on or pledge of the Water Revenues securing the Water Series A-1 Notes, the Advance Note or the Term Loan Note shall at any time cease to be valid and binding on the District or shall be declared to be null and void, invalid or unenforceable as the result of a final nonappealable judgment by any federal or state court or as a result of any legislative or administrative action by any Governmental Authority having jurisdiction over the District, (ii) an authorized representative of the District repudiates or otherwise denies in writing that the District has any further liability or obligation under or with respect to any provision of the SMBC Reimbursement Agreement, the Act, the Resolution, the Water Series A-1 Notes, the Advance Note, the Term Loan Note, or any Modified Revenues Secured Debt or the Issuing and Paying Agent Agreement relating to (A) the ability or the obligation of the District to pay, when due, the principal or interest payable on any Water Series A-1 Notes, the Advance Note, the Term Loan Note, or any Modified Revenues Secured Debt or (B) the Lien on or pledge of the Water Revenues, (iii) the District shall have taken or permitted to be taken any official action, or has duly enacted any statute or regulation, which would invalidate, or render null and void, invalid or unenforceable, any provision of the SMBC Reimbursement Agreement, the Act, the Resolution, the Water Series A-1 Notes, the Advance Note, the Term Loan Note or the Modified Revenues Secured Debt or the Issuing and Paying Agent Agreement relating to (A) the ability or the obligation of the District to pay, when due, the principal or interest payable on the Water Series A-1 Notes, the Advance Note, the Term Loan Note, or the Modified Revenues Secured Debt, or (B) the Lien on or pledge of the Water Revenues, or (iv) the State of California shall have taken or permitted to be taken any official action, or has duly enacted any statute or regulation, which would invalidate, or render null and void, invalid or unenforceable, any provision of the SMBC Reimbursement Agreement, the Act, the Resolution, the Water Series A-1 Notes, the Advance Note or the Term Loan Note or the Issuing and Paying Agent Agreement relating to (A) the ability or the obligation of the District to pay, when due, the principal or interest payable on the Water Series A-1 Notes, the Advance Note or the Term Loan Note, or (B) the Lien on or pledge of the Water Revenues; or

(f) (i) the District shall impose a debt moratorium or comparable extraordinary restriction on the repayment of debt (whether or not in writing) with respect to the Water Series A-1 Notes, the Advance Note, the Term Loan Note, or any Modified Revenues Secured Debt or (ii) any Governmental Authority having appropriate jurisdiction over the District shall make a finding or ruling or shall enact or adopt legislation or issue an executive order or enter a judgment or decree which results in a debt moratorium or comparable extraordinary restriction on the repayment of debt with respect to the Water Series A-1 Notes, the Advance Note, the Term Loan Note or all debt of the District; or

(g) all of the Rating Agencies shall have (i) assigned to any Water Bonds or Water Note Parity Debt (if rated) a long-term unenhanced rating below Investment Grade, (ii) withdrawn their ratings of any Water Bonds or Water Note Parity Debt (if rated), other than as a result of debt maturity, redemption or defeasance or, in the case of Water Bonds or Water Note Parity Debt supported by credit enhancement, such withdrawal being attributable to the long-term ratings assigned to the related credit enhancer, and excluding any withdrawal which such Rating Agency stipulates in writing is being taken for non-credit related reasons or (iii) suspended their ratings of any Water Bonds or Water Note Parity Debt (if rated), other than as a result of debt maturity, redemption or defeasance or, in the case of any Water Bonds or Water Note Parity Debt supported by credit enhancement, such suspension being attributable to the long-term ratings assigned to the related credit enhancer, and excluding any suspension which such Rating Agency stipulates in writing is being taken for non-credit related reasons.

*Events of Default Resulting in Immediate Suspension.* The following Event of Default shall also constitute a "Suspension Event" under the SMBC Reimbursement Agreement:

(a) Any Governmental Authority with jurisdiction to rule on the validity or enforceability of the SMBC Reimbursement Agreement, the Act, the Resolution, the Issuing and Paying Agent Agreement, the Water Series A-1 Notes, the Advance Note or the Term Loan Note, shall find or rule, in a judicial or administrative proceeding, that any material provision of any of the foregoing relating to (i) the ability or the obligation of the District to pay, when due, the principal or interest payable on the Water Series A-1 Notes, the Advance Note or the Term Loan Note or (ii) the Lien on or pledge of Water Revenues securing the Water Series A-1 Notes is not valid or not binding on, or enforceable against, the District; or (b) the State of California (i) makes a claim in a judicial or administrative proceeding that the District has no further liability or obligation under the SMBC Reimbursement Agreement, the Act, the Resolution, the Issuing and Paying Agent Agreement, the Water Series A-1 Notes, the Advance Note or the Term Loan Note, as and to the extent the District has obligations thereunder, to pay, when due, the principal or interest payable on the Water Series A-1 Notes, the Advance Note or the Term Loan Note, or (ii) contests in a judicial or administrative proceeding the validity or enforceability of any provision of the SMBC Reimbursement Agreement, the Act, the Resolution, the Issuing and Paying Agent Agreement, the Water Series A-1 Notes, the Advance Note or the Term Loan Note secured by and relating to (A) the ability or the obligation of the District to pay, when due, the principal of or interest on the Water Series A-1 Notes, the Advance Note or the Term Loan Note or (B) the Lien on or pledge of Water Revenues securing the Water Series A-1 Notes, the Advance Note or the Term Loan Note; or (c) the District (i) makes a claim in a judicial or administrative proceeding that the District has no further liability or obligation under the SMBC Reimbursement Agreement, the Act, the Resolution, the Issuing and Paying Agent Agreement, the Water Series A-1 Notes, the Advance Note, the Term Loan Note or any Modified Revenues Secured Debt, as and to the extent the District has obligations thereunder, to pay, when due, the principal or interest payable on the Water Series A-1 Notes, the Advance Note, the Term Loan Note or any Modified Revenues Secured Debt, or (ii) contests in a judicial or administrative proceeding the validity or enforceability of any provision of the SMBC Reimbursement Agreement, the Act, the Resolution, the Issuing and Paying Agent Agreement, the Water Series A-1 Notes, the Advance Note, the Term Loan Note or any Modified Revenues Secured Debt secured by and relating to (A) the ability or the obligation of the District to pay, when due, the principal of or interest on the Water Series A-1 Notes, the Advance Note, the Term Loan Note or any Modified Revenues Secured Debt or (B) the Lien on or pledge of Water Revenues securing the Water Series A-1 Notes, the Advance Note, the Term Loan Note or any Modified Revenues Secured Debt.

*Events of Default not Resulting in Immediate Termination or Suspension.* Each of the following Events of Default shall also constitute a "Notice Event of Default" under the SMBC Reimbursement Agreement:

(a) the District shall fail to pay any other amount owed by the District under the SMBC Reimbursement Agreement or under the Fee Agreement as and when due (other than amounts described in paragraph (a) of the subheading "– *Events of Default Resulting in Immediate Termination*"), and such failure shall continue unremedied for ten (10) days after the later to occur of (x) the date such amount is due and (y) the date the District receives an invoice from SMBC for such amount; or

(b) any representation or warranty made by or on behalf of the District in the SMBC Reimbursement Agreement or in any Related Document shall be incorrect or untrue in any material respect when made or deemed to have been made; or

(c) the District shall default in the due performance or observance of certain covenants set forth in the SMBC Reimbursement Agreement; or

(d) the District shall default in the due performance or observance of certain other terms, covenants or agreements contained in the SMBC Reimbursement Agreement and such default shall remain unremedied for a period of thirty (30) days after the earlier of (i) the date on which such failure shall first become known to any officer of the District or (ii) written notice thereof is given to the District by SMBC; or

(e) the District shall fail to pay when due and payable (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise) any Water System Related Debt, the aggregate principal amount or notional amount of which is not less than $15,000,000, or any interest or premium thereon, and such failure shall continue beyond any applicable period of grace specified in any underlying resolution, indenture, contract or instrument providing for the creation or concerning any such Water System Related Debt; or any other default or "automatic termination event" shall occur under any resolution, indenture, contract or instrument providing for the creation of or concerning any such Water System Related Debt if such default or automatic termination event results in the acceleration of the maturity of such Water System Related Debt or requires such Water System Related Debt to become due prior to the stated maturity thereof or a termination payment to be paid in connection therewith, and either (i) the District shall fail to pay any such accelerated amount, amount required to be prepaid prior to the stated maturity thereof, or termination payment or (ii) the payment by the District of any such accelerated amount, amount required to be prepaid prior to maturity, or termination payment shall materially adversely affect the ability of the District to perform its obligations under the SMBC Reimbursement Agreement; or

(f) the long-term unenhanced ratings assigned to any Water Bonds by (x) any two Rating Agencies if all three Rating Agencies then rate Water Bonds or (y) any Rating Agency if only one or two Rating Agencies then rate Water Bonds, are reduced below "A-" (or its equivalent) by S&P, "A-" (or its equivalent) by Fitch or "A3" (or its equivalent) by Moody's, or are withdrawn or suspended by any such Rating Agency other than as a result of (i) debt maturity, redemption or defeasance or, in the case of Water Bonds supported by credit enhancement, such withdrawal or suspension being attributable to a long-term rating assigned to the related credit enhancer, (ii) a determination by the District to cease maintaining such rating and following such withdrawal or suspension the District is in compliance with the terms of the SMBC Reimbursement Agreement, or (iii) a failure by the District to apply for a rating by such Rating Agency or to provide information to such Rating Agency, in either case as a result of such

Rating Agency's imposition or proposed imposition of a condition or conditions to issuing such rating with respect to which the District cannot legally comply; or

(g) the occurrence of any Issuing and Paying Agent Agreement Event of Default which is not cured within any applicable cure period; or

(h) any Governmental Authority shall declare a financial emergency with respect to the District and shall appoint or designate with respect to the District, an entity such as an organization, board, commission, authority, agency or body to manage the affairs and operations of the Water System; or

(i) a ruling, assessment, notice of deficiency or technical advice by the Internal Revenue Service shall be rendered to the effect that interest on the Water Series A-1 Notes is included in the gross income of the Owners of such Water Series A-1 Notes and either (i) the District, after it has been notified by the Internal Revenue Service, shall not challenge such ruling, assessment, notice or advice in a court of law during the period within which such challenge is permitted or (ii) the District shall challenge such ruling, assessment, notice or advice and a court of law shall make a determination, not subject to appeal or review by another court of law, that such ruling, assessment, notice or advice is correctly rendered; or

(j) the occurrence of any "default" resulting from a failure by the District to perform any of its obligations under any agreement or instrument providing credit enhancement or liquidity support with respect to any Revenues Secured Debt, or pursuant to which the related holder purchased and continues to hold the same, which default results in an acceleration of such Revenues Secured Debt or the District's obligations under such agreement or instrument or requires such Revenues Secured Debt to be prepaid prior to the stated maturity thereof.

*Remedies.* Upon the occurrence of an Event of Default under the SMBC Reimbursement Agreement, SMBC may take one or more of the following actions:

(a) *Immediate Termination*. Upon the occurrence of any Special Event of Default, the Available Amount of the SMBC Letter of Credit shall be reduced to zero and the SMBC Letter of Credit and SMBC's obligations thereunder shall automatically and immediately terminate and expire, without notice, with respect to all Water Series A-1 Notes, and SMBC shall have no obligation to make any Loans under the SMBC Reimbursement Agreement.

(b) *Suspension – Contest to Validity*. Upon the occurrence of the Suspension Event described under the subheading "*– Events of Default Resulting in Immediate Suspension*," the obligation of SMBC to make Loans pursuant to draws under the SMBC Letter of Credit shall be automatically and immediately suspended from the time of the occurrence of such Event of Default until a final, non-appealable judgment of a court having jurisdiction in the premises shall be entered declaring that all contested provisions of the SMBC Reimbursement Agreement, the SMBC Letter of Credit the Water Series A-1 Notes, the Advance Note, the Term Loan Note, the Issuing and Paying Agent Agreement, the Resolution or any Loans or the validity or enforceability of the pledge of the Available Water Revenues securing the Water Series A-1 Notes, the Advance Note, the Term Loan Note and the Loans are upheld in their entirety. In the event such judgment is entered declaring that all material contested provisions of the SMBC Reimbursement Agreement, the SMBC Letter of Credit, the Water Series A-1 Notes, the Advance Note, the Term Loan Note, the Issuing and Paying Agent Agreement, the Resolution or any Loans or the validity or enforceability of the Available Water Revenues are upheld in their entirety, the obligation of SMBC to make Loans pursuant to draws under the SMBC Letter of Credit shall be automatically reinstated and the terms of the SMBC Letter of Credit and the SMBC Reimbursement Agreement will continue in full force and effect (unless the SMBC Letter of Credit and the SMBC Reimbursement

Agreement shall have otherwise expired or terminated in accordance with the terms thereof or there has occurred a Special Event of Default) as if there had been no suspension. In the event any provision of the SMBC Reimbursement Agreement, the SMBC Letter of Credit, the Water Series A-1 Notes, the Advance Note, the Term Loan Note, the Issuing and Paying Agent Agreement, the Resolution or any Loans or the validity or enforceability of the pledge of the Available Water Revenues securing the Water Series A-1 Notes and the Loans is declared to be null and void or unenforceable, or it is determined that the District has no liability or obligation under the SMBC Reimbursement Agreement, the Water Series A-1 Notes, the Advance Note, the Term Loan Note, the Issuing and Paying Agent Agreement, or the Resolution, then the obligations of SMBC under the SMBC Reimbursement Agreement and the SMBC Letter of Credit will terminate as set forth above. Notwithstanding the foregoing, if, upon the date which is the earlier of the Termination Date or nine months after the effective date of such suspension of the obligations of SMBC under the SMBC Reimbursement Agreement and the SMBC Letter of Credit pursuant to this paragraph, litigation is still pending and a judgment regarding the validity and enforceability of the SMBC Reimbursement Agreement, the SMBC Letter of Credit, the Water Series A-1 Notes, the Advance Note, the Term Loan Note, the Issuing and Paying Agent Agreement, the Resolution or any Loans or the validity or enforceability of the Available Water Revenues securing the Water Series A-1 Notes, the Advance Note, the Term Loan Note and the Loans as is the subject of such Event of Default has not been obtained, then the SMBC Letter of Credit and the obligation of SMBC to make Loans shall at such time terminate without notice or demand.

(c) *Termination with Notice*. Upon the occurrence of an Event of Default that is not a Special Event of Default, SMBC may (i) deliver a No-Issuance Notice to the Issuing and Paying Agent directing the Issuing and Paying Agent to cease issuing any Water Series A-1 Notes, whereupon no additional Water Series A-1 Notes shall be issued, and (ii) by notice to the District and the Issuing and Paying Agent, reduce the Available Amount to the then Outstanding principal amount of Water Series A-1 Notes and cause the Available Amount to no longer be subject to reinstatement upon drawings under the SMBC Letter of Credit for such Water Series A-1 Notes, so that, on the date all Water Series A-1 Notes issued and sold prior to the date such No-Issuance Notice is received by the Issuing and Paying Agent mature, the Available Amount will be reduced to zero and the SMBC Letter of Credit shall be terminated; provided that the SMBC Letter of Credit shall not terminate, and the right of SMBC to accelerate the maturity of the Advance Note and the Term Loan Note, as applicable, described in paragraph (d) under this subheading "– *Remedies*" shall not affect the obligation of SMBC to make Loans pursuant to drawings under the SMBC Letter of Credit, to the extent necessary for the District to make required payments of principal on maturing Water Series A-1 Notes that were issued and sold prior to the date upon which the No-Issuance Notice is received by the Issuing and Paying Agent; provided further that if any Loans are made that would not have been made but for the application of the immediately preceding provision, such Loans shall be immediately due and payable on the date such Loans are made.

(d) *Additional Remedies*. In addition to the rights and remedies set forth in paragraphs (a), (b) and (c) above under this subheading "– *Remedies*," in the case of any Event of Default under the SMBC Reimbursement Agreement, other than an Event of Default described in paragraph (d) under the subheading "– *Events of Default Resulting in Immediate Termination*" above, SMBC may declare the Advance Note, the Term Loan Note, all accrued interest thereon, and all other outstanding Obligations of the District to be forthwith due and payable, whereupon the Advance Note and the Term Loan Note and such interest and all such other Obligations shall become and be forthwith due and payable, without presentment, demand, protest or further notice of any kind, all of which are expressly waived by the District. If any Event of Default described in paragraph (d) under the subheading "– *Events of Default Resulting in Immediate Termination*" above shall occur, without any notice to the District or any other act by SMBC, the Advance Note and the Term Loan Note, together with accrued interest thereon, and all other outstanding Obligations of the District shall become forthwith due and payable, without presentment, demand, protest, or other notice of any kind, all of which are waived by the District.

***Sumitomo Mitsui Banking Corporation.*** *The following information has been furnished by SMBC for use in this Offering Memorandum. Such information has not been independently confirmed or verified by the District. No representation is made herein by the District as to the accuracy or adequacy of such information or as to the absence of material adverse changes with respect to SMBC or its financial condition subsequent to the date hereof, or that the information contained and incorporated herein by reference is correct.*

Sumitomo Mitsui Banking Corporation (*Kabushiki Kaisha Mitsui Sumitomo Ginko*) ("SMBC") is a joint stock corporation with limited liability (*Kabushiki Kaisha*) under the laws of Japan. The registered head office of SMBC is located at 1-2, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-0005, Japan.

SMBC was established in April 2001 through the merger of two leading banks, The Sakura Bank, Limited and The Sumitomo Bank, Limited. In December 2002, Sumitomo Mitsui Financial Group, Inc. ("SMFG") was established through a stock transfer as a holding company under which SMBC became a wholly-owned subsidiary. SMFG reported ¥186,653,748 million (US $1,900,364 million) in consolidated total assets as of September 30, 2015.

SMBC is one of the world's leading commercial banks and provides an extensive range of banking services to its customers in Japan and overseas. In Japan, SMBC accepts deposits, makes loans and extends guarantees to corporations, individuals, governments and governmental entities. It also offers financing solutions such as syndicated lending, structured finance and project finance. SMBC also underwrites and deals in bonds issued by or under the guarantee of the Japanese government and local government authorities, and acts in various administrative and advisory capacities for certain types of corporate and government bonds. Internationally, SMBC operates through a network of branches, representative offices, subsidiaries and affiliates to provide many financing products, including syndicated lending and project finance.

The New York Branch of SMBC is licensed by the New York State Department of Financial Services to conduct branch banking business at 277 Park Avenue, New York, New York, and is subject to examination by the New York State Department of Financial Services and the Federal Reserve Bank of New York.

Audited consolidated financial statements for SMFG and its consolidated subsidiaries for the fiscal year 2014 ended March 31, 2015, as well as other corporate data, financial information and analyses, are available in English on SMFG's website at www.smfg.co.jp/english.

The information herein has been obtained from SMBC, which is solely responsible for its content. The delivery of the Offering Memorandum shall not create any implication that there has been no change in the affairs of SMBC since the date hereof, or that the information contained or referred to herein is correct as of any time subsequent to its date.

**Water Series A-2 Notes**

***BANA Credit Agreement***. *The following description is a summary of certain provisions of the BANA Credit Agreement pursuant to which BANA has agreed to establish a revolving line of credit for the benefit of the District for the purpose of making loans to fund the payment of the principal of maturing Water Series A-2 Notes. Such summary does not purport to be a complete description or restatement of the material provisions of the BANA Credit Agreement. Investors should obtain and review a copy of the BANA Credit Agreement in order to understand all of the terms of that document. All capitalized terms appearing under this subheading "BANA Credit Agreement" not otherwise defined herein shall have the meanings assigned to them in the BANA Credit Agreement.*

The District has entered into the BANA Credit Agreement with BANA, under which BANA has agreed, subject to compliance with certain conditions as specified in the BANA Credit Agreement, to provide a revolving line of credit for the benefit of the District in an amount not to exceed $160,000,000, as such amount may be reduced from time to time in accordance with the terms of the BANA Credit Agreement, to fund the payment of the principal of any maturing Water Series A-2 Notes at the stated maturity thereof to the extent proceeds of any sale of Water Series A-2 Notes or any funds are unavailable therefor. The stated expiration date of the BANA Credit Agreement is November 30, 2018, unless sooner terminated or later extended pursuant to its terms. Upon the occurrence of certain events of default under the BANA Credit Agreement described below, BANA's commitment may be automatically and immediately terminated or suspended without notice.

The occurrence of any of the events described under the subheadings "– *Events of Default Resulting in Immediate Termination*," "– *Events of Default Resulting in Immediate Suspension*," and "– *Events of Default not Resulting in Immediate Termination or Suspension*" below shall constitute an "Event of Default" under the BANA Credit Agreement. Upon the occurrence of an Event of Default, BANA may exercise those rights and remedies applicable to such Event of Default as described under the subheading "– *Remedies*" below.

