

**DUBLIN SAN RAMON SERVICES DISTRICT/
EAST BAY MUNICIPAL UTILITY DISTRICT
RECYCLED WATER AUTHORITY**

BASIC FINANCIAL STATEMENTS

June 30, 2018 and 2017

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**DUBLIN SAN RAMON SERVICES DISTRICT/
EAST BAY MUNICIPAL UTILITY DISTRICT
RECYCLED WATER AUTHORITY
BASIC FINANCIAL STATEMENTS
For The Years Ended June 30, 2018 and 2017**

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INDEPENDENT AUDITOR'S REPORT

To Board of Directors
Dublin San Ramon Services District/
East Bay Municipal Utility District Recycled Water Authority
Oakland, California

Report on Financial Statements

We have audited the accompanying financial statements of the Dublin San Ramon Services District/East Bay Municipal Utility District Recycled Water Authority (Authority) as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Authority'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 audits. 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 Authority'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 Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2018 and 2017, and changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis 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 auditing standards generally accepted 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 23, 2018 on our consideration of the Authority'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 Authority's internal control over financial reporting and compliance.

Maze + Associates

Pleasant Hill, California
August 23, 2018

**DUBLIN SAN RAMON SERVICES DISTRICT/
EAST BAY MUNICIPAL UTILITY DISTRICT
RECYCLED WATER AUTHORITY**

Management's Discussion and Analysis

June 30, 2018 and 2017

This section presents management's analysis of the Dublin San Ramon Services District/East Bay Municipal Utility District Recycled Water Authority (the Authority) financial condition and activities as of and for the years ended June 30, 2018 and 2017. Management's Discussion and Analysis (MDA) is intended to serve as an introduction to the Agency's basic financial statements. The MDA represents management's examination and analysis of the Authority's financial condition and performance.

This information should be read in conjunction with the audited financial statements that follow this section. The information in the MDA is presented under the following headings:

- Organization and Business
- Overview of the Financial Statements
- Financial Analysis
- Request for Information

Organization and Business

The Dublin San Ramon Services District/East Bay Municipal Utility District Recycled Water Authority (the Authority) is a public entity established pursuant to California Government Code Section 6500 et seq. The Authority was created in accordance with the terms of a Joint Exercise of Powers Agreement, dated June 28, 1995, between Dublin San Ramon Services District (DSRSD) and East Bay Municipal Utility District (EBMUD). The Authority was established to supply recycled water to DSRSD and EBMUD through the construction and operation of a water recycling facility with a planned capacity of a minimum of 5.2 million gallons per day. The water recycling facility started operation on February 1, 2006.

For additional information, please see the notes to the basic financial statements.

Overview of the Financial Statements

The basic financial statements include a *statement of net position*, a *statement of revenues, expenses, and changes in net position*, a *statement of cash flows*, and *notes to financial statements*. The report also contains other required supplementary information in addition to the basic financial statements.

The Authority's basic financial statements include:

The *statement of net position* presents information on the Authority's assets and liabilities, with the difference between the two reported as net position. It 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 Authority's operations over the course of the fiscal year and information as to how the *net position* changed during the year.

The *statement of cash flows* presents changes in cash and cash equivalents resulting from operational, capital and related financing, 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.

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Management's Discussion and Analysis

June 30, 2018 and 2017

The *notes to basic financial statements* 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 11 to 18 of this report.

Financial Analysis:

Table 1 summarizes net assets at June 30, 2018 and 2017, and Table 2 summarizes revenues, expenses and changes in net position for the years ended June 30, 2018 and 2017. Both tables also include variances from the prior year.

