

EAST BAY DISCHARGERS AUTHORITY
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

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INTRODUCTORY SECTION

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**EAST BAY DISCHARGERS AUTHORITY
BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018**

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BASIC FINANCIAL STATEMENTS
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East Bay Dischargers Authority

**Commission
June 30, 2018**

<u>Member Agency and Representatives</u>	<u>Office</u>
City of Hayward: Marvin Peixoto Al Mendall	Chair Alternate
City of San Leandro: Pauline Russo Cutter Pete Ballew	Vice-Chair Alternate
Union Sanitary District Jennifer Toy Thomas Handley	Commissioner Alternate
Oro Loma Sanitary District: Timothy Becker Dan Walters	Commissioner Alternate
Castro Valley Sanitary District: Ralph Johnson Dave Sadoff	Commissioner Alternate

Management Team

Jacqueline T. Zipkin
General Manager/Treasurer-Controller

Howard Cin
Operations and Maintenance Manager

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the Commission
East Bay Dischargers Authority
San Lorenzo, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and each major fund of the East Bay Dischargers Authority (Authority), California, as of and for the years ended June 30, 2018 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 audit 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 business-type activities and each major fund of the Authority as of June 30, 2018 and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principles

Management adopted the provisions of the following Governmental Accounting Standards Board Statements, which became effective during the year ended June 30, 2018 and required a restatement to the financial statements as discussed in Note 2Q to the financial statements:

Statement 75 – *Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions*. See Note 9 to the financial statements for relevant disclosures.

Statement 85 – *Omnibus 2017*. See Note 9 to the financial statements for relevant disclosures.

The emphasis of these matters does not constitute a modification to our opinion.

Report on Summarized Comparative Information

We have previously audited the Authority's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 13, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, and other Required Supplementary Information, as listed in the table of contents, 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 the required supplementary 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The Introductory Section and Supplementary Information Section listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 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 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
November 8, 2018

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East Bay Dischargers Authority

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2018

The management's discussion and analysis of the East Bay Dischargers Authority's financial performance provides an overall review of the Authority's financial activities for the fiscal year ended June 30, 2018. The intent of the management's discussion and analysis is to look at the Authority's financial performance as a whole. Readers should also review the basic financial statements and notes to enhance their understanding of the Authority's financial performance.

Key Financial Highlights

- The Authority had total net position of \$31,121,398 at June 30, 2018.
- The Authority's total operating revenues were \$4,737,744 at June 30, 2018 and were comprised 83% from Member assessments.
- The Authority's total operating expenses were \$4,998,897 at June 30, 2018 and were comprised 19% from depreciation and 81% from operations and maintenance costs (exclusive of depreciation expense).

Overview of the Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Authority as an entire operating entity.

The Statement of Net Position and Statement of Activities provide information about the activities of the whole Authority, which presents an aggregate view of the Authority's finances. Fund financial statements provide the next level of detail.

Supplementary information included at the end of the financial statements includes the Authority's cumulative history of expenditures from its inception of the Capital Projects and Planning and Special Studies Funds. Additional schedules detail the cumulative history of Sole-Use projects of the Capital Projects Fund, Joint-Use projects of the Capital Projects Fund and Sole-Use projects of the Planning and Special Studies Fund.

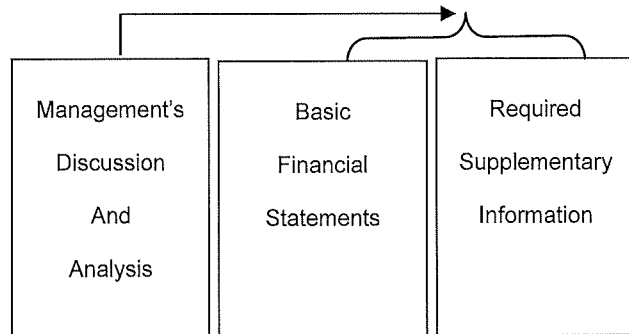
Statement of Net Position and Statement of Activities

While this report contains the funds used by the Authority to provide programs and activities, the view of the Authority as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2018?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting system used by most private sector companies.

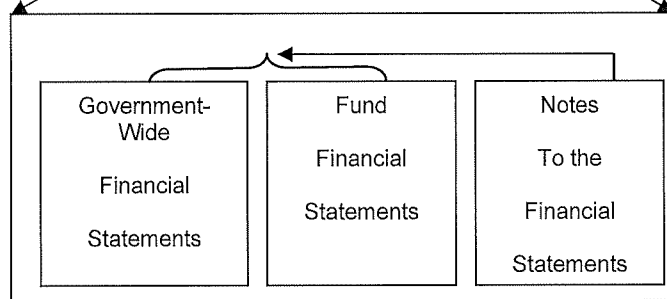
East Bay Dischargers Authority

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2018

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the Authority's budget for the fiscal year. The diagram presented here shows how the various parts of this annual financial report are arranged and related to one another.



The chart summarizes the major features of the Authority's financial statements, including the portion of the Authority's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.