*Events of Default Resulting in Immediate Termination.* Each of the following Events of Default shall also constitute a "Special Event of Default" under the BANA Credit Agreement:

(a) the District shall fail to pay when due and payable (whether by scheduled maturity, required prepayment, acceleration or otherwise) (i) any interest on any Water Series A-2 Notes in accordance with its terms or (ii) any principal of or interest on any Loan or the Revolving Loan Note or the Term Loan Note (other than solely as a result of acceleration of the payment of the Revolving Loan Note or the Term Loan Note as described in paragraph (d) under the subheading "– *Remedies*" below); or

(b) (i) the District shall fail to pay when due and payable (whether by scheduled maturity, required prepayment or acceleration) any principal of or interest on any Modified Revenues Secured Debt of the District (or, in the case of Modified Revenues Secured Debt consisting of obligations in respect of Swap Contracts, any regularly scheduled payment thereunder) and such failure shall continue beyond any applicable period of grace specified in any underlying resolution, indenture, contract or instrument pursuant to which such Modified Revenues Secured Debt have been issued or incurred, or (ii) pursuant to the provisions of any such resolution, indenture, contract or instrument, any Modified Revenues Secured Debt, as a result of the failure to pay principal of or interest on such Modified Revenues Secured Debt (or, in the case of Modified Revenues Secured Debt consisting of obligations in respect of Swap Contracts, any regularly scheduled payment thereunder), shall have been or may be accelerated or required to be prepaid prior to the stated maturity thereof (or, in the case of Modified Revenues Secured Debt consisting of obligations in respect of Swap Contracts, the stated termination thereof) (with respect to both clauses (i) and (ii), other than as a result of acceleration of the payment of any such Modified Revenues Secured Debt that is owned by a liquidity provider pursuant to the provisions of the related liquidity facility); or

(c) one or more final, unappealable judgments against the District for the payment of money payable from the Water Revenues or attachments against the Water Revenues, the operation or result of which, individually or in the aggregate, equal or exceed $15,000,000 shall remain unpaid, unstayed, undischarged, unbonded or undismissed for a period of sixty (60) days; or

(d) (i) The District shall commence any case, proceeding or other action (A) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it as bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its Water System Related Debt, or (B) seeking appointment of a receiver, trustee, custodian or other similar official for it or for all or any substantial part of the assets of the Water System, or the District shall make a general assignment for the benefit of its creditors; or (ii) there shall be commenced against the District any case, proceeding or other action of a nature referred to in clause (i) above which (x) results in an order for such relief or in the appointment of a receiver or similar official or (y) remains undismissed, undischarged or unbonded for a period of sixty (60) days; or (iii) there shall be commenced against the District, any case, proceeding or other action seeking the issuance of a warrant of attachment, execution, restraint or similar process against all or any substantial part of the assets of the Water System or the Water Revenues, which results in the entry of a final and non-appealable order or ruling for any such relief which shall not have been vacated, discharged, or stayed or bonded pending appeal within sixty (60) days from the entry thereof; or (iv) the District shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (i), (ii) or (iii) above; or (v) the District shall admit in writing its inability to pay its debts; or

(e) (i) Any provision of the BANA Credit Agreement, the Act, the Resolution, the Water Series A-2 Notes or the Issuing and Paying Agent Agreement relating to (A) the ability or obligation of the District to pay, when due, the principal or interest payable on the Water Series A-2 Notes, the Revolving Loan Note or the Term Loan Note or (B) the Lien on or pledge of the Water Revenues securing the Water Series A-2 Notes, the Revolving Loan Note or the Term Loan Note shall at any time cease to be valid and binding on the District or shall be declared to be null and void, invalid or unenforceable as the result of a final nonappealable judgment by any federal or state court or as a result of any legislative or administrative action by any Governmental Authority having jurisdiction over the District, (ii) an authorized representative of the District repudiates or otherwise denies in writing that the District has any further liability or obligation under or with respect to any provision of the BANA Credit Agreement, the Act, the Resolution, the Water Series A-2 Notes, the Revolving Loan Note, the Term Loan Note, or any Modified Revenues Secured Debt or the Issuing and Paying Agent Agreement relating to (A) the ability or the obligation of the District to pay, when due, the principal or interest payable on any Water Series A-2 Notes, the Revolving Loan Note, the Term Loan Note, or any Modified Revenues Secured Debt or (B) the Lien on or pledge of the Water Revenues, (iii) the District shall have taken or permitted to be taken any official action, or has duly enacted any statute or regulation, which would invalidate, or render null and void, invalid or unenforceable, any provision of the BANA Credit Agreement, the Act, the Resolution, the Water Series A-2 Notes, the Revolving Loan Note, the Term Loan Note, or the Modified Revenues Secured Debt or the Issuing and Paying Agent Agreement relating to (A) the ability or the obligation of the District to pay, when due, the principal or interest payable on the Water Series A-2 Notes, the Revolving Loan Note, the Term Loan Note, or the Modified Revenues Secured Debt, or (B) the Lien on or pledge of the Water Revenues, or (iv) the State of California shall have taken or permitted to be taken any official action, or has duly enacted any statute or regulation, which would invalidate, or render null and void, invalid or unenforceable, any provision of the BANA Credit Agreement, the Act, the Resolution, the Water Series A-2 Notes, the Revolving Loan Note or the Term Loan Note or the Issuing and Paying Agent Agreement relating to (A) the ability or the obligation of the District to pay, when due, the principal or interest payable on the Water Series A-2 Notes, the Revolving Loan Note or the Term Loan Note, or (B) the Lien on or pledge of the Water Revenues; or

(f) (i) the District shall impose a debt moratorium or comparable extraordinary restriction on the repayment of debt (whether or not in writing) with respect to the Water Series A-2 Notes, the Revolving Loan Note, the Term Loan Note, or any Modified Revenues Secured Debt or (ii) any Governmental Authority having appropriate jurisdiction over the District shall make a finding or ruling or shall enact or adopt legislation or issue an executive order or enter a judgment or decree which results in a debt moratorium or comparable extraordinary restriction on the repayment of debt with respect to the Water Series A-2 Notes, the Revolving Loan Note, the Term Loan Note or all debt of the District; or

(g) all of the Rating Agencies shall have (i) assigned to any Water Bonds or Water Note Parity Debt (if rated) a long-term unenhanced rating below Investment Grade, (ii) withdrawn their ratings of any Water Bonds or Water Note Parity Debt (if rated), other than as a result of debt maturity, redemption or defeasance or, in the case of Water Bonds or Water Note Parity Debt supported by credit enhancement, such withdrawal being attributable to the long-term ratings assigned to the related credit enhancer, and excluding any withdrawal which such Rating Agency stipulates in writing is being taken for non-credit related reasons or (iii) suspended their ratings of any Water Bonds or Water Note Parity Debt (if rated), other than as a result of debt maturity, redemption or defeasance or, in the case of any Water Bonds or Water Note Parity Debt supported by credit enhancement, such suspension being attributable to the long-term ratings assigned to the related credit enhancer, and excluding any suspension which such Rating Agency stipulates in writing is being taken for non-credit related reasons.

*Events of Default Resulting in Immediate Suspension.* The following Event of Default shall also constitute a "Suspension Event" under the BANA Credit Agreement:

(a) Any Governmental Authority with jurisdiction to rule on the validity or enforceability of the BANA Credit Agreement, the Act, the Resolution, the Issuing and Paying Agent Agreement, the Water Series A-2 Notes, the Revolving Loan Note or the Term Loan Note, shall find or rule, in a judicial or administrative proceeding, that any material provision of any of the foregoing relating to (i) the ability or the obligation of the District to pay, when due, the principal or interest payable on the Water Series A-2 Notes, the Revolving Loan Note or the Term Loan Note or (ii) the Lien on or pledge of Water Revenues securing the Water Series A-2 Notes is not valid or not binding on, or enforceable against, the District; or (b) the State of California (i) makes a claim in a judicial or administrative proceeding that the District has no further liability or obligation under the BANA Credit Agreement, the Act, the Resolution, the Issuing and Paying Agent Agreement, the Water Series A-2 Notes, the Revolving Loan Note or the Term Loan Note, as and to the extent the District has obligations thereunder, to pay, when due, the principal or interest payable on the Water Series A-2 Notes, the Revolving Loan Note or the Term Loan Note, or (ii) contests in a judicial or administrative proceeding the validity or enforceability of any provision of the BANA Credit Agreement, the Act, the Resolution, the Issuing and Paying Agent Agreement, the Water Series A-2 Notes, the Revolving Loan Note or the Term Loan Note secured by and relating to (A) the ability or the obligation of the District to pay, when due, the principal of or interest on the Water Series A-2 Notes, the Revolving Loan Note or the Term Loan Note or (B) the Lien on or pledge of Water Revenues securing the Water Series A-2 Notes, the Revolving Loan Note or the Term Loan Note, or (c) the District (i) makes a claim in a judicial or administrative proceeding that the District has no further liability or obligation under the BANA Credit Agreement, the Act, the Resolution, the Issuing and Paying Agent Agreement, the Water Series A-2 Notes, the Revolving Loan Note, the Term Loan Note or any Modified Revenues Secured Debt, as and to the extent the District has obligations thereunder, to pay, when due, the principal or interest payable on the Water Series A-2 Notes, the Revolving Loan Note, the Term Loan Note or any Modified Revenues Secured Debt, or (ii) contests in a judicial or administrative proceeding the validity or enforceability of any provision of the BANA Credit Agreement, the Act, the Resolution, the Issuing and Paying Agent Agreement, the Water Series A-2 Notes, the Revolving Loan Note, the Term Loan Note or any Modified Revenues Secured Debt secured by and relating to (A) the ability or the obligation of the District to pay, when due, the principal of or interest on the Water Series A-2 Notes, the Revolving Loan Note, the Term Loan Note or any Modified Revenues Secured Debt or (B) the Lien on or pledge of Water Revenues securing the Water Series A-2 Notes, the Revolving Loan Note, the Term Loan Note or any Modified Revenues Secured Debt.

*Events of Default not Resulting in Immediate Termination or Suspension.* Each of the following Events of Default shall also constitute a "Notice Event of Default" under the BANA Credit Agreement:

(a) the District shall fail to pay any other amount owed by the District under the BANA Credit Agreement or under the Fee Agreement as and when due (other than amounts described in paragraph (a) of the subheading "– *Events of Default Resulting in Immediate Termination*"), and such failure shall continue unremedied for ten (10) days after the later to occur of (x) the date such amount is due and (y) the date the District receives an invoice from BANA for such amount; or

(b) any representation or warranty made by or on behalf of the District in the BANA Credit Agreement or in any Related Document shall be incorrect or untrue in any material respect when made or deemed to have been made; or

(c) the District shall default in the due performance or observance of certain covenants set forth in the BANA Credit Agreement; or

(d) the District shall default in the due performance or observance of any other term, covenant or agreement contained in the BANA Credit Agreement and such default shall remain unremedied for a period of thirty (30) days after the earlier of (i) the date on which such failure shall first become known to any officer of the District or (ii) written notice thereof is given to the District by BANA; or

(e) the District shall fail to pay when due and payable (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise) any Water System Related Debt, the aggregate principal amount or notional amount of which is not less than $15,000,000, or any interest or premium thereon, and such failure shall continue beyond any applicable period of grace specified in any underlying resolution, indenture, contract or instrument providing for the creation or concerning any such Water System Related Debt; or any other default or "automatic termination event" shall occur under any resolution, indenture, contract or instrument providing for the creation of or concerning any such Water System Related Debt if such default or automatic termination event results in the acceleration of the maturity of such Water System Related Debt or requires such Water System Related Debt to become due prior to the stated maturity thereof or a termination payment to be paid in connection therewith, and either (i) the District shall fail to pay any such accelerated amount, amount required to be prepaid prior to the stated maturity thereof, or termination payment or (ii) the payment by the District of any such accelerated amount, amount required to be prepaid prior to maturity, or termination payment shall materially adversely affect the ability of the District to perform its obligations under the BANA Credit Agreement; or

(f) the long-term unenhanced ratings assigned to any Water Bonds by (x) any two Rating Agencies if all three Rating Agencies then rate Water Bonds or (y) any Rating Agency if only one or two Rating Agencies then rate Water Bonds, are reduced below "A-" (or its equivalent) by S&P, "A-" (or its equivalent) by Fitch or "A3" (or its equivalent) by Moody's, or are withdrawn or suspended by any such Rating Agency other than as a result of (i) debt maturity, redemption or defeasance or, in the case of Water Bonds supported by credit enhancement, such withdrawal or suspension being attributable to a long-term rating assigned to the related credit enhancer, (ii) a determination by the District to cease maintaining such rating and following such withdrawal or suspension the District is in compliance with the terms of the BANA Credit Agreement, or (iii) a failure by the District to apply for a rating by such Rating Agency or to provide information to such Rating Agency, in either case as a result of such Rating Agency's imposition or proposed imposition of a condition or conditions to issuing such rating with respect to which the District cannot legally comply; or

(g) the occurrence of any Issuing and Paying Agent Agreement Event of Default which is not cured within any applicable cure period; or

(h) any Governmental Authority shall declare a financial emergency with respect to the District and shall appoint or designate with respect to the District, an entity such as an organization, board, commission, authority, agency or body to manage the affairs and operations of the Water System; or

(i) a ruling, assessment, notice of deficiency or technical advice by the Internal Revenue Service shall be rendered to the effect that interest on the Water Series A-2 Notes is included in the gross income of the Owners of such Water Series A-2 Notes and either (i) the District, after it has been notified by the Internal Revenue Service, shall not challenge such ruling, assessment, notice or advice in a court of law during the period within which such challenge is permitted or (ii) the District shall challenge such ruling, assessment, notice or advice and a court of law shall make a determination, not subject to appeal or review by another court of law, that such ruling, assessment, notice or advice is correctly rendered; or

(j) the occurrence of any "default" resulting from a failure by the District to perform any of its obligations under any agreement or instrument providing credit enhancement or liquidity support with respect to any Revenues Secured Debt, or pursuant to which the related holder purchased and continues to hold the same, which default results in an acceleration of such Revenues Secured Debt or the District's obligations under such agreement or instrument or requires such Revenues Secured Debt to be prepaid prior to the stated maturity thereof.

*Remedies.* Upon the occurrence of an Event of Default under the BANA Credit Agreement, BANA may take one or more of the following actions:

(a) *Immediate Termination*. Upon the occurrence of any Special Event of Default, the Commitment shall be reduced to zero and BANA's obligations under the BANA Credit Agreement shall automatically and immediately terminate and expire, without notice, with respect to all Water Series A-2 Notes, and BANA shall have no obligation to make any Loans under the BANA Credit Agreement.

(b) *Suspension – Contest to Validity*. Upon the occurrence of the Suspension Event described under the subheading "*– Events of Default Resulting in Immediate Suspension,*" the obligation of BANA to make Loans under the BANA Credit Agreement shall be automatically and immediately suspended from the time of the occurrence of such Event of Default until a final, non-appealable judgment of a court having jurisdiction in the premises shall be entered declaring that all contested provisions of the BANA Credit Agreement, the Water Series A-2 Notes, the Revolving Loan Note, the Term Loan Note, the Issuing and Paying Agent Agreement, the Resolution or any Loans or the validity or enforceability of the pledge of the Available Water Revenues securing the Water Series A-2 Notes, the Revolving Loan Note, the Term Loan Note and the Loans are upheld in their entirety. In the event such judgment is entered declaring that all material contested provisions of the BANA Credit Agreement, the Water Series A-2 Notes, the Revolving Loan Note, the Term Loan Note, the Issuing and Paying Agent Agreement, the Resolution or any Loans or the validity or enforceability of the Available Water Revenues are upheld in their entirety, the obligation of BANA to make Loans under the BANA Credit Agreement shall be automatically reinstated and the terms of the BANA Credit Agreement will continue in full force and effect (unless the BANA Credit Agreement shall have otherwise expired or terminated in accordance with the terms of the BANA Credit Agreement or there has occurred a Special Event of Default) as if there had been no suspension. In the event any provision of the BANA Credit Agreement, the Water Series A-2 Notes, the Revolving Loan Note, the Term Loan Note, the Issuing and Paying Agent Agreement, the Resolution or any Loans or the validity or enforceability of the pledge of the Available Water Revenues securing the Water Series A-2 Notes and the Loans is declared to be null and void or unenforceable, or it is determined that the District has no liability or obligation under the BANA Credit Agreement, the Water Series A-2 Notes, the Revolving Loan Note, the Term Loan Note, the Issuing and Paying Agent Agreement, or the Resolution, then the obligations of BANA under the BANA Credit Agreement will terminate as set forth above. Notwithstanding the foregoing, if, upon the date which is the earlier of the Commitment Termination Date or nine months after the effective date of such suspension of the obligation of BANA pursuant to this paragraph, litigation is still pending and a judgment regarding the validity and enforceability of the BANA Credit Agreement, the Water Series A-2 Notes, the Revolving Loan Note, the Term Loan Note, the Issuing and Paying Agent Agreement, the Resolution or any Loans or the validity or enforceability of the Available Water Revenues securing the Water Series A-2 Notes, the Revolving Loan Note, the Term Loan Note and the Loans as is the subject of such Event of Default has not been obtained, then the Commitment and the obligation of BANA to make Loans under the BANA Credit Agreement shall at such time terminate without notice or demand.

(c) *Termination with Notice*. Upon the occurrence of an Event of Default that is not a Special Event of Default, BANA may, by notice to the District, terminate the Commitment, if any (except as provided below with respect to Water Series A-2 Notes issued and sold prior to such date), deliver a No-Issuance Notice to the Issuing and Paying Agent directing the Issuing and Paying Agent to cease issuing any Water Series A-2 Notes, whereupon no additional Water Series A-2 Notes shall be issued, the Available Commitment shall immediately be reduced to the then outstanding principal amount of Water Series A-2 Notes, and the Available Commitment shall be further reduced in a similar manner as and when such Water Series A-2 Notes mature such that, on the date all Water Series A-2 Notes issued and sold prior to the date such No-Issuance Notice is received by the Issuing and Paying Agent mature, the Commitment will be reduced to zero and terminated and the obligation of BANA to extend any further credit under the BANA Credit Agreement will be terminated; provided that the Commitment shall not terminate, and the right of BANA to accelerate the maturity of the Revolving Loan Note and the Term Loan Note, as applicable, described in paragraph (d) under this subheading "– *Remedies*" below shall not affect the obligation of BANA to make Loans to the extent necessary for the District to make required payments of principal on the Water Series A-2 Notes issued and sold prior to the date upon which the No-Issuance Notice is received by the Issuing and Paying Agent; provided further that if any Loans are made that would not have been made but for the application of the immediately preceding provision, such Loans shall be immediately due and payable on the date such Loans are made.

(d) *Additional Remedies*. In addition to the rights and remedies set forth in paragraphs (a), (b), and (c) above under this subheading "– *Remedies*," in the case of any Event of Default under the BANA Credit Agreement, other than an Event of Default described in paragraph (d) under the subheading "– *Events of Default Resulting in Immediate Termination*" above, BANA may declare the Revolving Loan Note, the Term Loan Note, all accrued interest thereon, and all other outstanding Obligations of the District to be forthwith due and payable, whereupon the Revolving Loan Note and the Term Loan Note and such interest and all such other Obligations shall become and be forthwith due and payable, without presentment, demand, protest or further notice of any kind, all of which are expressly waived by the District. If any Event of Default described in paragraph (d) under the subheading "– *Events of Default Resulting in Immediate Termination*" above shall occur, without any notice to the District or any other act by BANA, the Revolving Loan Note and the Term Loan Note, together with accrued interest thereon, and all other outstanding Obligations of the District shall become forthwith due and payable, without presentment, demand, protest, or other notice of any kind, all of which are waived by the District.

***Bank of America, N.A.*** *The following information has been furnished by BANA for use in this Offering Memorandum. Such information has not been independently confirmed or verified by the District. No representation is made herein by the District as to the accuracy or adequacy of such information or as to the absence of material adverse changes with respect to BANA or its financial condition subsequent to the date hereof, or that the information contained and incorporated herein by reference is correct.*

Bank of America, N.A. ("BANA") is a national banking association organized under the laws of the United States, with its principal executive offices located in Charlotte, North Carolina. BANA is a wholly-owned indirect subsidiary of Bank of America Corporation (the "Corporation") and is engaged in a general consumer banking, commercial banking and trust business, offering a wide range of commercial, corporate, international, financial market, retail and fiduciary banking services. As of June 30, 2015, BANA had consolidated assets of $1.61 trillion, consolidated deposits of $1.24 trillion and stockholder's equity of $201.39 billion based on regulatory accounting principles.

The Corporation is a bank holding company and a financial holding company, with its principal executive offices located in Charlotte, North Carolina. Additional information regarding the Corporation is set forth in its Annual Report on Form 10-K for the fiscal year ended December 31, 2014, together with its subsequent periodic and current reports filed with the Securities and Exchange Commission (the "SEC").

Filings can be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549, United States, at prescribed rates. In addition, the SEC maintains a website at *http://www.sec.gov* which contains reports, proxy statements and other information regarding registrants that file such information electronically with the SEC.

The information concerning the Corporation and BANA is furnished solely to provide limited introductory information and does not purport to be comprehensive. Such information is qualified in its entirety by the detailed information appearing in the referenced documents and financial statements referenced therein.

BANA will provide copies of the most recent Bank of America Corporation Annual Report on Form 10-K, any subsequent reports on Form 10-Q, and any required reports on Form 8-K (in each case as filed with the SEC pursuant to the Exchange Act), and the publicly available portions of the most recent quarterly Call Report of BANA delivered to the Comptroller of the Currency, without charge, to each person to whom this document is delivered, on the written request of such person. Written requests should be directed to:

Bank of America Corporate Communications
100 North Tryon St, 18th Floor
Charlotte, North Carolina 28255
Attention: Corporate Communication

LOANS MAY BE MADE UNDER THE BANA CREDIT AGREEMENT TO PAY PRINCIPAL ON MATURING WATER SERIES A-2 NOTES IN THE EVENT OTHER FUNDS ARE NOT AVAILABLE. ALTHOUGH THE BANA CREDIT AGREEMENT IS A BINDING OBLIGATION OF BANA, THE WATER SERIES A-2 NOTES ARE NOT DEPOSITS OR OBLIGATIONS OF THE CORPORATION OR ANY OF ITS AFFILIATED BANKS AND ARE NOT GUARANTEED BY ANY OF THESE ENTITIES. THE WATER SERIES A-2 NOTES ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENTAL AGENCY AND ARE SUBJECT TO CERTAIN INVESTMENT RISKS, INCLUDING POSSIBLE LOSS OF THE PRINCIPAL AMOUNT INVESTED.

The delivery of this information shall not create any implication that there has been no change in the affairs of the Corporation or BANA since the date of the most recent filings referenced herein, or that the information contained or referred to under this subheading "*– Bank of America, N.A.*" is correct as of any time subsequent to the referenced date.

**Alternate or Substitute Liquidity Facilities**

The District has covenanted pursuant to the Issuing and Paying Agent Agreement that it will maintain in effect one or more Liquidity Facilities enabling it to borrow an aggregate amount at least equal to the sum of the principal amount of each series or subseries of Commercial Paper Notes then Outstanding under the Issuing and Paying Agent Agreement.

The District shall cause the Issuing and Paying Agent to give the Dealers and the Owners of the relevant subseries of the Water Series A Notes written notice of the proposed delivery of a substitute or alternate liquidity facility for a subseries of the Water Series A Notes not less than 30 days prior to the proposed delivery of the substitute or alternate Liquidity Facility (unless 30 days' notice is not practical, in which case notice will be given as soon as practical). Any such substitute or alternate Liquidity Facility for a subseries of the Water Series A Notes must go into effect on a date on which all of the Outstanding Water Series A Notes of the applicable subseries to be supported thereby then Outstanding are scheduled to mature.