Table 1
Summary of Net Position
June 30, 2018 and 2017

	2018	2017	Variance
Assets:			
Current assets	\$ 1,098,285	\$ 3,830,039	\$ (2,731,754)
Capital assets	76,319,712	65,778,500	10,541,212
Total assets	77,417,997	69,608,539	7,809,458
Liabilities:			
Current liabilities	3,033,506	3,392,549	(359,043)
Long-term liabilities	9,609,348	10,980,353	(1,371,005)
Total liabilities	12,642,854	14,372,902	(1,730,048)
Net position:			
Net investment in capital assets	65,339,359	53,460,581	11,878,778
Unrestricted	(564,216)	1,775,056	(2,339,272)
Total net position	\$ 64,775,143	\$ 55,235,637	\$ 9,539,506

**DUBLIN SAN RAMON SERVICES DISTRICT/
EAST BAY MUNICIPAL UTILITY DISTRICT
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Management's Discussion and Analysis

June 30, 2018 and 2017

Table 2
Summary of Revenues, Expenses and Changes in Net Position
Years ended June 30, 2018 and 2017

	2018	2017	Variance
Operating revenue:	\$ 14,581,106	\$ 12,502,492	\$ 2,078,614
Operating expenses:			
Professional services	(6,211)	(3,708)	(2,503)
General and administrative	(416,137)	(318,363)	(97,774)
Operation and maintenance	(2,150,232)	(1,830,799)	(319,433)
Depreciation	(2,161,072)	(3,162,358)	1,001,286
Total operating expenses	(4,733,652)	(5,315,228)	581,576
Nonoperating income (expenses):			
Interest on state loan	(307,948)	(340,572)	32,624
Total other income (expenses)	(307,948)	(340,572)	32,624
Change in net position	9,539,506	6,846,692	2,692,814
Total net position - beginning	55,235,637	48,388,945	6,846,692
Total net position - ending	\$ 64,775,143	\$ 55,235,637	\$ 9,539,506

- Current assets of the Authority decreased \$2.7 million due to decreased cash from prior year.
- The net position of the Authority in 2018 increased by \$9.5 million from the prior year. The primary reason for this increase was a \$2.1 million increase in total operating revenue, along with a decrease in operating expenses.
- Capital assets as of June 30, 2018 increased by \$10.5 million primarily due to added capital assets of \$12 million and the decrease of \$2 million depreciation expense for the year.
- Total liabilities as of June 30, 2018 decreased by \$1.7 million from the prior year. The principal reason for decrease was the \$1.3 million decrease in the outstanding loan balance.
- The Authority borrowed a 20-year loan in the amount of \$24.7 million with a 2.5% fixed interest rate. After repayment of the twelfth installment of \$1.3 million for fiscal year 2018, as of June 30, 2018, \$9.6 million was the long term liability outstanding.

**DUBLIN SAN RAMON SERVICES DISTRICT/
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Management's Discussion and Analysis

June 30, 2018 and 2017

Request for Information

This financial report is designed to provide readers with a general overview of the Dublin San Ramon Services District/East Bay Municipal Utility District Recycled Water Authority's finances and demonstrate the Authority's accountability for the monies it manages. If you have any questions about this report or need additional information, please contact: DERWA Authority Treasurer, MS #402, P.O. Box 24055, Oakland, CA 94623-1055.

**DUBLIN SAN RAMON SERVICES DISTRICT/
EAST BAY MUNICIPAL UTILITY DISTRICT
RECYCLED WATER AUTHORITY
STATEMENT OF NET POSITION
JUNE 30, 2018 AND JUNE 30, 2017**

ASSETS	2018	2017
Current Assets:		
Cash and cash equivalents (overdraft) (Note 2)	\$ (1,714,957)	\$ 212,534
Receivables:		
East Bay Municipal Utility District	1,119,278	1,517,106
Dublin San Ramon Services District	1,693,964	2,094,755
Interest Receivables	0	5,644
Total Current Assets	1,098,285	3,830,039
Capital Assets (Note 3):		
Structures, buildings, and equipment	82,893,123	81,828,764
Less accumulated depreciation	(22,332,793)	(20,171,721)
Subtotal	60,560,330	61,657,043
Land and rights-of-way	1,890,978	1,890,977
Construction in progress	13,868,404	2,230,480
Total Capital Assets, Net of Accumulated Depreciation	76,319,712	65,778,500
Total Assets	77,417,997	69,608,539
LIABILITIES		
Current Liabilities:		
Current portion of State loan payable (Note 5)	1,371,005	1,337,566
Accounts payable	100,786	42,329
Payable to members:		
East Bay Municipal Utility District	39,407	8,791
Dublin San Ramon Services District	1,522,308	2,003,863
Total Current Liabilities	3,033,506	3,392,549
Long-term Liabilities:		
State loan payable (Note 5)	9,609,348	10,980,353
Total Noncurrent Liabilities	9,609,348	10,980,353
Total Liabilities	12,642,854	14,372,902
NET POSITION (Note 1)		
Net Investment in capital assets	65,339,359	53,460,581
Unrestricted	(564,216)	1,775,056
Total Net Position	\$ 64,775,143	\$ 55,235,637

See accompanying notes to financial statements.

**DUBLIN SAN RAMON SERVICES DISTRICT/
EAST BAY MUNICIPAL UTILITY DISTRICT
RECYCLED WATER AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
JUNE 30, 2018 AND JUNE 30, 2017**

	<u>2018</u>	<u>2017</u>
Operating Revenue:		
Contributions from members	\$ 12,392,494	\$ 8,565,510
Contributions from others	<u>2,188,612</u>	<u>3,936,982</u>
Total Contributions	14,581,106	12,502,492
Operating (Expenses):		
Professional services	(6,211)	(3,708)
General and administrative	(416,137)	(318,363)
Operation and maintenance	(2,150,232)	(1,830,800)
Depreciation (Note 3)	<u>(2,161,072)</u>	<u>(3,162,357)</u>
Total Operating (Expenses)	<u>(4,733,652)</u>	<u>(5,315,228)</u>
Net Operating Income (Loss)	<u>9,847,455</u>	<u>7,187,264</u>
Nonoperating Revenue (Expense):		
Interest on state loan	<u>(307,948)</u>	<u>(340,572)</u>
Total Nonoperating Revenue (Expenses)	<u>(307,948)</u>	<u>(340,572)</u>
Changes in Net Position	9,539,506	6,846,692
Total Net Position - Beginning	<u>55,235,637</u>	<u>48,388,945</u>
Total Net Position - Ending	<u>\$ 64,775,143</u>	<u>\$ 55,235,637</u>

See accompanying notes to financial statements.

**DUBLIN SAN RAMON SERVICES DISTRICT/
EAST BAY MUNICIPAL UTILITY DISTRICT
RECYCLED WATER AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND JUNE 30, 2016**

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Cash received for sales of water	\$ 15,385,369	\$ 9,277,524
Cash (paid) received from bank overdrafts	212,534	(26,559)
Cash paid for supplies and services	<u>(3,371,497)</u>	<u>(336,196)</u>
Net cash provided by operating activities	<u>12,226,406</u>	<u>8,914,769</u>
Cash flows from capital and related financing activities:		
Cash paid for interest	(307,949)	(340,573)
Cash paid on State loan	(1,337,566)	(1,304,942)
Cash paid for construction of capital assets	<u>(12,702,281)</u>	<u>(7,056,720)</u>
Net cash (used in) provided by capital and related financing activities	<u>(14,347,796)</u>	<u>(8,702,235)</u>
Cash flows provided by investing activities:		
Interest and other income received	<u>-</u>	<u>-</u>
Net change in cash and cash equivalents	(1,927,491)	212,534
Cash and investments at beginning of period	<u>212,534</u>	<u>-</u>
Cash and investments at end of period	\$ <u><u>(1,714,957)</u></u>	\$ <u><u>212,534</u></u>
Reconciliation of operating income/(loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 9,847,454	\$ 7,187,264
Adjustments to reconcile operating income/(loss) to net cash provided by operating activities:		
Depreciation	2,161,072	3,162,358
Changes in operating assets and liabilities:		
Accounts receivable	397,828	(3,224,968)
Accounts payable	(392,482)	1,816,674
Bank Overdraft	<u>212,534</u>	<u>(26,559)</u>
Net cash provided by operating activities	\$ <u><u>12,226,406</u></u>	\$ <u><u>8,914,769</u></u>