## RATINGS

The following table sets forth the ratings assigned by Standard & Poor's Ratings Services ("S&P") and Moody's Investors Service, Inc. ("Moody's") to the Water Series A Notes and the ratings assigned by S&P, Moody's and Fitch Ratings, Inc. ("Fitch") to the District's outstanding unenhanced senior Water Bonds. These ratings reflect only the view of such organizations and an explanation of the significance of the ratings may be obtained from such agencies as follows: Standard & Poor's Ratings Services, 55 Water Street, 38th Floor, New York, New York 10041; Fitch Ratings, Inc., 33 Whitehall Street, New York, New York 10004; and Moody's Investors Service, Inc., 7 World Trade Center, at 250 Greenwich Street, New York, New York 10007. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating agency, if in the judgment of such rating agency circumstances so warrant. Any such revision or withdrawal may have an adverse effect on the market price of the Water Series A Notes.

| | S&P | Moody's | Fitch |
|---|---|---|---|
| Water Series A Notes: | | | |
| Tax-Exempt Subseries A-1 | A-1+ | P-1 | N/A(1) |
| Tax-Exempt Subseries A-2 | A-1+ | P-1 | N/A(1) |
| Senior Water Bonds: | AAA | Aa1 | AA+ |

(1) No ratings were requested from Fitch in connection with the Water Series A Notes.

## TAX MATTERS

The following is a summary of certain of the United States federal income tax consequences of the ownership of the Water Series A Notes as of the date hereof. Each prospective investor should consult with its own tax advisor regarding the application of United States federal income tax laws, as well as any state, local, foreign or other tax laws, to its particular situation.

On December 2, 2015, Orrick, Herrington & Sutcliffe LLP, San Francisco, California, Special Tax Counsel to the Dealers, will deliver its opinion that, based on an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Water Series A Notes, when issued in accordance with the Issuing and Paying Agent Agreement and the Tax Certificate of the District (the "Tax Certificate"), will be excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and will be exempt from State of California personal income taxes. Special Tax Counsel's opinion will also state that interest on the Water Series A Notes is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Special Tax Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. The form of such opinion is included in Appendix B hereto.

Notice 94-84, 1994-2 C.B. 559, states that the Internal Revenue Service (the "IRS") is studying whether the amount of the payment at maturity on short-term debt obligations *(i.e.,* debt obligations with a stated fixed rate of interest which mature not more than one year from the date of issue) that is excluded from gross income for federal income tax purposes is (i) the stated interest payable at maturity or (ii) the difference between the issue price of the short-term debt obligations and the aggregate amount to be paid at maturity of the short-term debt obligations (the "original issue discount"). For this purpose, the issue price of the short-term debt obligations is the first price at which a substantial amount of the short-term debt obligations is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). Until the IRS provides further guidance with respect to tax-exempt short-term debt obligations, taxpayers may treat either the stated interest payable at maturity or the original issue discount as interest that is excluded from gross income for federal income tax purposes. However, taxpayers must treat the amount to be paid at maturity on all tax-exempt short-term debt obligations in a consistent manner. Prospective purchasers of the Water Series A Notes should consult their own tax advisors with respect to the tax consequences of ownership of Water Series A Notes if the owner elects original issue discount treatment.

Water Series A Notes purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Notes") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of notes, like the Premium Notes, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and an owner's basis in a Premium Note, will be reduced by the amount of amortizable bond premium properly allocable to such owner. Owners of Premium Notes should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Water Series A Notes. The District has made certain representations and has covenanted to comply with certain restrictions, conditions and requirements designed to ensure that the interest on the Water Series A Notes will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Water Series A Notes being included in gross income for federal income tax purposes, possibly from the date of first issuance of the Water Series A Notes. The opinion of Special Tax Counsel assumes the accuracy of these representations and compliance with these covenants. Special Tax Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring) or any other matters coming to Special Tax Counsel's attention after December 2, 2015 (the date of delivery of its special tax counsel opinion with respect to the Water Series A Notes) may adversely affect the value of, or the tax status of interest on, the Water Series A Notes. Accordingly, the opinion of Special Tax Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Special Tax Counsel will render an opinion on December 2, 2015 that interest on the Water Series A Notes, when issued in accordance with the Issuing and Paying Agent Agreement and the Tax Certificate, will be excluded from gross income for federal income tax purposes and exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Water Series A Notes may otherwise affect the owner's federal, state or local tax liability. The nature and extent of these other tax consequences depend upon the owner's particular tax status and the owner's other items of income or deduction. Special Tax Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Water Series A Notes to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent owners from realizing the full current benefit of the tax status of such interest. For example, the Obama Administration's budget proposals in recent years have proposed legislation that would limit the exclusion from gross income of interest on obligations like the Water Series A Notes to some extent for high income individuals. The introduction or enactment of any such future legislative proposals, or clarification of the Code or court decisions, may also affect, perhaps significantly, the market price for, or marketability of, the Water Series A Notes. Prospective purchasers of the Water Series A Notes should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Special Tax Counsel expresses no opinion.

The opinion of Special Tax Counsel to be delivered on December 2, 2015 will be based on then current legal authority, will cover certain matters not directly addressed by such authorities, and will represent Special Tax Counsel's judgment as to the proper treatment of interest on the Water Series A Notes for federal income tax purposes. It is not binding on the IRS or the courts. Furthermore, Special Tax Counsel cannot give and has not given any opinion or assurance about the activities of the District after the date of such opinion, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The District has covenanted, however, to comply with the requirements of the Code.

Unless separately engaged, Special Tax Counsel is not obligated to defend the District or the owners of the Water Series A Notes regarding the tax-exempt status of the Water Series A Notes in the event of an audit examination by the IRS. Under current procedures, parties other than the District and its appointed counsel, including the owners of the Water Series A Notes, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the District legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Water Series A Notes for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Water Series A Notes, and may cause the District or the owners of the Water Series A Notes to incur significant expense.

## LITIGATION

There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, public board or body pending, or to the best knowledge of the District, threatened in any way (i) seeking to restrain or enjoin the issuance, sale or delivery of any of the Water Series A Notes or (ii) challenging the validity of the Water Series A Notes.

At any given time, there are certain claims and disputes, including any presently in litigation, that arise in the normal course of the District's operations and activities, including challenges over certain rates and charges. In the opinion of the District's management and General Counsel, there are no pending actions that are likely to have a material adverse effect on the District's ability to pay the Water Series A Notes when due.

## CERTAIN LEGAL MATTERS

Norton Rose Fulbright US LLP, Los Angeles, California, and Curls Bartling P.C., Oakland, California, have served as Co-Bond Counsel to the District in connection with the authorization of the Water Series A Notes. Orrick, Herrington & Sutcliffe LLP, San Francisco, California, has served as

Special Tax Counsel to the Dealers in connection with the Water Series A Notes. The forms of opinions to be delivered by Co-Bond Counsel and Special Tax Counsel with respect to the Water Series A Notes are included in Appendix B to this Offering Memorandum.

## DEALERS

Goldman, Sachs & Co., J.P. Morgan Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Morgan Stanley & Co. LLC (collectively, the "Dealers") have been appointed to initially serve as dealers for the Water Series A Notes.

Morgan Stanley, parent company of Morgan Stanley & Co. LLC, one of the Dealers for the Water Series A Notes, has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Water Series A Notes.

## RELATED PARTIES

Merrill Lynch, Pierce, Fenner & Smith Incorporated, one of the Dealers for the Water Series A Notes, and Bank of America, N.A, the provider of the BANA Credit Agreement for the Water Series A-2 Notes, are both wholly-owned, indirect subsidiaries of Bank of America Corporation.

## OTHER MATTERS

The Dealers have provided the following sentence for inclusion in this Offering Memorandum. The Dealers have reviewed the information in this Offering Memorandum in accordance with, and as part of, their responsibility to investors under the federal securities law as applied to the facts and circumstances of this transaction, but the Dealers do not guarantee the accuracy or completeness of such information.

No Dealer or other person has been authorized by the District to give any information or to make any representations other than those contained in this Offering Memorandum, and if given or made, such other information or representations must not be relied upon as having been authorized by the District.

The references herein to the Issuing and Paying Agent Agreement, the Initial Liquidity Facilities and other documents referred to herein do not purport to be complete or definitive, do not constitute summaries thereof, and are qualified in their entirety by reference to the provisions thereof.

Any statements in this Offering Memorandum involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Offering Memorandum is not to be construed as a contract or agreement between the District and the purchasers or registered owners of any of the Water Series A Notes.

The Water Series A Notes are exempt from the continuing disclosure requirements of the Securities Exchange Commission Rule 15c2-12, and the District has not undertaken to provide any secondary market information regarding the Water Series A Notes. As described under "FURTHER INFORMATION AVAILABLE" on the inside cover of this Offering Memorandum, the District files official statements and continuing disclosure reports and notices with respect to its Water Bonds through the MSRB. Such filings may be accessed through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at *http://emma.msrb.org*. Such filings are not incorporated by reference herein.

The financial statements of the District for the fiscal year ended June 30, 2015 and the forms of opinions to be delivered by Co-Bond Counsel and Special Tax Counsel are attached hereto as Appendices. The District will provide upon request copies of its most recent audited financial statements, official statements concerning the District's Water Bonds, the Issuing and Paying Agent Agreement and the Initial Liquidity Facilities. For additional information please contact the following:

**EAST BAY MUNICIPAL UTILITY DISTRICT**
Attention: Director of Finance
375 Eleventh Street
Oakland, California 94607
(866) 403-2683

# APPENDIX A

## EAST BAY MUNICIPAL UTILITY DISTRICT
## AUDITED FINANCIAL STATEMENTS

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**EAST BAY MUNICIPAL UTILITY DISTRICT**

**BASIC FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

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**EAST BAY MUNICIPAL UTILITY DISTRICT**
**BASIC FINANCIAL STATEMENTS**
**For the Years Ended June 30, 2015 and 2014**

**Table of Contents**

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MAZE & ASSOCIATES

# 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, 2015 and 2014, 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.

**Accountancy Corporation**
3478 Buskirk Avenue, Suite 215
Pleasant Hill, CA 94523

T 925.930.0902
F 925.930.0135
E maze@mazeassociates.com
W **mazeassociates.com**

***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, 2015 and 2014, 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, 2015 and required the restatement of net position as discussed in Note 1R to the financial statements:

Statement No. 68 – Accounting and Financial Reporting for Pensions

Statement No. 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date

The emphasis of this matter does not constitute modifications to our opinion.

***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 August 27, 2015 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.

Maze + Associates

Pleasant Hill, California
August 27, 2015

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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, 2015. 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 1.4 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.

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 75 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 79 to 82 of this report.

## FINANCIAL ANALYSIS

### *Financial Highlights*

In fiscal year 2015, 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 District implemented Government Accounting Standards Board (GASB) Statement No. 68 - Accounting and Financial Reporting for Pensions that created a $477 million decrease of prior period adjustment in net position. 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 $1.3 billion (*net position*).

Net position increased by $87 million or 5% during the fiscal year before $477 million decrease of prior period adjustment in net position per implementation of GASB 68.

Capital assets increased by $121 million or 3% to $4.4 billion.

Operating revenue increased by $2 million or 0.4% to $464 million.

Operating expense decreased by $21 million or 5% to $385 million.

Non-operating net expense decreased by $4 million or 6% to ($66) million.

Capital contributions, consisting of capital facility fees, increased by $24 million or 49% from the prior fiscal year.

### *Financial Position*

In the current year, the District's total net position increased by $87 million or 5% during the fiscal year before $477 million decrease in prior period adjustment per implementation of GASB 68. Current and other assets increased by $79 million or 10%. Capital assets increased by $121 million or 3%. By far the largest portion of the District's net position, 82% or $1.0 billion, represents its investment in capital assets necessary to provide services.

- The Water System's net position increased by $76 million or 6% during the year ended June 30, 2015 before $401 million decrease in prior period adjustment per implementation of GASB 68.
- The Wastewater System's net position increased by $11 million or 4% during the year ended June 30, 2015 before $76 million decrease in prior period adjustment per implementation of GASB 68.

In the previous fiscal 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.

Table 1 shows the District's net position for the fiscal years ended June 30, 2015, 2014 and 2013:

**Table 1**
Net Position
Water and Wastewater
June 30, 2015 and 2014
(In thousands)

| | 2015 | 2014 | Variance | % |
|---|---|---|---|---|
| Current and other assets | $ 866,777 | 788,030 | 78,747 | 10% |
| Capital assets | 4,366,034 | 4,244,628 | 121,406 | 3% |
| Deferred outflow of resources | 104,496 | 45,753 | 58,743 | 128% |
| Total assets and deferred outflow | 5,337,307 | 5,078,411 | 258,896 | 5% |
| Current and other liabilities | 677,370 | 211,351 | 466,019 | 220% |
| Long-term liabilities | 3,256,459 | 3,133,074 | 123,385 | 4% |
| Deferred inflow of resources | 129,827 | 70,304 | 59,523 | 85% |
| Total liabilities and deferred inflow | 4,063,656 | 3,414,729 | 648,927 | 19% |
| Net position: | | | | |
| Net investment in capital assets | 1,047,315 | 1,083,394 | (36,079) | (3)% |
| Restricted | 276,009 | 297,740 | (21,731) | (7)% |
| Unrestricted | (49,673) | 282,548 | (332,221) | (118)% |
| Total net position | $ 1,273,651 | 1,663,682 | (390,031) | (23)% |

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

| | 2014 | 2013 | Variance | % |
|---|---|---|---|---|
| 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 | 5,078,411 | 5,042,816 | 35,595 | 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 | 3,414,729 | 3,414,266 | 463 | 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 | $ 1,663,682 | 1,628,550 | 35,132 | 2% |

***Results of Operations***

In the current fiscal year, the District's total operating revenue of $464 million for the year increased by $2 million and total operating expense of $385 million for the year decreased by $21 million. The change in net position (including capital contributions) increased from $35 million in the previous fiscal year to $87 million in the current fiscal year. The District's total net position decreased from $1,664 million to $1,274 million during the current fiscal year after $477 million prior period adjustment per implementation of GASB 68.

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

- Water revenues decreased by $5 million, mainly reflecting an 11.4% decrease in billed water consumption offset by a 9.5% water rate increase in the current fiscal year.
- Wastewater revenues increased by $4 million, mainly reflecting an 8.5% rate increase in the current fiscal year.
- Operating expense decreased by $21 million, primarily as a result of negative $21 million pension expense per implementation of GASB 68 in fiscal year 2015. Due to the current drought raw water expenses increased by of $2 million and water treatment and distribution expenses increased by $2 million as a result of purchase of supplement water supply and additional expenses incurred to treat local reservoir water. General administration expenses decreased by $12 million primarily as a result of a $5 million decrease in amortization expenses and additional $10 million capitalized administration expenses.
- Non-operating net expense decreased by $4 million primarily due to the $3 million increase in bond interest expense paid for advance refunding offset by the $8 million reclassification of the change of equity in JPA partnership fund from amortization expense to non-operating expense in the prior fiscal year.
- Capital contributions increased by $24 million primarily reflecting an increase of $11 million in system capacity charges and $12 million in earned contributions on constructions received in current fiscal year compared to the prior year. Page 16 contains additional capital contributions information.

In the previous 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 change in net position (including capital contributions) decreased from $37 million in fiscal year 2013 to $35 million fiscal year 2014. The District's total net position increased from $1,629 million to $1,664 million during fiscal year 2014.

The major components of the District's results of operations in fiscal year 2014 were:

- Water revenues increased by $31 million, mainly reflecting a 9.75% water rate increase in fiscal year 2014.
- Wastewater revenues increased by $4 million, mainly reflecting a 9% rate increase in fiscal year 2014.
- Power revenues decreased by $2 million over fiscal year 2013 due to lower precipitation and run-off for power generation in fiscal year 2014 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 fiscal year 2014 compared to the prior year. Page 16 contains additional capital contributions information.

Table 2 shows changes in the District's net position for the fiscal years ended June 30, 2015, 2014, and 2013:

**Table 2**
Changes in Net Position
Water and Wastewater
June 30, 2015 and 2014
(In thousands)

| | 2015 | 2014 | Variance | % |
|---|---|---|---|---|
| Operating Revenue: | | | | |
| Water | $ 362,136 | 367,547 | (5,411) | (1)% |
| Sewer | 76,417 | 72,345 | 4,072 | 6% |
| Power | 3,303 | 2,479 | 824 | 33% |
| Wet weather facilities charges | 21,809 | 19,389 | 2,420 | 12% |
| Total operating revenue | 463,665 | 461,760 | 1,905 | 0% |
| Operating Expense: | | | | |
| Raw water | 43,538 | 41,066 | 2,472 | 6% |
| Water treatment & distribution | 100,015 | 97,610 | 2,405 | 2% |
| Recreation areas, net | 5,294 | 5,166 | 128 | 2% |
| Sewer lines & pumps | 13,943 | 13,658 | 285 | 2% |
| Sewer treatment plant operations | 32,478 | 31,748 | 730 | 2% |
| Customer accounting & collecting | 19,869 | 20,323 | (454) | (2)% |
| Financial and risk management | 19,308 | 17,019 | 2,289 | 13% |
| Facilities management | 6,858 | 9,054 | (2,196) | (24)% |
| General administration | 45,692 | 57,724 | (12,032) | (21)% |
| Pension expense | (20,596) | — | (20,596) | N/A |
| Depreciation (excluding amounts reported within the Water and Wastewater operations) | 118,309 | 112,662 | 5,647 | 5% |
| Total operating expense | 384,708 | 406,030 | (21,322) | (5)% |
| Net operating income (expense) | 78,957 | 55,730 | 23,227 | 42% |
| Nonoperating income (expense): | | | | |
| Investment income | 3,810 | 2,512 | 1,298 | 52% |
| Taxes & subventions | 36,390 | 35,373 | 1,017 | 3% |
| Interest & amortization of bond expenses, net | (124,347) | (121,069) | (3,278) | 3% |
| Increase (decrease) of Equity in JPA partnership fund | (360) | (8,146) | 7,786 | (96)% |
| Other income | 18,169 | 20,501 | (2,332) | (11)% |
| Total nonoperating income (expense), net | (66,338) | (70,829) | 4,491 | (6)% |
| Income (loss) before contributions | 12,619 | (15,099) | 27,718 | (184)% |
| Capital contributions | 74,596 | 50,231 | 24,365 | 49% |
| Change in net position | 87,215 | 35,132 | 52,083 | 148% |
| Total net position – beginning | 1,663,682 | 1,628,550 | 35,132 | 2% |
| Prior period adjustment per implementation of GASB 68 | (477,246) | — | (477,246) | N/A |
| Total net position – ending | $ 1,273,651 | 1,663,682 | (390,031) | (23)% |

**Table 2 (Continued)**
Changes in Net Position
Water and Wastewater
June 30, 2014 and 2013
(In thousands)

| | 2014 | 2013 | Variance | % |
|---|---|---|---|---|
| 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 | 461,760 | 426,726 | 35,034 | 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) | 112,662 | 109,162 | 3,500 | 3% |
| Total operating expense | 406,030 | 384,652 | 21,378 | 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 | (70,829) | (62,536) | (8,293) | 13% |
| Loss before contributions | (15,099) | (20,462) | 5,363 | (26)% |
| Capital contributions | 50,231 | 57,388 | (7,157) | (12)% |
| Change in net position | 35,132 | 36,926 | (1,794) | (5)% |
| Total net position – beginning | 1,628,550 | 1,591,624 | 36,926 | 2% |
| Total net position – ending | $ 1,663,682 | 1,628,550 | 35,132 | 2% |

### *Liquidity*

The District had $570 million in combined current and non-current District Cash and Investments as of June 30, 2015, an increase of $82 million compared to $488 million as of June 30, 2014. Components of cash and investments for the year ended June 30, 2015 were:

- Water System total combined current and non-current Cash and Investments increased by $86 million or 22% from $392 million as of June 30, 2014 to $478 million as of June 30, 2015. Net increase (decrease) in cash and cash equivalents increased by $126 million compared to the prior year. This was primarily due to an increase of $80 million from capital and related financing activities as a result of new revenue bonds issuances and an increase of $63 million from the reallocation of investments between short-term and long-term, offset by decrease of $19 million in cash provided from operating activities. Net increase (decrease) in investments decreased by $61 million also primarily due to reallocation of investments between short-term and long-term.

- Wastewater System Total combined current and non-current Cash and Investments decreased by $4 million or 4% from $96 million as of June 30, 2014 to $92 million as of June 30, 2015. Net increase (decrease) in cash and cash equivalents increased by $12 million or 73% compared to the prior year. This was primarily due to an increase of $3 million in net cash provided by operating activities and an increase of $7 million from the reallocation of investments between short-term and long-term. Net increase (decrease) in investments decreased by $7 million, primarily due to the aforementioned reallocation of investments between short-term and long-term.

Table 3 shows the District's cash flow for the fiscal years ended June 30, 2015, 2014 and 2013:

**Table 3**
Cash Flows
Water and Wastewater System
June 30, 2015 and 2014
(In thousands)

| | 2015 | 2014 | Variance | % |
|---|---|---|---|---|
| Cash and cash equivalents: | | | | |
| Beginning of year | $ 247,517 | 217,601 | 29,916 | 14% |
| Net cash provided by operating activities | 218,125 | 234,083 | (15,958) | (7)% |
| Net cash provided by financing activities | 36,390 | 35,373 | 1,017 | 3% |
| Net cash provided by (used in) capital and related financing activities | (177,188) | (260,545) | 83,357 | (32)% |
| Net cash provided by (used in) investing activities | 90,987 | 21,005 | 69,982 | 333% |
| Net increase (decrease) in cash and cash equivalents | 168,314 | 29,916 | 138,398 | 463% |
| End of period | 415,831 | 247,517 | 168,314 | 68% |
| Investments: | | | | |
| Beginning of year | 240,718 | 259,341 | (18,623) | (7)% |
| Net increase (decrease) in investments | (87,036) | (18,623) | (68,413) | 367% |
| End of period | 153,682 | 240,718 | (87,036) | (36)% |
| Total District Cash and Investments | $ 569,513 | 488,235 | 81,278 | 17% |

**Table 3 (Continued)**
Cash Flows
Water and Wastewater System
June 30, 2014 and 2013
(In thousands)

| | 2014 | 2013 | Variance | % |
|---|---|---|---|---|
| Cash and cash equivalents: | | | | |
| Beginning of year | $ 217,601 | 211,239 | 6,362 | 3% |
| 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% |
| End of period | 247,517 | 217,601 | 29,916 | 14% |
| Investments: | 240,718 | 259,341 | (18,623) | (7)% |
| Total District Cash and Investments | $ 488,235 | 476,942 | 11,293 | 2% |

### *Cash and Investments by Fund*

In fiscal years 2015 and 2014, 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 $10 million in revenues in the rate stabilization fund, additional $3 million in working capital, additional $91 million in capital reserve, and released $17 million debt service reserve fund due to revenue bonds' refunding. Wastewater System reserved an additional $7 million in revenues in the rate stabilization fund, used $7 million in capital reserve to fund capital projects and equipment, released $3 million in debt service reserve fund due to refunding of the related revenue bonds, and released $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 $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.