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**DUBLIN SAN RAMON SERVICES DISTRICT/
EAST BAY MUNICIPAL UTILITY DISTRICT
RECYCLED WATER AUTHORITY**

Notes to Financial Statements

June 30, 2018 and 2017

NOTE 1 –NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A. Description of Reporting Entity

The Dublin San Ramon Services District/East Bay Municipal Utility District Recycled Water Authority (the Authority) is a public entity established pursuant to California Government Code Section 6500 et seq. The Authority was created in accordance with the terms of a Joint Exercise of Powers Agreement, dated June 28, 1995, between Dublin San Ramon Services District (DSRSD) and East Bay Municipal Utility District (EBMUD). The Authority was established to supply recycled water to DSRSD and EBMUD through the construction and operation of a water recycling facility with a planned capacity of a minimum of 5.2 million gallons per day. The water recycling facility is fully operational.

An additional member, or members, may be added to the Authority upon request evidenced by submission of a certified copy of a resolution adopted by the governing body of the public agency requesting membership in the Authority. Such request must be approved by the governing bodies of all the existing members. The Board may require a party seeking to become a member to meet any terms and conditions the Board deems appropriate.

The facilities became operational on February 1, 2006. Operation and maintenance expenses are allocated based on each member's actual usage. General and administrative expenses were allocated equally to DSRSD and EBMUD during the first year of operation ending on March 31, 2007; after the first operation year, the costs are allocated based on the member's actual water usage. Capital costs, including debt service, is allocated based on each member's proportional value of capital assets assigned to each member agency.

B. Basis of Accounting

The accompanying financial statements report the financial position of the Authority in accordance with accounting standards generally accepted in the United States of America. As the Authority is a governmental entity, the preparation of its financial statements is governed by the pronouncements of the Governmental Accounting Standards Board (GASB).

The Authority, as a proprietary enterprise, is accounted for on a flow of economic resources measurement focus using the accrual basis of accounting. Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements.

The Authority distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations. 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 nonoperating revenues and expenses.

**DUBLIN SAN RAMON SERVICES DISTRICT/
EAST BAY MUNICIPAL UTILITY DISTRICT
RECYCLED WATER AUTHORITY**

Notes to Financial Statements

June 30, 2018 and 2017

NOTE 1 –NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Statement of Net Position– The statement of net position is designed to display the financial position of the Authority. The Authority’s fund equity is reported as net position, which is the excess of all of the Authority’s assets over all its liabilities. Net Position is divided into three captions under GASB Statement 34. These captions apply only to Net Position and are described below:

Net investment in capital assets, describes the Authority’s capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted 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 Authority 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.

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 nonoperating revenues and expenses and presents a separate subtotal for operating revenues, operating expenses, and operating income.

C. Use of Estimates

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 certain reported amounts of assets and liabilities and disclose contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

D. Capital Assets

The additions to capital assets are capitalized at historical cost. 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 purpose of depreciation is to spread the cost of capital assets equitably among all customers over the life of these assets. The amount charged to depreciation expense each year represents that year’s pro rata share of depreciable capital assets.

**DUBLIN SAN RAMON SERVICES DISTRICT/
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RECYCLED WATER AUTHORITY**

Notes to Financial Statements

June 30, 2018 and 2017

NOTE 1 –NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 assets is fully depreciated. The Authority has assigned the useful lives listed below to capital assets:

Utility plant:	<u>Years</u>
Water Treatment	20-75
Pumping Plants	25-75
Reservoirs	25-100
Pipeline	25-75

E. Preoperating Costs

In accordance with accounting principles generally accepted in the United States of America, preoperating costs which have no discernible future economic benefit are expensed as incurred.

F. Cash and Cash Equivalents

The Authority considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents.

Fair Value Measurements

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

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

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

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

**DUBLIN SAN RAMON SERVICES DISTRICT/
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Notes to Financial Statements

June 30, 2018 and 2017

NOTE 1 – NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

NOTE 2 – BANK DEPOSIT (OVERDRAFT)

A. Composition

The Authority's cash and cash equivalents at June 30 consisted of the following deposits and investments held by EBMUD on the Authority's behalf:

	<u>2018</u>	<u>2017</u>
Demand deposits with banks (overdraft)	\$(1,714,957)	\$212,534

B. Collateralization of Cash and Cash Equivalents

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the Authority's cash on deposit or first trust deed mortgage notes with a value of 150% of the Authority's cash on deposit as collateral for these deposits. Under California Law this collateral is held in an investment pool by an independent financial institution in the Authority's name and places the Authority ahead of general creditors of the institution pledging the collateral. The Authority has waived collateral requirements for the portion of deposits covered by federal deposit insurance.

The Authority's investments are carried at fair value, as required by generally accepted accounting principles. The Authority adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

**DUBLIN SAN RAMON SERVICES DISTRICT/
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Notes to Financial Statements

June 30, 2018 and 2017

NOTE 3 – CAPITAL ASSETS

A. Additions and Retirements

Capital assets activity for the year ended June 30, 2018 was as follows:

	<u>Balance at June 30, 2017</u>	<u>Additions and Transfers, net</u>	<u>Retirements and Transfers, net</u>	<u>Balance at June 30, 2018</u>
Capital assets not being depreciated:				
Land and rights-of-way	\$1,890,977			\$1,890,978
Construction in progress	<u>2,230,480</u>	<u>\$12,702,281</u>	<u>(\$1,064,359)</u>	<u>13,868,404</u>
Total capital assets not being depreciated	<u>4,121,457</u>	<u>12,702,281</u>	<u>(1,064,359)</u>	<u>15,759,382</u>
Capital assets, being depreciated:				
Water treatment	25,145,137		1,064,359	26,209,496
Pumping plants	13,792,192			13,792,192
Reservoirs	14,439,008			14,439,008
Pipelines	<u>28,452,427</u>		<u>-</u>	<u>28,452,427</u>
Total capital assets being depreciated	<u>81,828,764</u>		<u>1,064,359</u>	<u>82,893,123</u>
Less accumulated depreciation for:				
Water treatment	(7,108,542)	(957,361)		(8,065,903)
Pumping plants	(3,467,960)	(345,067)		(3,813,027)
Reservoirs	(3,262,604)	(289,045)		(3,551,649)
Pipelines	<u>(6,332,615)</u>	<u>(569,598)</u>		<u>(6,902,213)</u>
Total accumulated depreciation	<u>(20,171,721)</u>	<u>(2,161,071)</u>		<u>(22,332,793)</u>
Net capital assets being depreciated	<u>61,657,043</u>	<u>(2,161,071)</u>	<u>1,064,359</u>	<u>60,560,330</u>
Capital assets, net	<u><u>\$65,778,500</u></u>	<u><u>\$10,541,210</u></u>		<u><u>\$76,319,712</u></u>

**DUBLIN SAN RAMON SERVICES DISTRICT/
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Notes to Financial Statements

June 30, 2018 and 2017

NOTE 4 - COMMERCIAL PAPER NOTES PAYABLE

The Authority's Board of Directors authorized a short-term commercial paper borrowing program of up to \$50,000,000 on December 15, 2003. The proceeds from the issuance of commercial paper are used to finance the acquisition and construction of facilities for the treatment, transmission, distribution and storage of recycled water. The Authority may issue commercial paper notes at the prevailing interest rate for periods not more than 270 days from the date of issuance. The commercial paper notes are collateralized solely by the revenues of the Authority, after payment of specific operating and maintenance expenses.

As of June 30, 2018, there were no commercial paper notes outstanding under this program.

To provide liquidity for the program, the Authority maintains a liquidity support agreement (line of credit) with a commercial bank. Combined borrowings by the East Bay Municipal Utility District Water System and Wastewater System, with the commercial paper and bank notes, cannot exceed the amount of this agreement. Drawings under the agreement are restricted to pay maturing commercial paper. There were no borrowings under the line of credit agreement during the years ended June 30, 2018 and 2017.