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, 2015, 2014 and 2013:

**Table 4**

Cash and Investment by Fund

Water and Wastewater

June 30, 2015 and 2014

(In thousands)

| | Water System 2015 | Water System 2014 | Wastewater System 2015 | Wastewater System 2014 | Total 2015 | Total 2014 | Increase (decrease) Amount | Increase (decrease) % |
|---|---|---|---|---|---|---|---|---|
| Unrestricted cash and investment | | | | | | | | |
| Operating reserves: | | | | | | | | |
| Rate stabilization fund | $ 95,000 | 85,000 | 24,090 | 17,590 | 119,090 | 102,590 | 16,500 | 16% |
| Working capital reserve | 61,700 | 59,200 | 15,800 | 15,200 | 77,500 | 74,400 | 3,100 | 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 | 164,900 | 152,400 | 42,190 | 35,090 | 207,090 | 187,490 | 19,600 | 10% |
| Capital reserves: | | | | | | | | |
| Reserved for capital projects | 262,074 | 174,307 | 30,239 | 36,836 | 292,313 | 211,143 | 81,170 | 38% |
| Reserve funded CIP - Wastewater | — | — | 14,472 | 14,430 | 14,472 | 14,430 | 42 | 0% |
| Vehicle replacements | 7,600 | 4,625 | — | — | 7,600 | 4,625 | 2,975 | 64% |
| Equipment replacements | 157 | 310 | 4,858 | 4,907 | 5,015 | 5,217 | (202) | (4)% |
| Total capital reserves | 269,831 | 179,242 | 49,569 | 56,173 | 319,400 | 235,415 | 83,985 | 36% |
| Total Unrestricted cash and investment | 434,731 | 331,642 | 91,759 | 91,263 | 526,490 | 422,905 | 103,585 | 24% |
| Restricted Cash and Investments | | | | | | | | |
| Bond interest and redemption fund | 796 | 848 | 87 | 109 | 883 | 957 | (74) | (8)% |
| Debt service reserve fund | 12,672 | 29,368 | — | 2,538 | 12,672 | 31,906 | (19,234) | (60)% |
| Funds received for construction | 26,709 | 27,447 | — | 2,214 | 26,709 | 29,661 | (2,952) | (10)% |
| FERC partnerhsip fund | 2,225 | 2,247 | — | — | 2,225 | 2,247 | (22) | (1)% |
| Monetary reserve | 534 | 534 | — | — | 534 | 534 | — | 0% |
| ABAG program restricted fund | — | 25 | — | — | — | 25 | (25) | (100)% |
| Total restricted cash and investments | 42,936 | 60,469 | 87 | 4,861 | 43,023 | 65,330 | (22,307) | (34)% |
| Total District Cash and Investments | $ 477,667 | 392,111 | 91,846 | 96,124 | 569,513 | 488,235 | 81,278 | 17% |

Cash and Investment by Fund

Water and Wastewater

June 30, 2014 and 2013

(In thousands)

| | Water System 2014 | Water System 2013 | Wastewater System 2014 | Wastewater System 2013 | Total 2014 | Total 2013 | Increase (decrease) Amount | Increase (decrease) % |
|---|---|---|---|---|---|---|---|---|
| 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 partnerhsip 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% |

### *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.

System capacity charges increased by $11 million and earned contributions on construction increased by $12 million due to rising development activities as the housing industry continues its rebound from the most recent recession.

Table 5 shows the District's capital contributions received for the fiscal years ended June 30, 2015, 2014 and 2013:

**Table 5**
Capital Contributions
Water and Wastewater
June 30, 2015 and 2014
(In thousands)

| | Water System | | Wastewater System | | Total | | Increase (decrease) | |
|---|---|---|---|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** | **2015** | **2014** | **Amount** | **%** |
| System capacity charges | $ 29,725 | 20,365 | 2,786 | 806 | 32,511 | 21,171 | 11,340 | 54% |
| Earned contributions on construction | 17,083 | 5,240 | — | — | 17,083 | 5,240 | 11,843 | 226% |
| Seismic improvement surcharge | 22,164 | 22,682 | — | — | 22,164 | 22,682 | (518) | (2)% |
| Grants and other reimbursements | 2,557 | 752 | 281 | 386 | 2,838 | 1,138 | 1,700 | 149% |
| Totals | $ 71,529 | 49,039 | 3,067 | 1,192 | 74,596 | 50,231 | 24,365 | 49% |

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

| | Water System | | Wastewater System | | Total | | Increase (decrease) | |
|---|---|---|---|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** | **Amount** | **%** |
| 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)% |
| Totals | $ 49,039 | 55,791 | 1,192 | 1,597 | 50,231 | 57,388 | (7,157) | (12)% |

## CAPITAL ASSETS

Table 6 shows the District's capital assets for the fiscal years ended June 30, 2015, 2014 and 2013:

**Table 6**

Capital Assets, Net of Depreciation
Water and Wastewater
June 30, 2015 and 2014
(In thousands)

| | Water System | | Wastewater System | | Total | | Increase/(decrease) | |
|---|---|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | Amount | % |
| Structures, buildings, and equipment | $ 3,316,559 | 3,269,155 | 595,549 | 597,687 | 3,912,108 | 3,866,842 | 45,266 | 1.2% |
| Land and rights of way | 58,445 | 55,274 | 21,017 | 20,231 | 79,462 | 75,505 | 3,957 | 5.2% |
| Construction work in progress | 309,445 | 243,219 | 65,019 | 59,062 | 374,464 | 302,281 | 72,183 | 23.9% |
| Totals | $ 3,684,449 | 3,567,648 | 681,585 | 676,980 | 4,366,034 | 4,244,628 | 121,406 | 2.9% |

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

| | Water System | | Wastewater System | | Total | | Increase/(decrease) | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | Amount | % |
| 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 | 243,219 | 252,473 | 59,062 | 100,321 | 302,281 | 352,794 | (50,513) | (14.3)% |
| Totals | $ 3,567,648 | 3,484,655 | 676,980 | 666,551 | 4,244,628 | 4,151,206 | 93,422 | 2.3% |

The District had $4.4 billion (net of accumulated depreciation) invested in a broad range of utility capital assets as of June 30, 2015. Total capital assets were $4.2 billion 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, 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 $121 million or 2.9% over the prior fiscal year. In fiscal year 2014, capital assets increased $93 million or 2.3% over fiscal year 2013. Annual changes are consistent with the District's capital improvement program.

The Water System had $3.7 billion (net of accumulated depreciation) invested in a broad range of utility capital assets as of June 30, 2015. 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 $682 million (net of accumulated depreciation) invested in a broad range of utility capital assets as of June 30, 2015. 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:** | | |
| Large Diameter Pipelines | $ | 45,821 |
| Pumping Plant Rehabilitation | | 44,802 |
| Pipeline Infrastruct Renewals | | 32,710 |
| Treatment Plant Upgrades | | 19,658 |
| Adm Bldg Modifications | | 14,249 |
| Reservoir Rehab/Maintenance | | 12,745 |
| Summit Pressure Zone Improve | | 10,182 |
| SRV Recycled Water Program | | 9,979 |
| Addl Supplemental Supply Projs | | 9,463 |
| WTTIP WTP Improvements | | 7,746 |
| Open Cut Reservoir Rehab | | 7,499 |
| Water Conservation Project | | 5,743 |
| Pipeline System Improvements | | 5,695 |
| Pipeline Relocations | | 5,481 |
| Dam Seismic Upgrades | | 5,479 |
| Raw Water Studies and Improves | | 3,698 |
| West of Hills Transmission | | 3,577 |
| Srvc Latl Repl Polybutylene | | 3,434 |
| Pardee/Cam Rec Areas Impr Plan | | 3,271 |
| Distribution System Upgrades | | 3,033 |
| **Wastewater System:** | | |
| Wood St Sewer Intercept Rehab | $ | 15,932 |
| Infiltration/Inflow Contrl Prj | | 12,554 |
| Treatment Plant Infrastructure | | 12,499 |
| Routine Cap Equip Replacement | | 5,510 |
| Wet Weather Plant Imprmts | | 4,104 |
| PGS Expansion | | 1,596 |
| Versailles Interceptor Rehab | | 1,593 |
| Resource Recovery Project | | 1,562 |
| MWWTP Master Plan | | 1,469 |
| Concrete Rehab at SD1 | | 1,275 |
| Digester Upgrade | | 1,169 |

## DEBT ADMINISTRATION

The District had total long-term debt outstanding of $3.3 billion as of June 30, 2015, a 5% increase from June 30, 2014. Total long-term debt outstanding was $3.2 billion as of June 30, 2014, a 1% increase from June 30, 2013. Components of the District's long-term debt portfolio as of June 30, 2015 are:

- The Water System had total long-term debt outstanding of $2.9 billion. During fiscal year 2015, the District issued a total of $614 million Water System Revenue Bonds, of which $429 million was issued to refund a total of $496 million Water System Subordinated Revenue Refunding Bond Series 2005A, 2007A, and 2009A.
- The Wastewater System had total long-term debt outstanding of $446 million. During fiscal year 2015, the District issued $156 million of Wastewater System Revenue Bonds to refund a total of $169 million Wastewater System Subordinated Revenue Refunding Bonds Series 2007A, 2008C and 2011A.

Table 7 shows the District's long-term debt outstanding for the fiscal years ended June 30, 2015, 2014 and 2013:

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

| | Water System | | Wastewater System | | Total | | Increase (decrease) | |
|---|---|---|---|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** | **2015** | **2014** | **Amount** | **%** |
| General obligation bonds | $ — | — | 11,500 | 15,225 | 11,500 | 15,225 | (3,725) | (24)% |
| Revenue bonds | 2,497,539 | 2,330,450 | 419,884 | 424,748 | 2,917,423 | 2,755,198 | 162,225 | 6% |
| Extendable commercial paper | 359,800 | 359,800 | 15,000 | 15,000 | 374,800 | 374,800 | — | 0% |
| Loans | 14,996 | 16,011 | — | — | 14,996 | 16,011 | (1,015) | (6)% |
| Totals | $ 2,872,335 | 2,706,261 | 446,384 | 454,973 | 3,318,719 | 3,161,234 | 157,485 | 5% |

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% |

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 6/30/2015, the coverage ratio for Water was 1.66 and for Wastewater was 1.75; the overall District's ratio was 1.68.

*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 6/30/2015, the percentage of debt-funded capital spending for Water was 59% and for Wastewater was 74%; the overall District's percentage was 62%.

*Extended Commercial Paper and Un-hedged Variable Rate Debt*: Limit to 25% of outstanding long-term debt. As of 6/30/2015, the percentage of extended commercial paper and un-hedged variable rate debt compared to total outstanding long-term debt for Water was 13% and for Wastewater was 4%; the overall District's percentage was 12%.

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

**Table 8**

Credit Ratings

Water and Wastewater

June 30, 2015

| | Rating by | | |
|---|---|---|---|
| **District debt by type** | **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 | - |
| Short-Term Rating | A-1+ | VMIG-1 | - |
| Extendable Commercial Paper | A-1+ | P-1 | F1+ |
| Wastewater system: | | | |
| General Obligation Bonds | AAA | Aa1 | - |
| Fixed Rate Revenue Bonds | AAA | Aa2 | AA+ |
| 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, 2015, the Water System had $995 million and the Wastewater System had $204 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.

## 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, 2015 AND JUNE 30, 2014
(DOLLARS IN THOUSANDS)

| | Water System | | Wastewater System | | Totals | |
|---|---|---|---|---|---|---|
| | June 30, 2015 | June 30, 2014 | June 30, 2015 | June 30, 2014 | June 30, 2015 | June 30, 2014 |
| Current assets: | | | | | | |
| Cash and cash equivalents (Note 2) | $310,786 | $134,171 | $67,022 | $66,715 | $377,808 | $200,886 |
| Investments (Note 2) | 123,945 | 197,471 | 24,737 | 24,548 | 148,682 | 222,019 |
| Receivables: | | | | | | |
| Customer | 37,241 | 41,909 | 5,674 | 5,512 | 42,915 | 47,421 |
| Interest and other | 2,845 | 2,268 | 2,447 | 2,081 | 5,292 | 4,349 |
| Materials and supplies | 7,317 | 6,177 | - | - | 7,317 | 6,177 |
| Prepaid Insurance | 1,127 | 1,133 | - | - | 1,127 | 1,133 |
| Total current assets | 483,261 | 383,129 | 99,880 | 98,856 | 583,141 | 481,985 |
| Noncurrent assets: | | | | | | |
| Restricted cash and investments (Note 2): | | | | | | |
| Cash and cash equivalents | 37,936 | 41,770 | 87 | 4,861 | 38,023 | 46,631 |
| Investments | 5,000 | 18,699 | - | - | 5,000 | 18,699 |
| Total restricted cash and investments | 42,936 | 60,469 | 87 | 4,861 | 43,023 | 65,330 |
| Other assets: | | | | | | |
| Equity in JPA partnership fund (Note 2I) | 240,049 | 240,260 | - | - | 240,049 | 240,260 |
| Other | 217 | 140 | 347 | 315 | 564 | 455 |
| Total other assets | 240,266 | 240,400 | 347 | 315 | 240,613 | 240,715 |
| Capital assets (Note 3): | | | | | | |
| Structures, buildings, and equipment | 4,919,404 | 4,779,391 | 991,663 | 969,603 | 5,911,067 | 5,748,994 |
| Less accumulated depreciation | (1,602,845) | (1,510,236) | (396,114) | (371,916) | (1,998,959) | (1,882,152) |
| Subtotal | 3,316,559 | 3,269,155 | 595,549 | 597,687 | 3,912,108 | 3,866,842 |
| Land and rights-of-way | 58,445 | 55,274 | 21,017 | 20,231 | 79,462 | 75,505 |
| Construction in progress | 309,445 | 243,219 | 65,019 | 59,062 | 374,464 | 302,281 |
| Total capital assets, net | 3,684,449 | 3,567,648 | 681,585 | 676,980 | 4,366,034 | 4,244,628 |
| Total noncurrent assets | 3,967,651 | 3,868,517 | 682,019 | 682,156 | 4,649,670 | 4,550,673 |
| Total assets | 4,450,912 | 4,251,646 | 781,899 | 781,012 | 5,232,811 | 5,032,658 |
| Deferred outflows of resources: | | | | | | |
| Accumulated decrease in fair value of hedging derivatives (Note 6) | 23,485 | 30,756 | - | 14,997 | 23,485 | 45,753 |
| Pension related (Note 8G) | 69,049 | - | 11,962 | - | 81,011 | - |
| Total deferred outflows | 92,534 | 30,756 | 11,962 | 14,997 | 104,496 | 45,753 |
| Total assets and deferred outflows | $4,543,446 | $4,282,402 | $793,861 | $796,009 | $5,337,307 | $5,078,411 |

(Continued)

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

| | Water System | | Wastewater System | | Totals | |
|---|---|---|---|---|---|---|
| | June 30, 2015 | June 30, 2014 | June 30, 2015 | June 30, 2014 | June 30, 2015 | June 30, 2014 |
| Current liabilities: | | | | | | |
| Current maturities of long-term debt and Commercial Paper (Note 5 & 6) | $49,260 | $35,690 | $13,000 | $12,470 | $62,260 | $48,160 |
| Accounts payable and accrued expenses (Note 4) | 69,218 | 70,837 | 9,119 | 9,149 | 78,337 | 79,986 |
| Current reserve for claims (Note 9) | 7,814 | 7,903 | 900 | 780 | 8,714 | 8,683 |
| Accrued interest | 9,279 | 8,552 | 1,757 | 1,811 | 11,036 | 10,363 |
| Total current liabilities | 135,571 | 122,982 | 24,776 | 24,210 | 160,347 | 147,192 |
| Noncurrent liabilities: | | | | | | |
| Advances for construction | 7,061 | 7,850 | - | - | 7,061 | 7,850 |
| OPEB liabilities (Note 8) | 20,034 | 18,363 | 3,617 | 3,322 | 23,651 | 21,685 |
| Reserve for claims (Note 9) | 29,184 | 30,125 | 5,601 | 4,589 | 34,785 | 34,714 |
| Net pension liability (Note 8G) | 364,956 | - | 66,363 | - | 431,319 | - |
| Other liabilities | 14,133 | 13,873 | 6,074 | 6,037 | 20,207 | 19,910 |
| Long-term liabilities, net of current maturities (Note 5 & 6) | 2,823,075 | 2,670,571 | 433,384 | 442,503 | 3,256,459 | 3,113,074 |
| Total noncurrent liabilities | 3,258,443 | 2,740,782 | 515,039 | 456,451 | 3,773,482 | 3,197,233 |
| Total liabilities | 3,394,014 | 2,863,764 | 539,815 | 480,661 | 3,933,829 | 3,344,425 |
| Deferred inflows of resources | | | | | | |
| Derivative instrument (Note 6) | 23,485 | 30,756 | - | 14,997 | 23,485 | 45,753 |
| Swap Novation (Note 6F) | - | 24,551 | - | - | - | 24,551 |
| Pension related (Note 8G) | 88,483 | - | 17,859 | - | 106,342 | - |
| Total deferred inflows | 111,968 | 55,307 | 17,859 | 14,997 | 129,827 | 70,304 |
| Total liabilities and deferred inflows | 3,505,982 | 2,919,071 | 557,674 | 495,658 | 4,063,656 | 3,414,729 |
| Net position (Note 7): | | | | | | |
| Net investment in capital assets | 812,113 | 861,386 | 235,202 | 222,008 | 1,047,315 | 1,083,394 |
| Restricted for construction (Note 1G) | 19,647 | 19,597 | - | 2,214 | 19,647 | 21,811 |
| Restricted for debt service (Note 1G) | 13,468 | 30,216 | 87 | 2,647 | 13,555 | 32,863 |
| Restricted for JPA | 240,049 | 240,260 | - | - | 240,049 | 240,260 |
| Restricted - other (Note 1G) | 2,759 | 2,806 | - | - | 2,759 | 2,806 |
| Unrestricted | (50,572) | 209,066 | 898 | 73,482 | (49,674) | 282,548 |
| Total net position | 1,037,464 | 1,363,331 | 236,187 | 300,351 | 1,273,651 | 1,663,682 |
| Total liabilities and net position | $4,543,446 | $4,282,402 | $793,861 | $796,009 | $5,337,307 | $5,078,411 |

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, 2015 AND 2014
(DOLLARS IN THOUSANDS)

| | Water System | | Wastewater System | | Total | |
|---|---|---|---|---|---|---|
| | June 30, 2015 | June 30, 2014 | June 30, 2015 | June 30, 2014 | June 30, 2015 | June 30, 2014 |
| Operating revenue: | | | | | | |
| Water | $362,136 | $367,547 | - | - | $362,136 | $367,547 |
| Sewer | - | - | $76,417 | $72,345 | 76,417 | 72,345 |
| Power | 2,210 | 1,380 | 1,093 | 1,099 | 3,303 | 2,479 |
| Wet weather facilities charges | - | - | 21,809 | 19,389 | 21,809 | 19,389 |
| Total operating revenue | 364,346 | 368,927 | 99,319 | 92,833 | 463,665 | 461,760 |
| Operating expense: | | | | | | |
| Raw water | 43,538 | 41,066 | - | - | 43,538 | 41,066 |
| Water treatment and distribution | 100,015 | 97,610 | - | - | 100,015 | 97,610 |
| Recreation areas, net | 5,294 | 5,166 | - | - | 5,294 | 5,166 |
| Sewer lines and pumping | - | - | 13,943 | 13,658 | 13,943 | 13,658 |
| Sewer treatment plant operations | - | - | 32,478 | 31,748 | 32,478 | 31,748 |
| Customer accounting and collecting | 17,351 | 17,995 | 2,518 | 2,328 | 19,869 | 20,323 |
| Financial and risk management | 18,560 | 16,379 | 748 | 640 | 19,308 | 17,019 |
| Facilities management | 6,858 | 9,054 | - | - | 6,858 | 9,054 |
| General administration | 37,231 | 50,052 | 8,461 | 7,672 | 45,692 | 57,724 |
| Pension expense (Note 8G) | (17,212) | - | (3,384) | - | (20,596) | - |
| Depreciation on utility plant and vehicle | 94,111 | 90,426 | 24,198 | 22,236 | 118,309 | 112,662 |
| Total operating expense | 305,746 | 327,748 | 78,962 | 78,282 | 384,708 | 406,030 |
| Net operating income | 58,600 | 41,179 | 20,357 | 14,551 | 78,957 | 55,730 |
| Nonoperating income (expense): | | | | | | |
| Investment income | 3,568 | 2,243 | 242 | 269 | 3,810 | 2,512 |
| Taxes and subventions | 27,922 | 25,492 | 8,468 | 9,881 | 36,390 | 35,373 |
| Interest and amortization of bond expenses, net of capitalized interest of $9,210 and $7,637 for the Water System and $1,705 and $3,470 for the Wastewater System in 2015 and 2014, respectively | (99,306) | (104,339) | (25,041) | (16,730) | (124,347) | (121,069) |
| Increase (decrease) of equity in JPA partnership fund | (360) | (8,146) | - | - | (360) | (8,146.00) |
| Other income | 13,782 | 16,106 | 4,387 | 4,395 | 18,169 | 20,501 |
| Total nonoperating income (expense), net | (54,394) | (68,644) | (11,944) | (2,185) | (66,338) | (70,829) |
| Income (loss) before capital contributions | 4,206 | (27,465) | 8,413 | 12,366 | 12,619 | (15,099) |
| Capital contributions | 71,529 | 49,039 | 3,067 | 1,192 | 74,596 | 50,231 |
| Change in net position | 75,735 | 21,574 | 11,480 | 13,558 | 87,215 | 35,132 |
| Total net position - beginning | 1,363,331 | 1,341,757 | 300,351 | 286,793 | 1,663,682 | 1,628,550 |
| Prior period adjustment per implementation of GASB 68 (Note 1R) | (401,602) | - | (75,644) | - | (477,246) | - |
| Total net position - ending | $1,037,464 | $1,363,331 | $236,187 | $300,351 | $1,273,651 | $1,663,682 |

EAST BAY MUNICIPAL UTILITY DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014
(DOLLARS IN THOUSANDS)

| | Water System | | Wastewater System | | Total | |
|---|---|---|---|---|---|---|
| | June 30, 2015 | June 30, 2014 | June 30, 2015 | June 30, 2014 | June 30, 2015 | June 30, 2014 |
| Cash flows from operating activities | | | | | | |
| Cash received from customers | $369,014 | $374,584 | $99,157 | $93,825 | $468,171 | $468,409 |
| Cash received from other income | 13,782 | 16,106 | 4,387 | 4,395 | 18,169 | 20,501 |
| Cash payments for judgments and claims | (6,516) | (5,339) | (245) | (196) | (6,761) | (5,535) |
| Cash payments to suppliers for goods and services | (50,715) | (49,449) | (27,523) | (27,256) | (78,238) | (76,705) |
| Cash payments to employees for services | (155,298) | (146,184) | (27,918) | (26,403) | (183,216) | (172,587) |
| Net cash provided by operating activities | 170,267 | 189,718 | 47,858 | 44,365 | 218,125 | 234,083 |
| Cash flows from noncapital financing activities: | | | | | | |
| Tax receipts | 27,922 | 25,492 | 8,468 | 9,881 | 36,390 | 35,373 |
| Net cash provided by financing activities | 27,922 | 25,492 | 8,468 | 9,881 | 36,390 | 35,373 |
| Capital and related financing activities: | | | | | | |
| Capital contributions | 71,529 | 49,039 | 3,067 | 1,192 | 74,596 | 50,231 |
| Proceeds from advances for construction | (789) | 1,279 | - | - | (789) | 1,279 |
| Proceeds from sale of capital assets | 2,870 | 6,454 | - | - | 2,870 | 6,454 |
| Net proceeds and premiums from sale of bonds | 746,871 | 535,210 | 208,103 | 15,879 | 954,974 | 551,089 |
| Acquisition and construction of capital assets | (232,709) | (203,942) | (30,267) | (34,059) | (262,976) | (238,001) |
| Change in Investment in JPA | (149) | 5,314 | - | - | (149) | 5,314 |
| Principal retirement on long-term debt and commercial paper | (562,125) | (482,665) | (198,255) | (29,743) | (760,380) | (512,408) |
| Amount paid to refunding bond escrow agent | (15,301) | (1,826) | (17,310) | (305) | (32,611) | (2,131) |
| Costs and discounts from issuance on long-term debt | (3,371) | (875) | (1,127) | (7) | (4,498) | (882) |
| Interest paid on long-term debt | (123,130) | (104,717) | (25,095) | (16,773) | (148,225) | (121,490) |
| Net cash provided by (used in) capital and related financing activities | (116,304) | (196,729) | (60,884) | (63,816) | (177,188) | (260,545) |
| Cash flows from investing activities: | | | | | | |
| Proceeds from securities | 405,396 | 524,430 | 23,526 | 15,716 | 428,922 | 540,146 |
| Expenditures from purchases of securities | (318,171) | (498,415) | (23,714) | (23,108) | (341,885) | (521,523) |
| Interest received on investments | 3,671 | 2,084 | 279 | 298 | 3,950 | 2,382 |
| Net cash provided by (used in) investing activities | 90,896 | 28,099 | 91 | (7,094) | 90,987 | 21,005 |
| Net increase (decrease) in cash and cash equivalents | 172,781 | 46,580 | (4,467) | (16,664) | 168,314 | 29,916 |
| Cash and cash equivalents: | | | | | | |
| Beginning of year | 175,941 | 129,361 | 71,576 | 88,240 | 247,517 | 217,601 |
| End of period | $348,722 | $175,941 | $67,109 | $71,576 | $415,831 | $247,517 |

(Continued)

EAST BAY MUNICIPAL UTILITY DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014
(DOLLARS IN THOUSANDS)

| | Water System | | Wastewater System | | Total | |
|---|---|---|---|---|---|---|
| | June 30, 2015 | June 30, 2014 | June 30, 2015 | June 30, 2014 | June 30, 2015 | June 30, 2014 |
| Reconciliation of net operating income to net cash provided by operating activities: | | | | | | |
| Net operating income | $58,600 | $41,179 | $20,357 | $14,551 | $78,957 | $55,730 |
| Adjustments to reconcile net operating income to net cash provided by operating activities: | | | | | | |
| Pension expense | (17,212) | - | (3,384) | - | (20,596) | - |
| Depreciation on utility plant and vehichle | 94,111 | 90,426 | 24,198 | 22,236 | 118,309 | 112,662 |
| Depreciation within recreation areas | 1,396 | 1,547 | - | - | 1,396 | 1,547 |
| Amortization | 17,531 | 22,522 | 1,463 | 1,394 | 18,994 | 23,916 |
| Other income | 13,782 | 16,106 | 4,387 | 4,395 | 18,169 | 20,501 |
| Changes in assets/liabilities: | | | | | | |
| Materials and supplies | (1,140) | 464 | - | - | (1,140) | 464 |
| Prepaid insurance | 6 | (18) | - | - | 6 | (18) |
| Customer receivables | 4,668 | 5,657 | (162) | 992 | 4,506 | 6,649 |
| Other assets | (757) | 2,888 | (435) | 808 | (1,192) | 3,696 |
| OPEB liability | 1,671 | 1,996 | 295 | 357 | 1,966 | 2,353 |
| Reserve for claims | (1,030) | 1,400 | 1,132 | (204) | 102 | 1,196 |
| Accounts payable and accrued expenses | (1,359) | 5,551 | 7 | (164) | (1,352) | 5,387 |
| Net cash provided by operating activities | $170,267 | $189,718 | $47,858 | $44,365 | $218,125 | $234,083 |
| Schedule of Non-Cash Activities | | | | | | |
| Change in Fair Value | ($298) | ($417) | ($90) | ($60) | ($388) | ($477) |

EAST BAY MUNICIPAL UTILITY DISTRICT
STATEMENTS OF FIDUCIARY NET POSITION
FIDUCIARY FUND - PENSION AND OTHER EMPLOYEE BENEFIT TRUST
(COMPONENT UNIT)
JUNE 30, 2015 AND 2014
(DOLLARS IN THOUSANDS)

| | 2015 | 2014 |
|---|---|---|
| Assets: | | |
| Cash and investments (Note 2) | $30,214 | $36,658 |
| Invested securities lending collateral (Note 2) | 108,548 | 129,511 |
| Receivables: | | |
| Contributions | 3,854 | 3,501 |
| Interest and other | 8,302 | 5,019 |
| Prepaid insurance | 495 | 477 |
| Retirement system investments, at fair value (Note 2) | | |
| U.S. government obligations | 73,600 | 82,377 |
| Municipal bonds | 2,250 | 4,385 |
| Domestic corporate bonds | 160,942 | 153,500 |
| International bonds | 18,181 | 10,847 |
| Domestic stocks | 826,471 | 783,177 |
| International stocks | 220,157 | 204,458 |
| Real estate | 73,949 | 68,194 |
| Total Investments | 1,375,550 | 1,306,938 |
| Total assets | 1,526,963 | 1,482,104 |
| Liabilities: | | |
| Accounts payable and accrued expenses | 1,688 | 1,507 |
| Retirement system liabilities | 9,518 | 4,198 |
| Securities lending collateral (Note 2) | 108,548 | 129,511 |
| Total liabilities | 119,754 | 135,216 |
| Net position: | | |
| Held in trust for pension benefits | 1,383,053 | 1,325,387 |
| Held in trust for post-employment healthcare benefits | 24,156 | 21,501 |
| Total net position | $1,407,209 | $1,346,888 |

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, 2015 AND 2014
(DOLLARS IN THOUSANDS)

| | 2015 | 2014 |
|---|---|---|
| Additions: | | |
| Contributions | | |
| Employer | $73,141 | $70,117 |
| Plan members | 13,427 | 12,133 |
| Total contributions | 86,568 | 82,250 |
| Investment income: | | |
| Net appreciation (depreciation) in fair value of investments | | |
| Traded securities | 38,801 | 197,439 |
| Real estate | 2,292 | 2,129 |
| Interest | 4,330 | 7,193 |
| Dividends | 18,768 | 15,470 |
| Real estate operating income, net | 1,056 | 1,104 |
| Total investment income | 65,247 | 223,335 |
| Less: | | |
| Investment expense | (4,916) | (3,437) |
| Borrowers' rebates and other agent fees on securities lending transactions | (105) | (67) |
| Net investment income | 60,226 | 219,831 |
| Total additions, net | 146,794 | 302,081 |
| Deductions: | | |
| Benefits paid | 84,981 | 78,149 |
| Refund of contributions | 203 | 116 |
| Administrative expenses | 1,289 | 1,256 |
| Total deductions | 86,473 | 79,521 |
| Change in net position | 60,321 | 222,560 |
| Net position: | | |
| Beginning of year | 1,346,888 | 1,124,328 |
| End of year | $1,407,209 | $1,346,888 |

See accompanying notes to basic financial statements

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *A. Description of the Primary Government*

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

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

The District's Employees' Retirement System (the Employees' Retirement System or the Plan) has been reported as a Pension and Other Employee Benefit Trust fund (a fiduciary fund) in the accompanying basic financial statements and is discretely presented. The System provides retirement, disability, survivorship, and post-employment health insurance benefits for eligible directors, officers, and employees of the District. The System is administered by a Retirement Board composed of three members appointed by the board of directors of the District, two members elected by and from the active membership, and one (nonvoting) member elected by and from the retired membership of the System. Retirement Ordinance No. 40 (Ordinance) assigns the authority to establish Plan benefit provisions to the District's board of directors.

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, 2014.

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

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

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

Additionally, the District reports the following fiduciary fund:

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

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.

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.

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

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

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

### *E. Use of Estimates and Assumptions*

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

### *F. Capital Assets*

**Utility Plant – at Original Cost**

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

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

**Water Supply Management Program**

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

**Preliminary Survey and Investigation Costs**

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

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

**Contract Water Rights**

The District has contracted with the U.S. Bureau of Reclamation for water deliveries from the Central Valley Project (CVP) through February 2046 (Long Term Renewal Contract), with the anticipation of subsequent renewals of 40 year terms. Payments under the contract include reimbursement based on the amounts of water delivered to EBMUD of capital costs for CVP storage and conveyance facilities (EBMUD's current allocation is $4,373) and the Operation & Maintenance Deficit (EBMUD's current balance is $6,781). The Water Enterprise Fund capitalized the two components.

### *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 revenues for Water and at least 5% of annual operating and maintenance expenses for Wastewater. Funding of the RSF is consistent with the District's Bond indentures. In fiscal year 2014, the District combined the Rate Stabilization Fund referenced in the Bond indentures and the Contingency and Rate Stabilization Reserve referenced in Policy 4.02 into a single Rate Stabilization Fund reserve to enhance transparency.
- Working Capital reserve is established by Policy 4.02, as adopted by the Board of Directors in the bi-annual budget, to maintain at least three times the District's monthly net operating and maintenance expenses.
- Self-insurance reserve is established by Policy 4.02, as adopted by the Board of Directors in the bi-annual budget, to maintain 1.25 times the expected annual costs.
- Workers' compensation reserve is established by Policy 4.02, as adopted by the Board of Directors in the bi-annual budget, to maintain a level equal to the estimated future liability for workers' compensation claims.

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

*Capital Reserves:*

- Reserve for Capital Projects comprises the resources available for cash funding of the District's capital improvement program as projected in conjunction with the 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.
- Capitalized Interest fund is restricted by the District's bond indenture for the purpose of defraying that bond issue's debt service payments for a specified period. The current year balance is $0 for Water and Wastewater.
- Bond Interest and Redemption fund is required, under the District's bond indentures, in order for the District to transfer funds to the Trustee for the payment of principal and interest on the outstanding bonds one business day prior to the date such payment is due. The District uses the Bond Interest and Redemption Fund to segregate funds accumulated for such payments. In addition, under certain of the interest rate swap agreements related to the District's outstanding bonds, the District is required to post collateral to the swap counterparty to the extent that the District's total exposure for termination payments under the swap agreement exceeds the threshold amount specified in the applicable swap agreement. The District also uses the Bond Interest and Redemption Fund to segregate District funds held by the applicable custodian to satisfy this collateral posting obligation. As of June 30, 2015 and 2014, respectively, the balances were $796 and $848 for Water, and $87 and $109 for Wastewater.

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

- 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, 2015 and 2014, respectively, the balances were $12,672 and $29,368 for Water, and $0 and $2,538 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, 2015 was $26,709 for Water ($19,087 for Future Water Supply projects, $7,622 for Applicant Work) and $0 for Wastewater. The balance as of June 30, 2014 was $27,447 for Water ($19,037 for Future Water Supply projects, $8,410 for Applicant Work) and $2,214 for Wastewater (Private Lateral Sewer incentive Program).
- FERC partnership fund of $2 million was established January 11, 1999, in compliance with Federal Energy Regulatory Commission (FERC) order which brought resolution to its Mokelumne River Proceeding. The District manages the fund and income derived from investing the funds provides operating support to Joint Settlement Agreement with US Fish and Wildlife and California Fish and Game to protect the Mokelumne River Ecosystem from Pardee Reservoir to the Delta. The principal and any unused earnings shall remain the property of the District and will revert to the District upon expiration of the agreement in March 2031 or upon withdrawal of any party to the agreement. As of June 30, 2015 and 2014, respectively, the balances were $2,225 and $2,247 for Water.
- Monetary Reserve represents money on deposit in the name of the District with the Automated Power Exchange Inc. (APX) in accordance with the terms and conditions of the Automated Power Exchange Inc. California Master Service Agreement of July 15, 1999, entered between the District and APX for the sale and purchase of electric power. The funds held on deposit shall be withdrawn by the Depository and Clearing Agent in the event that sufficient funds are not deposit in the District settlement account to cover power exchange transactions. As of June 30, 2015 and June 30, 2014, respectively, the balances were $534 and $534 for Water.
- ABAG (Association of Bay Area Governments) Restricted Fund was established as an interest bearing account for Regional General Permit effort by 7 local water agencies in October 2013. The agreement between the District and ABAG, approved by Board motion 029-12 on March 13, 2012, requires the District to collect deposits and pay invoices in accordance with a cost allocation agreed among the water agencies. As of June 30, 2015 and 2014, respectively, the balances were $0 and $25 for Water.

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

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

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

### *J. Cash and Cash Equivalents*

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

### *K. District Investments*

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

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

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

### *L. Retirement System Investments*

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

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

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

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

Retirement Board policies permit the Employees' Retirement System to use investments of the pension plan to enter into securities lending transactions, which are loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return collateral for the same securities in the future. The System's securities custodian is an agent in lending the Plan's securities for cash collateral, U.S. government securities, and irrevocable letters of credit of 102% for domestic securities lent and 105% for international securities lent. As of June 30, 2015, 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, 2015, 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, 2015, had a weighted average maturity of 26 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 110 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, 2015, the fair value of securities on loan, which was comprised of Global Equities, US Corporate Fixed Equities, US Equities, and US Government Fixed Equities, was $108,548. The total cash collateral held by the System's custodian to secure these securities on loan was valued at $106,202.

### *M. Material and Supplies*

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

(Dollars in Thousands)

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

### *N. Compensated Absences*

Compensated absences as of June 30, 2015, 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, 2015 | June 30, 2014 | June 30, 2015 | June 30, 2014 | June 30, 2015 | June 30, 2014 |
| Beginning Balance | $25,625 | $23,452 | $4,232 | $4,066 | $29,857 | $27,518 |
| Additions | 25,938 | 26,360 | 4,536 | 4,527 | 30,474 | 30,887 |
| Payments | (25,139) | (24,187) | (4,590) | (4,361) | (29,729) | (28,548) |
| Ending Balance | $26,424 | $25,625 | $4,178 | $4,232 | $30,602 | $29,857 |

### *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 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.

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

***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.

***R. Implementation of Governmental Accounting Standards Board (GASB) Pronouncements***

**GASB Statement No. 68** – In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The requirements of this Statement will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014, therefore, the District implemented this Statement in fiscal year ending June 30, 2015, which required a restatement to the District's financial statements. The financial statements for fiscal year ended June 30, 2014 could not be restated as the information required to do so was not readily available. See Note 8 for additional information.

**GASB Statement No. 70** – In 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Finance Guarantees*. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more than likely than not the government will be required to make a payment on that guarantee. The provisions of this Statement are effective for reporting periods beginning after June 15, 2013, therefore, the District implemented this statement for fiscal year ended June 30, 2015, and had no impact on the financial statements.

**GASB Statement No. 71** – In 2014, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the accrual-basis financial statements of employers and non-employer contributing entities. This benefit will be achieved without the imposition of significant additional costs. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014, therefore, the District implemented this Statement in fiscal year ending June 30, 2015, along with GASB 68 as discussed above.

(Dollars in Thousands)

## NOTE 2 - CASH AND INVESTMENTS

### A. *Classification*

Reconciliations of cash and investments reported on the financial statements as of June 30, 2015, are as follows:

| *District Enterprise Funds:* | Water System | Wastewater System | Total |
|---|---|---|---|
| Cash and investments included in current assets | $434,731 | $91,759 | $526,490 |
| Cash and investments included in restricted investments | 42,936 | 87 | 43,023 |
| Total District cash and investments | 477,667 | 91,846 | 569,513 |
| Less investments | (128,945) | (24,737) | (153,682) |
| Cash and cash equivalents | $348,722 | $67,109 | $415,831 |
| *System Pension Trust Funds:* | | | |
| Cash and cash equivalents | $29,713 | $501 | $30,214 |
| Invested securities lending collateral | 106,749 | 1,799 | 108,548 |
| Retirement system investments | 1,352,757 | 22,793 | 1,375,550 |
| Total System cash and investments | $1,489,219 | $25,093 | $1,514,312 |

### 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.

**(Dollars in Thousands)**

## NOTE 2 - CASH AND INVESTMENTS (Continued)

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

| 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 Investement Contract | Not lower than District's bond rating |
| Shares of Beneficial Interest | Top Rating Category |

(Dollars in Thousands)

## NOTE 2 - CASH AND INVESTMENTS (Continued)

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

The System's investment policies authorize the System to invest in financial instruments in three broad investment categories: equity, fixed income, and real estate. These financial instruments can include, but are not limited to, corporate bonds, commercial paper, U.S. government securities, common and preferred stock, real estate investment trusts, and mutual funds. Fixed income investments may include futures and options contracts in order to provide added flexibility in managing the fixed income portfolio. The following is a summary of the System investment policy adopted by the System with *Resolution No. 6807*.

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.

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 ± 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.

## NOTE 2 - CASH AND INVESTMENTS (Continued)

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.

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%.

(Dollars in Thousands)

## NOTE 2 - CASH AND INVESTMENTS (Continued)

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.

***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 | $65,183 | $3,032 | $11,995 | $80,210 |
| Callable | | 15,904 | 14,760 | 30,664 |
| Corporate Securities | 6,378 | 13,313 | | 19,691 |
| Municipal Bonds | 8,382 | 2,762 | | 11,144 |
| Commercial Paper Discounted | 5,000 | | | 5,000 |
| Demand Deposits and Certificate of Deposit | 11,275 | | | 11,275 |
| Mutual Funds (U.S. Securities) | 59,072 | | | 59,072 |
| California Asset Management Program | 40,027 | | | 40,027 |
| California Local Agency Investment Fund | 44,623 | | | 44,623 |
| Total Investments | $239,940 | $35,011 | $26,755 | 301,706 |
| *Cash in banks* | | | | 267,807 |
| Total District Cash and Investments | | | | $569,513 |

(Dollars in Thousands)

## NOTE 2 - CASH AND INVESTMENTS (Continued)

***System Pension Trust Fund:***

| Investment Type | Less than 12 Months | 12 to 72 Months | 72 to 120 Months | More than 120 Months | Maturity not Determined | Total |
|---|---|---|---|---|---|---|
| Asset Backed Securities | | $5,623 | $408 | $3,076 | | $9,107 |
| Equity Securities | $ 1,036,574 | | | | | 1,036,574 |
| Commercial Mortgage - Backed Securities | | | | 8,021 | | 8,021 |
| Corporate Bonds | 1,035 | 46,614 | 18,910 | 8,313 | $31,080 | 105,952 |
| Government Agencies | | 2,964 | 7,759 | 16,659 | | 27,382 |
| Government Bonds | 6,956 | 11,040 | 655 | 3,308 | | 21,959 |
| Government Mortgage - Backed Securities | | | 8 | 21,166 | | 21,174 |
| Government Issued Commercial Mortgage - Backed Securities | | 319 | | | | 319 |
| Index Linked Government Bonds | 264 | 1,015 | | 1,487 | | 2,766 |
| Short Term Investment Funds | | | | | 10,054 | 10,054 |
| Municipal Bonds | | | | 2,250 | | 2,250 |
| Mutual Funds | | | | 193 | | 193 |
| Real Estate | | | | | 73,949 | 73,949 |
| Other Fixed Income | | 22,660 | 1,012 | | 32,178 | 55,850 |
| Total System Investments | $1,044,829 | $90,235 | $28,752 | $64,473 | $147,261 | $1,375,550 |

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, 2015, these investments matured in an average of 239 days.

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

| Highly Sensitive Investments | Fair Value at Year End |
|---|---|
| Commercial Mortgage - Backed Securities | $8,021 |
| Government Mortgage - Backed Securities | 21,174 |
| Government Issued Commercial Mortgage - Backed Securities | 319 |

(Dollars in Thousands)

## NOTE 2 - CASH AND INVESTMENTS (Continued)

### F. *Credit Risk*

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical credit rating organization. Presented below is the actual rating as of June 30, 2015, for each investment type as provided by Moody's.