NOTE 5 – STATE WATER RESOURCES CONTROL BOARD LOAN

A. Composition and Change

The Authority's Board of Directors authorized a long-term borrowing program from the State Water Resource Control Board of up to \$24,764,850 on July 25, 2005. The Authority drew down \$22,993,368 as of the fiscal year ended June 30, 2006, the proceeds from which were used to finance the acquisition and construction of facilities for the treatment, transmission, distribution and storage of recycled water. As of June 30, 2008, the Authority drew down an additional amount of \$1,685,283. The loan has a 20-year term at a 2.5% fixed interest rate. The repayment of the loans and interest are made in annual installments commencing on July 1, 2007. The loan is collateralized solely by the revenues of the Authority, after payment of specific operating and maintenance expenses.

The following is the activity in the State Loan Program during the fiscal year ended June 30, 2018:

	<u>Balance</u> <u>June 30, 2017</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2018</u>
2006 State Water Resource Loan			
2.5%, due 07/25/2025	\$12,317,919	\$ 1,337,566	\$10,980,353
Less amount due within one year	<u>1,337,566</u>	<u> </u>	<u>1,371,005</u>
Noncurrent portion	<u>\$10,980,353</u>	<u>\$1,337,566</u>	<u>\$9,609,348</u>

**DUBLIN SAN RAMON SERVICES DISTRICT/
EAST BAY MUNICIPAL UTILITY DISTRICT
RECYCLED WATER AUTHORITY**

Notes to Financial Statements

June 30, 2018 and 2017

NOTE 5 – STATE WATER RESOURCES CONTROL BOARD LOAN (Continued)

B. Debt Service Requirements

Annual debt service requirements are shown below for the loan:

Year ending June 30	Principal	Interest	Total
2019	1,371,005	274,509	1,645,514
2020	1,405,280	240,234	1,645,514
2021	1,440,412	205,102	1,645,514
2022	1,476,423	169,091	1,645,514
2023	1,513,333	132,181	1,645,514
2024-2026	<u>3,773,900</u>	<u>165,736</u>	<u>3,939,636</u>
Totals	<u>\$ 10,980,353</u>	<u>\$ 1,186,853</u>	<u>\$ 12,167,206</u>

NOTE 6 – RELATED PARTY TRANSACTIONS

DSRSD is responsible for the operation of the facility. DSRSD and EBMUD both provide professional services that are capitalized as well as administrative services. In addition, as the Authority does not have any employees, EBMUD provides certain treasury management and accounting services including conducting all cash transactions and providing for the annual audit. The two members received the following total reimbursements for their services for the years ended June 30:

	<u>2018</u>	<u>2017</u>
DSRSD	14,122,390	\$8,691,623
EBMUD	<u>234,243</u>	<u>122,243</u>
	<u>\$14,356,633</u>	<u>\$8,813,866</u>

**DUBLIN SAN RAMON SERVICES DISTRICT/
EAST BAY MUNICIPAL UTILITY DISTRICT
RECYCLED WATER AUTHORITY**

Notes to Financial Statements

June 30, 2018 and 2017

NOTE 7 – RISK MANAGEMENT

The Authority’s liability and property risks are insured by commercial insurance carriers.

Selected insurance coverages include:

<u>Coverage</u>	<u>Policy limit</u>
Bodily injury	\$ 10,000,000
Property damage	10,000,000
Personal injury	10,000,000
Non-owned and hired automobile liability	10,000,000
Public officials errors and omissions	10,000,000
Fire damage liability	1,000,000
Employment practices liability	5,000,000

Any liability the Authority may have for uninsured claims is limited to general liability claims. However, the Authority has experienced no losses from such claims during the preceding three years and it therefore believes there is no liability for claims incurred but not reported.

**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***

To the Board of Directors
Dublin San Ramon Services District/East Bay
Municipal Utility District Recycled Water Authority
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* Dublin San Ramon Services District/East Bay Municipal Utility District Recycled Water Authority (Authority), as of and for the year ended June 30, 2018 and the related notes to the financial statements, and have issued our report thereon dated August 23, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Authority'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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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 23, 2018 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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Maze + Associates

Pleasant Hill, California
August 23, 2018