***District Enterprise Funds:***

| Investment Type | Aaa | Aa1 | Aa2 | Aa3 | Total |
|---|---|---|---|---|---|
| U.S. Government-Sponsored | | | | | |
| Enterprise Agencies: | | | | | |
| Non-Callable | $80,210 | | | | $80,210 |
| Callable | 30,664 | | | | 30,664 |
| Corporate Securities | 4,289 | | $10,330 | $5,072 | 19,691 |
| Municipal Bonds | | $4,110 | 5,228 | | 9,338 |
| Mutual Funds (U.S. Securities) | 59,072 | | | | 59,073 |
| Totals | $174,072 | $4,110 | $15,558 | $5,072 | 198,975 |
| *Not rated:* | | | | | |
| Demand Deposits and Certificate of Deposit | | | | | 11,275 |
| Municipal Bonds | | | | | 1,806 |
| California Local Agency Investment Fund | | | | | 44,623 |
| California Asset Management Program | | | | | 40,027 |
| Commercial Paper Discounted | | | | | 5,000 |
| Cash in Banks | | | | | 267,807 |
| Total District Cash and Investment | | | | | $569,513 |

***System Pension Trust Fund:***

| Investment Type | Aaa | Aa | A | Baa | Ba | U.S. Government Guaranteed | Not Rated | Total |
|---|---|---|---|---|---|---|---|---|
| Asset Backed Securities | $6,224 | $88 | $596 | $572 | $699 | | $928 | $9,107 |
| Equity Securities | | | | | | | 1,036,574 | 1,036,574 |
| Commercial Mortgage - Backed Securities | 5,593 | | 35 | | | | 2,393 | 8,021 |
| Corporate Bonds | 1,386 | 16,749 | 33,058 | 21,451 | 339 | | 32,969 | 105,952 |
| Government Agencies | 21,160 | | | | | $6,222 | | 27,382 |
| Government Bonds | 21,959 | | | | | | | 21,959 |
| Government Mortgage - Backed Securities | | | | | | 20,964 | 210 | 21,174 |
| Government Issued | | | | | | | | |
| Commercial Mortgage - Backed | | | | | | 319 | | 319 |
| Index Linked Government Bonds | 2,766 | | | | | | | 2,766 |
| Short Term Investment Funds | | | | | | | 10,054 | 10,054 |
| Municipal Bonds | | 1,569 | | | | | 681 | 2,250 |
| Mutual Funds | | 5 | 120 | | | | 68 | 193 |
| Real Estate | | | | | | | 73,949 | 73,949 |
| Other Fixed Income | | | | | | | 55,850 | 55,850 |
| Total System Investments | $59,088 | $18,411 | $33,809 | $22,023 | $1,038 | $27,505 | $1,213,676 | $1,375,550 |

## NOTE 2 - CASH AND INVESTMENTS (Continued)

### *G. Concentration Risk*

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

***District Enterprise Funds:***

| Reporting Unit | Issuer | Investment Type | Reported Amount |
|---|---|---|---|
| District-Wide | | | |
| | FHLB | Federal Agency Securities | $47,660 |
| | FNMA | Federal Agency Securities | 35,530 |
| | FFCB | Federal Agency Securities | 19,522 |
| Major Funds: | | | |
| Water System | | | |
| | FHLB | Federal Agency Securities | 36,187 |
| | FNMA | Federal Agency Securities | 33,475 |
| | FFCB | Federal Agency Securities | 16,401 |
| Wastewater System | | | |
| | FHLB | Federal Agency Securities | 11,473 |

***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 | $232,808 |

**(Dollars in Thousands)**

## NOTE 2 - CASH AND INVESTMENTS (Continued)

### *H. Foreign Currency Risk*

***System Pension Trust Fund:***

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair values of an investment or deposit. Presented below in US dollars is the fair market value of the System's foreign investments at June 30, 2015:

| Foreign Currency | Equity Securities Investment Type |
|---|---|
| Euro | $62,140 |
| British Pound Sterling | 37,114 |
| Hong Kong Dollar | 19,960 |
| Swiss Franc | 15,726 |
| Japanese Yen | 13,744 |
| South Korean Won | 7,783 |
| Danish Krone | 5,223 |
| Canadian Dollar | 4,638 |
| Singapore Dollar | 2,858 |
| Australian Dollar | 2,830 |
| Brazilian Real | 2,307 |
| Swedish Krona | 1,792 |
| Norwegian Krone | 1,384 |
| Indonesian Rupiah | 1,251 |
| Mexican Peso | 915 |
| Thai Baht | 811 |
| Turkish Lira | 633 |
| Total | $181,109 |

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 13%.

### *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.

## NOTE 2 - CASH AND INVESTMENTS (Continued)

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

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

As of June 30, 2015 and 2014, the System's brokers/dealers held $294 and $77, 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. To increase the District's reserve of water supply due to the recent drought, the District activated the pumping of water from the Sacramento River via the Freeport facility during Fiscal Year 2015.

(Dollars in Thousands)

## NOTE 3 – CAPITAL ASSETS

### *A. Summary*

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

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

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

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

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

(Dollars in Thousands)

## NOTE 3 – CAPITAL ASSETS (Continued)

### *B. Additions and Retirements*

Capital assets activity for all business-type activities for the year ended June 30, 2015, was as follows:

| | Balance at June 30, 2014 | Additions and Transfers, net | Retirements and Transfers, net | Balance at June 30, 2015 |
|---|---|---|---|---|
| ***Water System:*** | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | $52,307 | $3,234 | ($96) | $55,445 |
| Rights-of-way | 2,967 | 33 | | 3,000 |
| Construction in progress - Land | 412 | 3,301 | (3,267) | 446 |
| Construction in progress | 242,807 | 226,802 | (160,610) | 308,999 |
| Total capital assets, not being depreciated | 298,493 | 233,370 | (163,973) | 367,890 |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | 217,919 | 4,529 | (280) | 222,168 |
| System and improvements | 4,478,118 | 150,925 | (18,370) | 4,610,673 |
| Machinery and equipment | 83,354 | 5,156 | (1,947) | 86,563 |
| Total capital assets, being depreciated: | 4,779,391 | 160,610 | (20,597) | 4,919,404 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (91,566) | (4,820) | 259 | (96,127) |
| System and improvements | (1,356,136) | (87,190) | 838 | (1,442,488) |
| Machinery and equipment | (62,534) | (3,497) | 1,801 | (64,230) |
| Total accumulated depreciation | (1,510,236) | (95,507) | 2,898 | (1,602,845) |
| Total capital assets, being depreciated, net | 3,269,155 | 65,103 | (17,699) | 3,316,559 |
| Water System capital assets, net | $3,567,648 | $298,473 | ($181,672) | $3,684,449 |
| ***Wastewater System:*** | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | $20,040 | $786 | | $20,826 |
| Rights-of-way | 191 | | | 191 |
| Construction in progress - Land | 269 | 761 | ($786) | 244 |
| Construction in progress | 58,793 | 29,737 | (23,755) | 64,775 |
| Total capital assets, not being depreciated | 79,293 | 31,284 | (24,541) | 86,036 |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | 75,709 | 595 | | 76,304 |
| System and improvements | 884,011 | 21,730 | (1,695) | 904,046 |
| Machinery and equipment | 9,883 | 1,430 | | 11,313 |
| Total capital assets, being depreciated | 969,603 | 23,755 | (1,695) | 991,663 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (33,497) | (1,701) | | (35,198) |
| System and improvements | (332,014) | (21,908) | | (353,922) |
| Machinery and equipment | (6,405) | (589) | | (6,994) |
| Total accumulated depreciation | (371,916) | (24,198) | | (396,114) |
| Total capital assets, being depreciated, net | 597,687 | (443) | (1,695) | 595,549 |
| Wastewater System capital assets, net | $676,980 | $30,841 | ($26,236) | $681,585 |
| Business-type activities capital assets, net | $4,244,628 | $329,314 | ($207,908) | $4,366,034 |

(Dollars in Thousands)

## NOTE 3 – CAPITAL ASSETS (Continued)

### *C. Construction in Progress*

Construction in Progress in fiscal 2014-2015 comprises:

| | Expended to Date |
|---|---|
| ***Water System:*** | |
| Large Diameter Pipelines | $ 45,821 |
| Pumping Plant Rehabilitation | 44,802 |
| Pipeline Infrastruct Renewals | 32,710 |
| Treatment Plant Upgrades | 19,658 |
| Adm Bldg Modifications | 14,249 |
| Reservoir Rehab/Maintenance | 12,745 |
| Summit Pressure Zone Improve | 10,182 |
| SRV Recycled Water Program | 9,979 |
| Addl Supplemental Supply Projs | 9,463 |
| WTTIP WTP Improvements | 7,746 |
| Open Cut Reservoir Rehab | 7,499 |
| Water Conservation Project | 5,743 |
| Pipeline System Improvements | 5,695 |
| Pipeline Relocations | 5,481 |
| Dam Seismic Upgrades | 5,479 |
| Raw Water Studies and Improves | 3,698 |
| West of Hills Transmission | 3,577 |
| Srvc Latl Repl Polybutylene | 3,434 |
| Pardee/Cam Rec Areas Impr Plan | 3,271 |
| Distribution System Upgrades | 3,033 |
| Other Construction Projects | 55,180 |
| | $ 309,445 |
| ***Wastewater System:*** | |
| Wood St Sewer Intercept Rehab | $ 15,932 |
| Infiltration/Inflow Contrl Prj | 12,554 |
| Treatment Plant Infrastructure | 12,499 |
| Routine Cap Equip Replacement | 5,510 |
| Wet Weather Plant Imprmts | 4,104 |
| PGS Expansion | 1,596 |
| Versailles Interceptor Rehab | 1,593 |
| Resource Recovery Project | 1,562 |
| MWWTP Master Plan | 1,469 |
| Concrete Rehab at SD1 | 1,275 |
| Digester Upgrade | 1,169 |
| MWWTP Pwr Dist Sys Upgrade | 981 |
| Odor Control Improvements | 769 |
| West End Property Development | 612 |
| NPDES Compliance | 612 |
| Other Construction Projects | 2,782 |
| | $ 65,019 |
| Total District Construction in Progress | $ 374,464 |

At June 30, 2015, the District's remaining current major project commitments are estimated to be $21,332 for the Water System and $8,709 for the Wastewater System.

(Dollars in Thousands)

## NOTE 4 – ACCOUNTS PAYABLE & ACCRUED EXPENSES

Accounts payable and accrued expenses at June 30, 2015 and 2014 consist of:

| | Water System | | Wastewater System | | Total | |
|---|---|---|---|---|---|---|
| | June 30, 2015 | June 30, 2014 | June 30, 2015 | June 30, 2014 | June 30, 2015 | June 30, 2014 |
| Accounts payable | $22,743 | $27,262 | $3,845 | $2,911 | $26,588 | $30,173 |
| Accrued salaries | 3,982 | 3,454 | 683 | 600 | 4,665 | 4,054 |
| Accrued compensated absences | 26,424 | 25,625 | 4,178 | 4,232 | 30,602 | 29,857 |
| Other | 16,069 | 14,496 | 413 | 1,406 | 16,482 | 15,902 |
| Total | $69,218 | $70,837 | $9,119 | $9,149 | $78,337 | $79,986 |

## 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, 2015, the District had $475 million authorized for this program. The proceeds from the issuance of commercial paper are restricted as to use. Under this program, which must be authorized by the Board of Directors every seven years and is subject to the right of referendum, the Water System or the Wastewater System may issue commercial paper and bank notes at prevailing interest rates for periods of not more than 270 days from the date of issuance. The program was last authorized on March 10, 2009.

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

As of June 30, 2015, $359.8 million in Water Series and $15.0 million in Wastewater Series extendable commercial paper notes were outstanding under this program. The Water Series included terms of 68 to 120 days and interest rates ranging from 0.07% to 0.16% as of June 30, 2015, and terms of 50 to 119 days and interest rates ranging from 0.07% to 0.11% as of June 30, 2014. The Wastewater Series included the term of 91 days and an interest rate of 0.07% as of June 30, 2015, and the term of 84 days and an interest rate of 0.11% as of June 30, 2014. There were no unused proceeds as of June 30, 2015. It is the District's practice to use extendable commercial paper as a portion of the District's long-term variable rate debt exposure.

**(Dollars in Thousands)**

## NOTE 6 – LONG-TERM DEBT

### *A. Composition and Changes*

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

| | Original Issue Amount | Balance June 30, 2014 | Additions | Retirements | Balance June 30, 2015 | Amount due within one year |
|---|---|---|---|---|---|---|
| ***Water System Revenue Bonds:*** | | | | | | |
| **Subordinated Series 2005 A** | | | | | | |
| 5.00%, due 6/1/35 | $300,000 | $83,890 | | $83,890 | | |
| **Subordinated Series 2007 A** | | | | | | |
| 5.00%, due 6/1/37 | 450,000 | 330,000 | | 330,000 | | |
| **Subordinated Series 2007 B** | | | | | | |
| 3.75 - 5.00%, due 6/1/19 | 54,790 | 30,450 | | 5,510 | $24,940 | $5,785 |
| **Subordinated Series 2008 A** | | | | | | |
| .06% variable rate, due 6/1/38 | 322,525 | 105,250 | | | 105,250 | |
| **Subordinated Series 2009 A** | | | | | | |
| .26% variable rate, due 6/1/26 | 331,155 | 82,075 | | 82,075 | | |
| **Subordinated Series 2010 A** | | | | | | |
| 3.00 - 5.00%, due 6/1/36 | 192,830 | 188,135 | | 2,435 | 185,700 | 2,300 |
| **Subordinated Series 2010 B** | | | | | | |
| 5.87%, due 6/1/40 | 400,000 | 400,000 | | | 400,000 | |
| **Series 2012 A** | | | | | | |
| 5.00% , due 6/1/37 | 191,750 | 191,750 | | | 191,750 | |
| **Series 2012 B** | | | | | | |
| 1.00 -5.00%, due 6/1/26 | 358,620 | 332,840 | | 20,590 | 312,250 | 33,440 |
| **Series 2013 A** | | | | | | |
| 5.00%, due 6/1/21 | 48,670 | 45,525 | | 5,510 | 40,015 | 5,815 |
| **Series 2014 A** | | | | | | |
| 3.00-5.00%, due 6/1/35 | 128,315 | 128,315 | | | 128,315 | |
| **Series 2014 B** | | | | | | |
| 2.00-5.00%, due 6/1/30 | 242,730 | 242,730 | | 630 | 242,100 | 880 |
| **Series 2014 C** | | | | | | |
| 5.00%, due 6/1/44 | 75,000 | 75,000 | | | 75,000 | |
| **Series 2015 A** | | | | | | |
| 4.00-5.00%, due 6/1/37 | 429,360 | | 429,360 | | 429,360 | |
| **Series 2015 B** | | | | | | |
| 4.00-5.00%, due 6/1/45 | 74,335 | | 74,335 | | 74,335 | |
| **Series 2015C** | | | | | | |
| 4.00-5.00%, due 6/1/45 | 110,715 | | 110,715 | | 110,715 | |
| Total water long-term bonds | | 2,235,960 | 614,410 | 530,640 | 2,319,730 | 48,220 |

(Continued)

**(Dollars in Thousands)**

## NOTE 6 - LONG TERM DEBT (Continued)

| | Original Issue Amount | Balance June 30, 2014 | Additions | Retirements | Balance June 30, 2015 | Amount due within one year |
|---|---|---|---|---|---|---|
| ***Wastewater System General Obligation Bonds:*** | | | | | | |
| **Series G** | | | | | | |
| 5.00%, due 4/1/18 | $14,160 | $14,160 | | $3,250 | $10,910 | $3,565 |
| ***Wastewater System Revenue Bonds:*** | | | | | | |
| **Subordinated Series 2007 A** | | | | | | |
| 5.00%, due 6/1/37 | 80,630 | 60,630 | | 60,630 | | |
| **Subordinated Series 2007 B** | | | | | | |
| 3.75 - 5.00%, due 6/1/26 | 46,670 | 32,590 | | 2,775 | 29,815 | 2,895 |
| **Subordinated Series 2008 C** | | | | | | |
| .06% variable rate, due 6/1/27 | 65,300 | 49,100 | | 49,100 | | |
| **Subordinated Series 2010 A** | | | | | | |
| 2.00 - 5.00%, due 6/1/29 | 58,095 | 48,465 | | 1,905 | 46,560 | 2,265 |
| **Subordinated Series 2010 B** | | | | | | |
| 5.03 - 5.18%, due 6/1/40 | 150,000 | 150,000 | | | 150,000 | |
| **Series 2011 A** | | | | | | |
| .38% variable rate, due 6/1/38 | 65,905 | 59,095 | | 59,095 | | |
| **Series 2012 A** | | | | | | |
| 5.00% , due 6/1/37 | 20,000 | 20,000 | | | 20,000 | |
| **Series 2014 A** | | | | | | |
| 2.00 - 5.00%, due 6/1/31 | 82,150 | | 82,150 | 1,725 | 80,425 | 4,115 |
| **Series 2014 B** | | | | | | |
| 0.22%, due 6/1/15 | 2,505 | | 2,505 | 2,505 | | |
| **Series 2015 A-1** | | | | | | |
| 5.00%, due 6/1/37 | 54,805 | | 54,805 | | 54,805 | |
| **Series 2015 A-2** | | | | | | |
| 5.00%, due 6/1/38 | 13,565 | | 13,565 | | 13,565 | |
| **Series 2015 B** | | | | | | |
| 2.10 - 3.35% , due 6/1/30 | 2,795 | | 2,795 | | 2,795 | 160 |
| Total wastewater long-term bonds | | 434,040 | 155,820 | 180,985 | 408,875 | 13,000 |
| **Total long-term bonds** | | 2,670,000 | 770,230 | 711,625 | 2,728,605 | 61,220 |

(Continued)

(Dollars in Thousands)

## NOTE 6 - LONG TERM DEBT (Continued)

| | Original Issue Amount | Balance June 30, 2014 | Additions | Retirements | Balance June 30, 2015 | Amount due within one year |
|---|---|---|---|---|---|---|
| ***Water Loans:*** | | | | | | |
| ***State Water Resources Control Board*** | | | | | | |
| **2004 Upper San Leandro Reservoir Project** | | | | | | |
| 2.51%, due 1/1/24 | $2,188 | $1,175 | | $111 | $1,064 | $114 |
| **2008 East Bayshore, Recycled Water Project** | | | | | | |
| 2.40%, due 4/1/28 | 20,100 | 14,836 | | 904 | 13,932 | 926 |
| Total water loans | | 16,011 | | 1,015 | 14,996 | 1,040 |
| **Total long-term loans** | | 16,011 | | 1,015 | 14,996 | 1,040 |
| ***Commercial Paper (see Note 5)*** | | | | | | |
| Water System Commercial Paper | | 359,800 | $1,369,800 | 1,369,800 | 359,800 | |
| Wastewater System Commercial Paper | | 15,000 | 60,000 | 60,000 | 15,000 | |
| Total commercial paper | | 374,800 | 1,429,800 | 1,429,800 | 374,800 | |
| Amount due within one year | | (48,160) | (14,100) | | (62,260) | |
| Add: Unamortized premium, net | | 100,423 | 141,570 | 41,675 | 200,318 | |
| **Total long-term liabilities, net** | | $3,113,074 | $2,327,500 | $2,184,115 | $3,256,459 | $62,260 |

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

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

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

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

The District is subject to certain revenue bond covenants on outstanding debt which require the setting of rates and charges to yield net revenues of the respective Water System or Wastewater System, as applicable, equal to at least 110% of the current annual debt service requirements for all revenue bonds and other parity obligations of the respective Water System or Wastewater System. The District has designated $119.1 million ($95.0 million for the Water System and $24.1 million for the Wastewater System) of operating reserves as a rate stabilization fund, which is available to satisfy the coverage requirements for debt service in future years. There have never been any draws for this purpose.

## NOTE 6 - LONG TERM DEBT (Continued)

***Water Issuance During the Year***

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

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

**2015 Water System Revenue Bonds, Series 2015B (Green Bonds) –** The District issued $74.3 million principal amount of Series 2015B Bonds on June 17, 2015, to provide additional monies to finance improvements to the Water System of the District and pay the costs of issuance in connection with the Series 2015B Bonds. The Series 2015B Bonds are special obligations of the District and are payable solely from and secured by a pledge of Subordinated Water Revenues. Principal payments commence on June 1, 2023 and are payable annually on June 1 thereafter. Interest payments are payable on June 1st and December 1st of each year, commencing December 1, 2015.

**2015 Water System Revenue Bonds, Series 2015C –** The District issued $110.7 million principal amount of Series 2015C Bonds on June 17, 2015, to provide additional monies to finance improvements to the Water System of the District and pay the costs of issuance in connection with the 2015C Bonds. The Series 2015C 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, 2024 and are payable annually on June 1 thereafter. Interest payments are payable on June 1st and December 1st of each year, commencing December 1, 2015.

***Wastewater Issuance During the Year***

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

(Dollars in Thousands)

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

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

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

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

### *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 |
| 2016 | $49,260 | $114,176 | $13,000 | $19,565 | $62,260 | $133,741 |
| 2017 | 52,860 | 111,971 | 13,655 | 19,009 | 66,515 | 130,980 |
| 2018 | 59,116 | 109,456 | 13,790 | 18,015 | 72,906 | 127,471 |
| 2019 | 61,562 | 106,821 | 10,675 | 17,877 | 72,237 | 124,698 |
| 2020 | 64,309 | 103,878 | 11,185 | 17,075 | 75,494 | 120,953 |
| 2021 - 2025 | 366,834 | 470,624 | 64,015 | 79,336 | 430,849 | 549,960 |
| 2026 - 2030 | 419,367 | 375,784 | 73,990 | 63,898 | 493,357 | 439,682 |
| 2031 - 2035 | 530,380 | 262,607 | 88,635 | 44,150 | 619,015 | 306,757 |
| 2036 - 2040 | 596,394 | 116,704 | 119,930 | 19,012 | 716,324 | 135,716 |
| 2041 - 2045 | 134,644 | 16,437 | | | 134,644 | 16,437 |
| Totals | $2,334,726 | $1,788,458 | $408,875 | $297,937 | $2,743,601 | $2,086,395 |

Interest payments on debt subject to swap agreements were calculated using the variable rates at June 30, 2015.

(Dollars in Thousands)

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

***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, 2015, $391 million of the bonds outstanding are considered defeased.

***E. Variable Rate Debt***

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

| | Standby Purchase Agreement Terms | | |
|---|---|---|---|
| Issue | 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 | 7/2/2018 | Reset Weekly | See below |
| Series 2008A-3 | 7/2/2018 | Reset Weekly | See below |
| Series 2008A-4 | 12/9/2016 | Reset Weekly | See below |

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

*Term and credit risks.* The terms and credit ratings of the outstanding swaps, as of June 30, 2015, are included below. The District's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to follow scheduled reductions in the associated bonds.

**(Dollars in Thousands)**

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

| 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 | $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. | A1/A | 3.115% | 62.3% of 30-day LIBOR | 6/1/2038 |
| 2008A Water System Refunding | 16,195 | 6/1/2012 | Merrill Lynch Capital Services | Baa1/A- | 3.115% | 62.3% of 30-day LIBOR | 6/1/2038 |
| 2008A Water System Refunding | 14,575 | 9/25/2008 | The Bank of New York Mellon | Aa2/AA- | 3.115% | 62.3% of 30-day LIBOR | 6/1/2038 |

The effect of these transactions is structured to result in the approximate equivalent of the District paying a fixed rate on the bonds, since the inflow of payments from the LIBOR based swaps are anticipated to approximate the outflow of payments on the variable rate bonds. Only the net difference in 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, 2015, are included below:

| Related Bond Issuance | Fair Value 2015 | Fair Value 2014 |
|---|---|---|
| **Water** | | |
| 2008A Water System Refunding Bonds | ($23,485) | ($19,543) |
| 2009A Water System Refunding Bonds | - | (11,213) |
| Total Water | (23,485) | (30,756) |
| **Wastewater** | | |
| 2011A Wastewater System Refunding Bonds | - | (8,131) |
| 2008C Wastewater System Refunding Bonds | - | (6,866) |
| Total Wastewater | - | (14,997) |
| Totals | ($23,485) | ($45,753) |

*Credit risk.* As of June 30, 2015, the District was not exposed to credit risk on its outstanding swaps because the swaps had a negative fair value of $23 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.

(Dollars in Thousands)

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

The District will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated. The swap agreements contain provisions that determine if and when the District or the counterparty must provide collateral. The agreements require full collateralization of the fair value of the swap should the counterparty's credit rating fall below a certain threshold. As of June 30, 2015, the District was not required to provide collateral to any SWAP counterparty.

*Basis risk.* Basis risk is the risk that the interest rate paid by the District on underlying variable rate bonds to bondholders temporarily differs from the variable swap rate received from the applicable counterparty. The District is exposed to basis risk as the District receives payments based on LIBOR rates to offset the actual variable interest rate the District pays on its bonds. The District is exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate the District pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost of the basis risk may vary. As of June 30, 2015, the District has a basis difference on its swaps of a positive 7 basis points (the District receives more from its swap floating rate payment than it pays out on its variable rate debt).

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

*Swap payments and associated debt.* Using rates as of June 30, 2015, 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 | Variable-Rate Bonds | | Interest Rate Swaps, Net | |
|---|---|---|---|---|
| June 30 | Principal | Interest | Interest | Total |
| 2016 | - | $59 | $3,154 | $3,213 |
| 2017 | - | 59 | 3,154 | 3,213 |
| 2018 | - | 59 | 3,154 | 3,213 |
| 2019 | - | 59 | 3,154 | 3,213 |
| 2020 | - | 59 | 3,154 | 3,213 |
| 2021 - 2025 | - | 295 | 15,770 | 16,065 |
| 2026 - 2030 | - | 295 | 15,770 | 16,065 |
| 2031 - 2035 | $62,450 | 190 | 10,279 | 10,469 |
| 2036 - 2038 | 42,800 | 24 | 1,311 | 1,335 |
| Totals | $105,250 | $1,099 | $58,900 | $59,999 |

## 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.

**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, 2015, there were 1,433 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 $7,394 in the year ended June 30, 2015. Effective June 18, 2002, a portion of the post-employment healthcare benefit costs is recovered through employee contributions.

(Dollars in Thousands)

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

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, 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% |

(Dollars in Thousands)

## NOTE 8 – EMPLOYEES' RETIREMENT PLAN (Continued)

Effective June 30, 2015, contributions for fiscal year 2015/2016 are as follows:

| | |
|---|---|
| **1980 Plan:** | |
| Pension plan: | |
| Employer service cost | 14.86% |
| Toward unfunded pension liability | 22.85% |
| Other post-employment benefits: | |
| Employer normal cost | 1.22% |
| Unfunded actuarial accrued liability | 4.29% |
| **2013 Plan:** | |
| Pension plan: | |
| Employer service cost | 8.07% |
| Toward unfunded pension liability | 22.85% |
| Other post-employment benefits: | |
| Employer normal cost | 0.77% |
| Unfunded actuarial accrued liability | 4.29% |

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.

(Dollars in Thousands)

## NOTE 8 – EMPLOYEES' RETIREMENT PLAN (Continued)

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

| | |
|---|---|
| Valuation date | June 30, 2014 |
| 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 | 7.50% |
| Average projected salary increases* | Ranges from 4.00% to 9.50% based on years of service* |
| Inflation rate | 3.00% |
| Cost-of-living adjustments | 3.00% |
| Mortality | Healthy: RP-2000 Combinded Healthy Mortality Table projected with scale AA to 2016, set back one year for males and set back two years for females |
| Annual healthcare costs trend rates | 6.875% reduced by increments to a rate of 5% 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.

(Dollars in Thousands)

## 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:

| | 2015 | | | 2014 |
|---|---|---|---|---|
| | Pension | Healthcare Benefit Plan | Totals | |
| Regular contributions: | | | | |
| District contributions | $64,177 | $8,964 | $73,141 | $70,117 |
| Member contributions | 13,240 | 167 | 13,407 | 12,103 |
| | 77,417 | 9,131 | 86,548 | 82,220 |
| Other contributions: | | | | |
| Member buybacks | 20 | | 20 | 30 |
| | $77,437 | $9,131 | $86,568 | $82,250 |

Regular District and member contributions in fiscal 2015 represent an aggregate of 43.67% and 7.98% of covered payroll, respectively. The District's contributions include amounts for post-employment healthcare benefits at a rate of 5.43% of covered payroll, determined by the actuarial dated June 30, 2014. The actual payroll for the District employees covered by the Plan for the year ended June 30, 2015, was $167,380 which was 91.13% of the total District payroll of $183,678.

The total District contribution of $73,453 as of June 30, 2015, consisted of $73,141 regular contribution ($26,528 for normal cost and service cost also includes $46,613 for amortization of the unfunded actuarial accrued liability and payment to reduce the net pension liability) and $312 interest on contribution.

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 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.

(Dollars in Thousands)

## NOTE 8 – EMPLOYEES' RETIREMENT PLAN (Continued)

### *F. Schedule of Employer Contributions*

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

*Health Insurance Benefit Plan:*

| | Actual Contribution | Annual OPEB Cost | Percentage Contributed | Net OPEB Obligation |
|---|---|---|---|---|
| Fiscal year ended June 30: | | | | |
| 2013 | $8,054 | $11,443 | 70% | $19,332 |
| 2014 | 8,831 | 11,184 | 79% | 21,685 |
| 2015 | 9,275 | 11,241 | 83% | 23,651 |

The annual required contributions for fiscal years ended June 30, 2015, 2014 and 2013, include amounts for the pay-as-you-go amounts for post-employment healthcare benefits.

**(Dollars in Thousands)**

## NOTE 8 – EMPLOYEES' RETIREMENT PLAN (Continued)

***Health Insurance Benefit Plan:***

During the fiscal year ended June 30, 2015, the District made contributions to the Health Insurance Benefit Plan toward the Annual Required Contribution (ARC) amounting to $8,963 which represented 4.98% of the $183,678 total District payroll. During the fiscal year ended June 30, 2014, the District made contributions toward the ARC amounting to $8,457 to the plan which represented 4.78% of the $177,063 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, 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 2012/2013 | 11,184 | |
| Less contributions made during fiscal year: | | |
| Contributions to Northern Trust | (8,457) | |
| Interest on Contributions to Northern Trust | (374) | |
| Contributions | (8,831) | |
| Contributions less than ARC | | 2,353 |
| Net OPEB obligation at June 30, 2014 | | 21,685 |
| Annual required contribution (ARC) | 11,254 | |
| Interest on net OPEB obligation | 1,533 | |
| Adjustments to the ARC | (1,546) | |
| Annual OPEB cost - fiscal 2014/2015 | 11,241 | |
| Less contributions made during fiscal year: | | |
| Contributions to Northern Trust | (8,963) | |
| Interest on Contributions to Northern Trust | (312) | |
| Contributions | (9,275) | |
| Increase in net OPEB obligations | | 1,966 |
| **Net OPEB obligation at June 30, 2015** | | $23,651 |

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.

(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. 68 less the fiduciary net position) as of June 30 is as shown below:

| | 2015 | 2014 |
|---|---|---|
| Total pension liability | $1,756,706 | $1,646,534 |
| Plan fiduciary net position | (1,325,387) | (1,107,628) |
| Employer net pension liability | $431,319 | $538,906 |
| Plan fiduciary net position as a percentage of total pension liability | 75.45% | 67.27% |
| Covered payroll | $173,111 | $166,762 |
| Liability as a percentage of covered employee payroll | 249.16% | 323.16% |

Actuarial valuation of the ongoing System involve estimates of the reported amounts and assumptions about the 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 and are not adjusted or rolled forward to the June 30, 2015 and 2014 reporting dates, respectively.

(Dollars in Thousands)

## NOTE 8 – EMPLOYEES' RETIREMENT PLAN (Continued)

For the year ended June 30, 2015, the District recognized pension expense as follows:

| | Water | Wastewater | Total |
|---|---|---|---|
| Contributions made after measurement date | ($54,533) | ($9,644) | ($64,177) |
| Current year changes in the net pension liability: | | | |
| Service cost | 29,604 | 5,383 | 34,987 |
| Interest on total pension liability | 107,931 | 19,626 | 127,557 |
| Member contributions | (10,122) | (1,841) | (11,963) |
| Projected earning on investments | (72,672) | (13,214) | (85,886) |
| Difference in expected and actual earnings | (22,120) | (4,022) | (26,142) |
| Other | 4,700 | 328 | 5,028 |
| Total current year activity | 37,321 | 6,260 | 43,581 |
| Total pension expense | ($17,212) | ($3,384) | ($20,596) |

At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | | Deferred Inflows of Resources | |
|---|---|---|---|---|
| | Water | Wastewater | Water | Wastewater |
| Pension contributions subsequent to measurement date | $54,533 | $9,644 | | |
| Differences between expected and actual experience | 296 | 54 | | 16,089 |
| Changes of assumptions | 12,451 | 2,264 | | |
| Change in proportion and differences between employer | 1,769 | | | 1,770 |
| Net difference between projected and actual earnings | | | 88,483 | |
| Total | $69,049 | $11,962 | $88,483 | $17,859 |

A total of $64,177 was reported as deferred outflows of resources related to contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

| Year Ended | Deferred Outflows of Resources | | Deferred Inflows of Resources | |
|---|---|---|---|---|
| June 30 | Water | Wastewater | Water | Wastewater |
| 2016 | $40,585 | $8,349 | $22,121 | $4,465 |
| 2017 | 40,585 | 8,349 | 22,121 | 4,465 |
| 2018 | 40,585 | 8,349 | 22,121 | 4,465 |
| 2019 | 40,585 | 8,349 | 22,121 | 4,465 |

**(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 | 36% | 5.91% |
| Domestic Small Cap Equity | 4% | 6.47% |
| Developed International Equity | 12% | 6.88% |
| Emerging Markets Equity | 3% | 8.24% |
| Domestic Bonds | 10% | 0.85% |
| Non-Core Fixed Income | 10% | 3.10% |
| Real Estate | 5% | 4.79% |
| Covered Calls | 20% | 4.90% |
| Total | 100% | |

The discount rates used to measure the total pension liability were 7.50% and 7.75% as of June 30, 2015 and June 30, 2014, 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, 2015 and June 30, 2014.

In accordance with GASB 68 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, 2015, calculated using the discount rate of 7.50%, 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 (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

| | 1% Decrease (6.50%) | Current Discount (7.50%) | 1% Increase (8.50%) |
|---|---|---|---|
| Net Pension Liability | $659,789 | $431,319 | $241,010 |

**(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 | 8.65% of Reportable Compensation |
| Member Contribution Rate as a percentage of payroll | 8.75% of Reportable Compensation |

The employer contribution rate listed above was in effect until June 30, 2015. 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 17.4% 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, 2015, the District paid $1,597 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/<br>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.

**(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, 2015, the amount of these liabilities was $43,499. 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:

| | 2015 | 2014 |
|---|---|---|
| Liability at beginning of year | $43,397 | $42,201 |
| Current year claims and changes in estimates | 6,863 | 6,731 |
| Payments of claims | (6,761) | (5,535) |
| Liability at end of year | $43,499 | $43,397 |
| Estimated liability: | | |
| Due within one year | $8,714 | $8,683 |
| Due in more than one year | 34,785 | 34,714 |
| | $43,499 | $43,397 |

## NOTE 10 – KNOWN ENVIRONMENTAL MATTERS

Following is a summary of the District’s known environmental matters as of June 30, 2015, 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. In 2014, the District signed a Consent Decree on this matter that focuses on the excess wet weather flow entering the District's system and allows continued discharges while work to reduce them is performed. The Consent Decree requires the District and its seven satellite agencies to do a range of work to reduce flows, including working with property owners to address leaks in their private sewer laterals. The Consent Decree is expected to be in place until 2036, at which time discharges will have ceased. The District's cost to meet the requirements in the Consent Decree is approximately $5M 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.

## 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 and a Value Engineering (VE) study was completed in 2014 to analyze life-cycle costs of the recommended alternative consistent with required performance, reliability, quality, safety, and achievement of mission priorities. Subsequent to the VE study, BLM risk assessors audited the site to make recommendations for further financial savings. At this time the District is awaiting a final proposal from BLM that incorporates the findings of their risk assessor. The final site remedy and cost allocations between the District and BLM have yet to be determined.

- The CVRWQCB has requested that the District address elevated concentrations of petroleum hydrocarbons in soil and groundwater associated with former underground storage tanks (USTs) at the District's Bixler facility. The District has completed significant site investigation work, including groundwater and soil gas monitoring and requested closure of the site from the CVRWQCB. In early 2015 the CVRWQCB requested one more round of ground water monitoring at the site before they can consider closure. The additional monitoring is scheduled for summer 2015.

- 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 any additional work remaining at this site is unknown and the next step will be to meet with the County to agree upon final actions necessary to obtain regulatory closure of the site.

- On April 8, 2015, approximately 170 cubic yards of cellular concrete being used at a District construction site was accidentally released into a storm drain in Oakland, CA. The incident occurred when cellular concrete was being added to a 1,500 foot segment of an abandoned 24-inch water main line. The cellular concrete flowed through enclosed storm drain pipes and open creek channels following the release. District staff immediately initiated emergency response and an incident command structure to commence cleanup of the creek; the cleanup took approximately 4 weeks. The cleanup phase has transitioned into a long term restoration phase which is projected to run into early 2016. It is unknown whether or not enforcement action will be taken by regulatory agencies for this incident.

- 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 $350 thousand.

## NOTE 11 - CONTINGENT LIABILITIES

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

## NOTE 12 – COMMITMENTS AND CONTINGENCIES

***Central Valley Project***

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

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**REQUIRED SUPPLEMENTAL INFORMATION**

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## (1) Pension Plan

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

| | 2015 | 2014 |
|---|---|---|
| **Total pension liability** | | |
| Service cost | $34,987 | $34,857 |
| Interest | 127,558 | 120,810 |
| Change of benefit terms | | |
| Differences between expected and actual experience | 438 | (402) |
| Changes of assumptions | 18,421 | |
| Benefit payments, including refunds of employee contributions | (71,232) | (65,427) |
| **Net change in total pension liability** | 110,172 | 89,838 |
| **Total pension liability - beginning** | 1,646,534 | 1,556,696 |
| **Total pension liability - ending (a)** | $1,756,706 | $1,646,534 |
| **Plan fiduciary net position** | | |
| Contributions - employer | $61,660 | $53,795 |
| Contributions - employee | 11,963 | 10,427 |
| Net investment income | 216,601 | 136,630 |
| Benefit payments, including refunds of employee contributions | (71,232) | (65,427) |
| Administrative expense | (1,233) | (1,200) |
| **Net change in plan fiduciary net position** | 217,759 | 134,225 |
| **Plan fiduciary net positon - beginning** | 1,107,628 | 973,403 |
| **Plan fiduciary net position - ending (b)** | $1,325,387 | $1,107,628 |
| **Plan's net pension liability - ending (a) - (b)** | $431,319 | $538,906 |

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

Unaudited

## (2) Pension Plan

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

| | 2015 | 2014 |
|---|---|---|
| Total pension liability | $1,756,706 | $1,646,534 |
| Plan fiduciary net position | (1,325,387) | (1,107,628) |
| Net pension liability | $431,319 | $538,906 |
| Plan fiduciary net position as a percentage of total pension liability | 75.45% | 67.27% |
| Covered employee payroll | $173,111 | $166,762 |
| Plan net pension liability as percentage of covered employee payroll | 249.16% | 323.16% |

*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 | 166,762 | 32.26% |
| 2014 | 61,660 | 61,660 | 0 | 173,111 | 35.62% |

* "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.*

## (4) Pension Plan

Schedule of Investment Returns:

| | 2015 | 2014 |
|---|---|---|
| Annual money weighted rate of return, net of investment expense | 6.67% | 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) |
|---|---|---|---|---|---|---|
| 6/30/2005 | $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% |
| 6/30/2014 | 19,634 | 140,416 | 120,782 | 14.0% | 167,196 | 72.2% |

Unaudited

(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, 2014 |
| 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 | 7.50% |
| Average projected salary increases* | Ranges from 4.00% to 9.50% based on years of service* |
| Inflation rate | 3.00% |
| Cost-of-living adjustments | 3.00% |
| Mortality | Healthy: RP-2000 Combinded Healthy Mortality Table projected with scale AA to 2016, set back one year for males and set back two years for females |
| Annual healthcare costs trend rates | 6.875% reduced by increments to a rate of 5% 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
EMPLOYEE RETIREMENT SYSTEM TRUST FUND
COMBINING BALANCE SHEET
June 30, 2015
(With summarized comparative financial information as of June 30, 2014)
(DOLLARS IN THOUSANDS)

| | 2015 | | | |
|---|---|---|---|---|
| | Pension plan benefits | Post-employment healthcare benefits | Total | 2014 Total |
| Assets: | | | | |
| Cash and cash equivalents, at fair value | $29,713 | $501 | $30,214 | $36,658 |
| Invested securities lending collateral | 106,749 | 1,799 | 108,548 | 129,511 |
| Prepaid expenses | | 495 | 495 | 477 |
| Receivables: | | | | |
| Brokers, securities sold | 5,742 | 97 | 5,839 | 2,945 |
| Employer | 2,805 | 415 | 3,220 | 2,964 |
| Plan members | 634 | | 634 | 537 |
| Interest and dividends | 2,422 | 41 | 2,463 | 2,074 |
| Total receivables | 11,603 | 553 | 12,156 | 8,520 |
| Investments, at fair value: | | | | |
| U.S. government obligations | 72,380 | 1,220 | 73,600 | 82,377 |
| Municipal bonds | 2,213 | 37 | 2,250 | 4,385 |
| Domestic corporate bonds | 158,275 | 2,667 | 160,942 | 153,500 |
| International bonds | 17,880 | 301 | 18,181 | 10,847 |
| Domestic stocks | 812,776 | 13,695 | 826,471 | 783,177 |
| International stocks | 216,509 | 3,648 | 220,157 | 204,458 |
| Real estate | 72,724 | 1,225 | 73,949 | 68,194 |
| Total investments | 1,352,757 | 22,793 | 1,375,550 | 1,306,938 |
| Total assets | 1,500,822 | 26,141 | 1,526,963 | 1,482,104 |
| Liabilities: | | | | |
| Accounts payable and accrued expenses | 1,660 | 28 | 1,688 | 1,507 |
| Payables to brokers, securities purchased | 9,360 | 158 | 9,518 | 4,198 |
| Securities lending collateral | 106,749 | 1,799 | 108,548 | 129,511 |
| Total liabilities | 117,769 | 1,985 | 119,754 | 135,216 |
| Net position held in trust for pension benefits and post-employment healthcare benefits. | $1,383,053 | $24,156 | $1,407,209 | $1,346,888 |

See accompanying notes to financial statements

EAST BAY MUNICIPAL UTILITY DISTRICT
EMPLOYEES' RETIREMENT SYSTEM TRUST FUND
COMBINING STATEMENT OF CHANGES IN NET POSITION
For the Year Ended June 30, 2015
(With summarized comparative financial information for the year ended June 30, 2014)
(DOLLARS IN THOUSANDS)

| | 2015 | | | |
|---|---|---|---|---|
| | Pension plan benefits | Post-employment healthcare benefits | Total | 2014 Total |
| Additions: | | | | |
| Contributions: | | | | |
| Employer | $64,177 | $8,964 | $73,141 | $70,117 |
| Plan members | 13,260 | 167 | 13,427 | 12,133 |
| Total contributions | 77,437 | 9,131 | 86,568 | 82,250 |
| Investment income: | | | | |
| Net (depreciation) in fair value of investments: | | | | |
| Traded securities | 38,196 | 605 | 38,801 | 197,439 |
| Real estate | 2,256 | 36 | 2,292 | 2,129 |
| Interest | 4,263 | 67 | 4,330 | 7,193 |
| Dividends | 18,475 | 293 | 18,768 | 15,470 |
| Real estate operating (loss), net | 1,040 | 16 | 1,056 | 1,104 |
| | 64,230 | 1,017 | 65,247 | 223,335 |
| Less: | | | | |
| Investment expense | (4,839) | (77) | (4,916) | (3,437) |
| Borrowers' rebates and other agent fees on securities lending transactions | (103) | (2) | (105) | (67) |
| Net investment (loss) | 59,288 | 938 | 60,226 | 219,831 |
| Total additions, net | 136,725 | 10,069 | 146,794 | 302,081 |
| Deductions: | | | | |
| Benefits paid | 77,587 | 7,394 | 84,981 | 78,149 |
| Refund of contributions | 203 | | 203 | 116 |
| Administrative expenses | 1,269 | 20 | 1,289 | 1,256 |
| Total deductions | 79,059 | 7,414 | 86,473 | 79,521 |
| Change in net position | 57,666 | 2,655 | 60,321 | 222,560 |
| Net position: | | | | |
| Beginning of year | 1,325,387 | 21,501 | 1,346,888 | 1,124,328 |
| End of year | $1,383,053 | $24,156 | $1,407,209 | $1,346,888 |

See accompanying notes to financial statements

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

Board of Directors
East Bay Municipal Utility District
Oakland, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the East Bay Municipal Utility District, as of and for the year ended June 30, 2015 and the related notes to the financial statements, and have issued our report thereon dated August 27, 2015. 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.

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***Compliance and Other Matters***

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

We have also issued a separate Memorandum on Internal Control dated August 27, 2015 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.

Maze + Associates

Pleasant Hill, California
August 27, 2015

## APPENDIX B

## PROPOSED FORMS OF CO-BOND COUNSEL OPINION AND SPECIAL TAX COUNSEL OPINION

### PROPOSED FORM OF CO-BOND COUNSEL OPINION

*On December 2, 2015, the District will receive an opinion of Norton Rose Fulbright US LLP, Los Angeles, California, and Curls Bartling P.C., Oakland, California, Co-Bond Counsel to the District, with respect to the Water Series A Notes in substantially the following form:*

[Date]

East Bay Municipal Utility District
Oakland, California

East Bay Municipal Utility District
Commercial Paper Notes (Water Series)
Tax-Exempt Subseries A-1 and Tax-Exempt Subseries A-2
(Final Opinion)

Ladies and Gentlemen:

We have examined a record of proceedings relating to the authorization of issuance by the East Bay Municipal Utility District (the "District") of up to $200,000,000 in aggregate principal amount (at any time Outstanding) of its Commercial Paper Notes (Water Series), Tax-Exempt Subseries A-1 (the "Water Series A-1 Notes") and up to $160,000,000 in aggregate principal amount (at any time Outstanding) of its Commercial Paper Notes (Water Series), Tax-Exempt Subseries A-2 (the "Water Series A-2 Notes"). The Water Series A-1 Notes and the Water Series A-2 Notes are each referred to herein separately as a "subseries" and are referred to herein collectively as the "Notes." The Notes are authorized and will be issued pursuant to and by authority of Chapter 7.5 of the Municipal Utility District Act (constituting Division 6 of the Public Utilities Code of the State of California) (the "Act"), Resolution No. 34032-15, adopted by the Board of Directors of the District (the "Board") on April 28, 2015, and Resolution No. 34062-15, adopted by the Board on November 24, 2015 (together, the "Note Resolutions"), and the Issuing and Paying Agent Agreement, dated as of December 1, 2015 (the "Issuing and Paying Agent Agreement"), by and between the District and U.S. Bank, National Association, as issuing and paying agent (the "Issuing and Paying Agent").

In our capacity as co-bond counsel, we have reviewed the Act, the Note Resolutions, the Issuing and Paying Agent Agreement, certifications of the District and others, opinions of counsel to the District and such other documents, opinions and instruments as we deemed necessary to render the opinions set forth herein. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Issuing and Paying Agent Agreement.

We have assumed the genuineness of all documents and signatures presented to us. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents. Furthermore, we have assumed compliance with all covenants and agreements contained in the Issuing and Paying Agent Agreement. We call attention to the fact that the rights and obligations under the Notes and the Issuing and Paying Agent Agreement are subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other similar laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public agencies in the State of California. In addition, the imposition of certain fees and charges by the District relating to the Water System is subject to the provisions of Articles XIIIC and XIIID of the California Constitution.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Notes have been duly authorized by the District in accordance with the laws of the State of California and pursuant to the Note Resolutions.

2. The Issuing and Paying Agent Agreement has been duly authorized, executed and delivered by the District and, assuming due authorization, execution and delivery by the Issuing and Paying Agent, constitutes a valid and binding obligation of the District. The Issuing and Paying Agent Agreement creates a valid pledge, to secure the payment of the principal of and interest on the Notes, of the Available Water Revenues of the District, as and to the extent set forth in the Issuing and Paying Agent Agreement and subject to the provisions of the Issuing and Paying Agent Agreement permitting the application thereof for the purposes and on the terms and conditions set forth therein.

3. The Notes, when duly issued in the form authorized by and otherwise in compliance with the Issuing and Paying Agent Agreement, executed by the manual or facsimile signature of a duly authorized official of the District and authenticated by the Issuing and Paying Agent against payment therefor, will constitute valid and binding limited obligations of the District, payable exclusively from and secured by a pledge of Available Water Revenues. Each subseries of the Notes is also payable from the proceeds of such subseries of Notes or Advances under the related Liquidity Facility, as provided in the Issuing and Paying Agent Agreement. Neither the full faith and credit nor the taxing power of the District is pledged for the payment of the Notes or the interest thereon.

We express no opinion as to any federal or state tax consequences of the ownership or disposition of the Notes.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

No opinion is expressed herein on the accuracy, completeness or sufficiency of the Offering Memorandum or other offering material relating to the Notes.

This opinion is limited to the laws of the State of California.

Respectfully submitted,

Respectfully submitted,

**PROPOSED FORM OF OPINION OF SPECIAL TAX COUNSEL**

*On December 2, 2015, the District will receive an opinion of Orrick, Herrington & Sutcliffe LLP, Special Tax Counsel to the Dealers, with respect to the Water Series A Notes in substantially the following form:*

[Date]

East Bay Municipal Utility District
Oakland, California

East Bay Municipal Utility District
Commercial Paper Notes (Water Series)
Tax-Exempt Subseries A-1 and Tax-Exempt Subseries A-2
(Special Tax Opinion)

Ladies and Gentlemen:

We have acted as special tax counsel in connection with the authorization of issuance by the East Bay Municipal Utility District (the "District") of up to $200,000,000 in aggregate principal amount (at any time Outstanding) of its Commercial Paper Notes (Water Series), Tax-Exempt Subseries A-1 (the "Water Series A-1 Notes") and up to $160,000,000 in aggregate principal amount (at any time Outstanding) of its Commercial Paper Notes (Water Series), Tax-Exempt Subseries A-2 (the "Water Series A-2 Notes" and together with the Water Series A-1 Notes, the "Notes"). The Notes are authorized and will be issued pursuant to and by authority of Chapter 7.5 of the Municipal Utility District Act (constituting Division 6 of the Public Utilities Code of the State of California) (the "Act"), Resolution No. 34032-15, adopted by the Board of Directors of the District (the "Board") on April 28, 2015, and Resolution No. 34062-15, adopted by the Board on November 24, 2015 (together, the "Note Resolutions"), and the Issuing and Paying Agent Agreement, dated as of December 1, 2015 (the "Issuing and Paying Agent Agreement"), by and between the District and U.S. Bank, National Association, as issuing and paying agent (the "Issuing and Paying Agent").

In such connection, we have reviewed the Issuing and Paying Agent Agreement, the Tax Certificate of the District, dated the date hereof (the "Tax Certificate"), certificates of the District and others, an opinion of counsel to the District and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. In particular, we have relied on the opinion of Norton Rose Fulbright US LLP and Curls Bartling P.C., co-bond counsel to the District (the "Bond Counsel Opinion"), regarding, among other matters, the validity of the Notes. In rendering the opinions expressed herein, we expressly have relied on the Bond Counsel Opinion that, among other matters, the Notes are valid, binding and enforceable in accordance with their terms. We call attention to the fact that the interest on the Notes may not be excluded from gross income for federal income tax purposes or exempt from State of California personal income taxes if the Notes are not valid, binding and enforceable in accordance with their terms.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions, and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof and before or after Notes are issued. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. We disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies and the due and legal execution and delivery thereof by, and validity against, any parties other than the Issuer). We have assumed, without undertaking to verify, the accuracy (as of the date hereof and as of each date of issuance from time to time of the Notes) of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinion, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Issuing and Paying Agent Agreement and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Notes to be included in gross income for federal income tax purposes, possibly retroactive to the date on which the first Notes were issued. We call attention to the fact that the rights and obligations under the Notes, the Issuing and Paying Agent Agreement and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against county municipal utility districts in the State of California. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Offering Memorandum or other offering material relating to the Notes and express no opinion with respect thereto.

Based on and subject to the foregoing and in reliance thereon, as of the date hereof, we are of the opinion that interest on the Notes, when issued in accordance with the Issuing and Paying Agent Agreement and the Tax Certificate, will be excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and exempt from State of California personal income taxes. The amount treated as interest on the Notes and excluded from gross income will depend upon the taxpayer's election under Internal Revenue Service Notice 94-84. Interest on the Notes is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that interest on the Notes is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Notes.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

# APPENDIX C

# EAST BAY MUNICIPAL UTILITY DISTRICT
# ANNUAL STATEMENT OF INVESTMENT POLICY

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# Policy 4.07

EFFECTIVE 28 APR 15

SUPERSEDES 26 MAR 13

## INVESTMENT POLICY

**IT IS THE POLICY OF THE EAST BAY MUNICIPAL UTILITY DISTRICT TO:**

Invest District funds and funds managed by the District on behalf of its Joint Powers Authorities (JPAs) in compliance with investment criteria for safety, liquidity, yield and diversity as set forth herein. 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.

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**Authority**

Section 53600 et. seq. of the California Government Code, Article 7 in Chapter 6 of the Municipal Utility District (M.U.D.) Act, and Board Resolution No. 33232-01 defines the types of allowable investments and delegates to the Director of Finance as the Treasurer the authority and responsibility to invest idle monies of the District. The investment of bond proceeds are specifically defined in the individual bond indenture documents and are not included in this policy. Section 53635 of the California Government Code defines how investments are to be handled for Joint Powers Authorities.

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**Investment Criteria**

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 ensure the preservation of principal and interest and minimize risk to the greatest extent possible. It is the primary duty of the Treasurer to protect, preserve and maintain cash and investments 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.

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 portfolio shall be invested in any one type of security, and other than federally backed securities, no more than 10% in any one investment issue, nor more than 10% with any one issuer.

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**Investment Options**

The District is able to purchase investments in the following instruments as stipulated under Section 53601 et. seq. of the California Government Code, Article 7 in Chapter 6 of the M.U.D. Act, Board Resolutions and guidelines set by the District:

1. U.S. Treasury Notes, Bonds and Bills

   - Unlimited investments
   - Maturity date not to exceed 5 years

2. State of California, Local Agency Investment Fund (LAIF)

   - Maximum limit as determined by Section 16429.1 of the California Government Code

3. Obligations issued by Federal Agencies or a U.S. Government sponsored enterprise such as the Federal Farm Credit Bank (FFCB), Federal Home Loan Bank (FHLB), and Federal National Mortgage Association (FNMA).

   - Each agency holding limited to 40% of the Portfolio Investments
   - Maturity date not to exceed 5 years

4. Banker's Acceptances

   - Limited to 40% of the District's Portfolio
   - Issued by banks with total deposits of one billion dollars ($1,000,000,000) or more
   - Maturity not to exceed 180 days
   - Prime quality depending on size and credit worthiness of Bank
   - Issued by banks from offices in the U.S.

5. Commercial Paper

   - Limited to 25% of the District's Portfolio
   - Maturity not to exceed 270 days
   - Ratings of A1, P1 or F1 by either S&P, Moody's, or Fitch respectively
   - Eligible Commercial Paper is limited to those issued by corporations organized and operating in the U.S., with total assets exceeding $500,000,000

6. Medium Term Corporate Notes

   - Limited to 30% of the District's Portfolio
   - Maturity not to exceed five years
   - Issued by corporations operating within the United States
   - Rated AA or higher by one nationally-recognized rating service. If the rating drops below AA, an evaluation of the credit will be performed to determine if the notes should be sold.

7. Repurchase Agreements

   - Limited to 20% of the District's investment portfolio
   - Maturity not to exceed 270 days
   - Collateral may be any securities authorized in items 1 through 5 above
   - A Master Repurchase Agreement must be on file with the District
   - Security marked to market on a daily basis and delivered to the District's custodial bank at a market value of at least 102%
   - Primarily used as a limited term investment and a vehicle to fill particular dates and amounts

8. Certificates of Time Deposit

   - Maturity not to exceed 5 years
   - On uncollateralized deposits, limited to $100,000 per Bank or Savings & Loan, or maximum FDIC insured
   - On collateralized deposits, limited to 30% of District's Investment Portfolio
   - Investment in local branches within the District, whenever possible
   - Deposits over $100,000 will be collateralized in accordance with Sections 53651 and 53652 of the California Government Code
   - Deposits will be supported by a Contract for Deposit of Money with the depositing bank
   - An important consideration will be credit worthiness/solvency of the banking institution as evaluated by S&P or Moody's or other evaluator of financial institution's fiscal stability

9. Negotiable Certificates of Deposit

- Limited to 30% of the District's portfolio
- Maturity not to exceed five years
- Issued by banks with total deposits of one billion dollars ($1,000,000,000) or more, and a credit rating of AA or higher

10. Money Market Mutual Funds

- Rated AAA (or equivalent highest ranking) by two of the three largest nationally recognized rating services
- Unrated funds with assets under management in excess of $500,000,000 and which has retained an advisor registered with the Securities and Exchange Commission with no less than five years experience investing in instruments allowed under the District's investment policy
- Permitted investments conform to those authorized by the California Government Code (Sections 53601 et seq,)
- May not represent more than five percent (5%) of the money market fund's assets

11. Municipal Bonds

- Limited to 40% of the District's portfolio
- Maturity date not to exceed 5 years or with a put provision within 5 years of date of purchase
- Rated AA or higher by one nationally-recognized rating service. If the rating drops below AA, an evaluation of the credit will be performed to determine if the notes should be sold.
- Notes must be issued by the State of California or a local California agency. Notes maturing within 365 days must have a rating of MIG-1, SP-1, or F-1 by either Moody's, S&P, or Fitch respectively. If a rating is revised downwards at any time, an evaluation will be made to determine if the notes should be sold.

12. California Asset Management Program (CAMP)

- Limited to 10% of the District's portfolio
- Investments will be made in the CAMP Investors Shares Series
- Rated highest short term rating by either S&P, Moody's or Fitch

**Investment Placement**

Investment placement shall be determined by, but not limited to, continual evaluation and projection of market conditions, interest rate trends, cash flow needs, economic data, yield curves, and interest rate forecasts. Additionally, the Treasurer will obtain at least three quotations from dealers, brokers, banks or savings and loan associations before finalizing any investment purchase for all investments in excess of $1 million. The combination of these factors shall determine where, in what denomination, and for what maturity investments are made.

**Selling Securities Prior To Maturity**

Losses are only allowable if either the sale of securities was necessary to meet payment obligations where no other funds are available, or the proposed swap/trade can enhance yield over the life of the new security on a total return basis.

**Collateral**

Securities placed with agents of depository shall at all times be maintained as specified in District Resolution 33232-01 in one or more trust companies, State or national banks located within California, the Federal Reserve Bank, or with any state or national bank located in any city designated as a federal reserve city by the Board of Governors of the Federal Reserve System, and to take from any such banks or trust companies receipts for securities so deposited. Requests for Collateral substitution and releases are subject to the Treasurer's written approval.

**Purchasing Entities**

Investments not purchased directly from the issuer will be purchased from:

- Institutions licensed by the State of California as a broker - dealer
- National or California State Chartered Banks
- Federal or California Chartered Savings Institution
- Brokerage firms designated as a primary government dealer by the Federal Reserve Bank
- Member of a federally regulated securities exchange

The Treasurer shall maintain a current eligible list of established dealers, brokers, banks and savings and loan associations with which securities trading and placement of funds are authorized. Strong capital base and credit worthiness are primary criteria for inclusion on the approved list. Dealers and brokers shall be regulated by the Securities and Exchange Commission and be members in good standing of the Financial Industry Regulatory Authority.

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**Investment Security**

To ensure a high degree of internal control, the District shall comply with the following:

1. All Securities purchased from dealers and brokers shall be held in safekeeping by the District's custodial bank, a national bank, a State chartered bank or trust company, established for this purpose as someone other than the selling party of the security. Securities purchased will be covered by a trust or safekeeping receipt in a manner that establishes the District's ownership. All transactions require delivery of the security prior to payment for the security (delivery vs. payment).

2. All trade confirmations shall be received directly and reviewed for conformity to the original transaction by an individual other than the person originating the transaction. All trade confirmations must be an original; copies of confirmations are not allowed. Any discrepancies will be brought to the attention of the Treasurer.

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**Fund Wire Procedures**

Payment for securities purchased from broker dealers that are ineligible to provide safekeeping will be made through the District’s custodial bank. Funds will only be transferred subsequent but immediately following the custodial bank’s acknowledgment that they are prepared to make settlement on the terms and conditions specified by the District. Payment for securities purchased from bank investment departments that will be safe kept with the trust department of the bank will be made immediately upon confirmation of the trade.

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**Review And Reporting Requirements**

On a quarterly basis the Treasurer shall prepare and submit a report to the General Manager and the Board of Directors listing investment transactions for the quarter and providing an investment summary by security type, percent of the portfolio, investment yield and the remaining period of investment to maturity.

On an annual basis, in accordance with Section 53646 of the California Government Code, an investment policy may be presented to the Board for consideration at a public meeting. In conjunction with the investment policy consideration, the Board shall also annually review the delegation of its authority for the management of investments to the Treasurer of the District.

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**Performance Review And Internal Control**

Office of Internal Audit

The Office of Internal Audit will periodically audit the investment portfolio to evaluate the effectiveness of the District's investment program as well as its compliance with the Investment Policy. These audits will supplement the annual review by the District’s external auditors.

Finance Department

The Director of Finance will review the investment portfolio monthly for compliance with the Investment Policy and make recommendations for changes and improvements where warranted.

**Authority**

Resolution No. 33019-96 on December 10, 1996,
Amended by Resolution No. 33134-99 on January 26, 1999
Amended by Resolution No. 33232-01 on January 9, 2001
Amended by Resolution 33287-02 on January 22, 2002
Amended by Resolution 33350-03 on February 25, 2003
Amended by Resolution 33390-04 on January 27, 2004
Amended by Resolution 33464-05 on February 22, 2005
Amended by Resolution 33516-06 on January 24, 2006
Amended by Resolution 33585-07on March 13, 2007
Approved by Resolution 33658-08, February 26, 2008
Approved by Resolution 33702-09, February 24, 2009
Approved by Resolution 33752-10, January 26,2010
Approved by Resolution 33792-10, November 23, 2010
Approved by Resolution 33871-12, April 24, 2012
Approved by Resolution 33920-13, March 26, 2013
Reaffirmed by Motion 056-14, March 25, 2014
Approved by Resolution 34027-15, April 28, 2015

## APPENDIX D

## BOOK-ENTRY SYSTEM FOR THE WATER SERIES A NOTES

### General

One fully-registered master commercial paper note certificate in the aggregate principal amount not exceeding the full $200,000,000 available to support the Water Series A-1 Notes under the Liquidity Facility provided therefor and one fully-registered master Commercial Paper Note in the aggregate principal amount not exceeding the full $160,000,000 available to support the Water Series A-2 Notes under the Liquidity Facility provided therefor, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, will be deposited with DTC. DTC will act as securities depository for the Water Series A Notes.

### DTC and the Book-Entry System

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to Direct and Indirect Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at *www.dtcc.com*. The information on such website is not incorporated herein by reference.

Purchases of Water Series A Notes under the DTC book-entry system must be made by or through Direct Participants, which will receive a credit for the Water Series A Notes on DTC's records. The ownership interest of each actual purchaser of each Water Series A Note ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Water Series A Notes are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Water Series A Notes, except in the event that use of the book-entry system for the Water Series A Notes is discontinued.

To facilitate subsequent transfers, all Water Series A Notes deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the master commercial paper notes evidencing the Water Series A Notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Water Series A Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Water Series A Notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Water Series A Notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Water Series A Notes. For example, Beneficial Owners of the Water Series A Notes may wish to ascertain that the nominee holding the Water Series A Notes for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the issuing and paying agent and request that copies of notices be provided directly to them.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Water Series A Notes unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Water Series A Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of and interest on the Water Series A Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants" accounts upon DTC's receipt of funds and corresponding detail information from the District or the Issuing and Paying Agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct or Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Issuing and Paying Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of and interest on the Water Series A Notes to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Issuing and Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Water Series A Notes at any time by giving notice to the Issuing and Paying Agent and the District. Under certain circumstances, in the event that a successor depository is not obtained, Water Series A Note certificates are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry transfers for the Water Series A Notes through DTC (or a successor securities depository). In that event, Water Series A Notes certificates will be printed and delivered as provided in the Issuing and Paying Agent Agreement.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE WATER SERIES A NOTES, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE HOLDERS OR OWNERS OR REGISTERED HOLDERS OR REGISTERED OWNERS OF THE WATER SERIES A NOTES (OTHER THAN UNDER THE CAPTION "TAX MATTERS" HEREIN) SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE WATER SERIES A NOTES.

THE DISTRICT AND THE ISSUING AND PAYING AGENT SHALL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DTC PARTICIPANT, ANY BENEFICIAL OWNER OR ANY OTHER PERSON CLAIMING A BENEFICIAL OWNERSHIP INTEREST IN THE WATER SERIES A NOTES UNDER OR THROUGH DTC OR ANY DTC PARTICIPANT, OR ANY OTHER PERSON WHICH IS NOT SHOWN ON THE REGISTRATION BOOKS OF THE ISSUING AND PAYING AGENT AS BEING AN OWNER WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT; (II) THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OF ANY AMOUNT IN RESPECT OF THE PRINCIPAL OF OR INTEREST ON THE WATER SERIES A NOTES; (III) ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO OWNERS OD THE WATER SERIES A NOTES; (IV) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS AN OWNER; OR (V) ANY OTHER PROCEDURES OR OBLIGATIONS OF DTC UNDER THE BOOK-ENTRY SYSTEM.

The foregoing description of the procedures and recordkeeping with respect to beneficial ownership interests in the Water Series A Notes, payment of principal and interest on the Water Series A Notes to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in such Water Series A Notes and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters, and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

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