Summary ↔ Detail

East Bay Dischargers Authority

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

Major Features of the Government-Wide Fund Financial Statements

	Government-Wide Statements	Fund Statements		
		Governmental Funds	Proprietary	Fiduciary
Scope	Entire authority activities	N/A	The activities of the authority that are proprietary in nature	N/A
Required financial statements	Statement of Net Position Statement of Activities		Statement of Net Position Statement of Revenues, Expenses and Changes in Net Position	
Accounting basis and measurement focus	Accrual accounting and economic resources focus		Accrual accounting and economic resources focus	
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term		All assets and liabilities, both financial and capital, short-term and long-term	
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid		All revenues and expenses during the year, regardless of when cash is received or paid	

Fund Financial Statements

Fund financial reports provide detailed information about the Authority's funds. The Authority uses Enterprise funds to account for its activities. Enterprise funds utilize the full accrual basis of accounting. The full accrual basis of accounting is similar to accounting utilized by the private sector. The following describes the activities of the funds reported by the Authority:

Fund 12 - Operation and Maintenance Effluent Disposal - This fund covers all costs directly associated with the operation, maintenance and repair of the Joint Facilities including labor, materials, supplies, power, chemicals, utilities, professional or contractual services, research and monitoring, tools and equipment, to keep the facilities in proper operating condition and maintain its useful life, plus general administrative expenses, including depreciation, attributable to operation and maintenance activities.

Fund 13 - Special Projects (Planning and Special Studies Costs) - This fund covers those costs associated with advanced planning, facilities planning, feasibility studies, research and development, environmental evaluations and studies as related to the overall Joint Facilities or of general interest or benefit to all agencies.

Fund 14 - Water Recycling (Reclamation/Reuse) - This fund covers "Reclamation/Reuse" as approved by the Commission, including the Skywest Golf Course.

East Bay Dischargers Authority

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2018

Fund 31 - Renewal and Replacement Fund - This fund covers current replacement costs based on capital projects, valuation provided by an outside consultant, and changes in the San Francisco Bay Area Consumer Price Index. A 30-year list is maintained and updated annually.

Annual approval by the Commission authorizes replacement of specific items each year. Replacement costs include purchase, taxes, shipping, installation, programming, and design when applicable.

Fund 41 - Capital Projects/Grants - None at this time.

Financial Analysis of the Authority as a Whole

The composition of the Authority's net position at June 30, 2018, is presented by category in the following table.

Table 1 - Summary of Net Position				
	2018	2017	Dollar Change	Percent Change
Assets				
Current Assets	5,668,636	5,315,299	353,337	6.6%
Noncurrent Assets	27,947,158	27,841,436	105,722	0.4%
Total Assets	33,615,794	33,156,735	459,059	1.4%
Deferred outflow of resources				
Pension related	402,785	160,624	242,161	150.8%
OPEB related	97,873		97,873	100.0%
Liabilities				
Current Liabilities	1,329,382	452,521	876,861	193.8%
Noncurrent Liabilities	1,512,122	727,912	784,210	107.7%
Total Liabilities	2,841,504	1,180,433	1,661,071	140.7%
Deferred inflow of resources				
Pension related	149,135	103,276	45,859	44.4%
OPEB related	4,415		4,415	100.0%
Net Position				
Net Investment in Capital Assets	27,947,158	27,759,962	187,196	0.7%
Unrestricted	3,174,240	4,273,688	(1,099,448)	-25.7%
Total Net Position	31,121,398	32,033,650	(912,252)	-2.8%

Current liabilities increased by 193.8% from 2017. The increase in noncurrent liabilities of \$784,210 is mainly due to the recognition of EBDA's net OPEB liability of \$695,921, but also includes Net Pension Liability of \$141,867.

East Bay Dischargers Authority

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2018

Table 2 shows the changes in net position for fiscal year 2018.

Table 2 - Changes in Net Position				
	2018	2017	Dollar Change	Percent Change
Revenues				
Program Revenues:				
Charges for Services	4,737,744	4,935,711	(197,967)	-4.0%
General Revenues:				
Interest Income	60,872	37,149	23,723	63.8%
Total Revenues	4,798,616	4,972,860	(174,244)	-3.5%
Program Expenses:				
Discharge Services	4,998,897	5,455,880	(456,983)	-8.3%
Total Expenses	4,998,897	5,455,880	(456,983)	-8.3%
Changes in Net Position	(200,281)	(483,020)	282,739	-58.5%

Interest earnings from cash in banks, LAIF and certificates of deposit increased by 63.8%. Discharge services decreased by 8.3% in the Operations and Maintenance fund.

Financial Analysis of the Authority's Funds

The Authority's enterprise funds report a combined net position of \$31,121,398, which is a decrease from last year's total of \$32,033,650. Table 3 provides an analysis of the Authority's net position by fund and the total change from the prior year.

Table 3 - Summary of Fund Net Position			
Funds	2018	2017	Increase (Decrease)
Operations and Maintenance	26,911,300	27,342,590	(431,290)
Water Recycling	224,282	169,697	54,585
Renewal and Replacement	3,931,691	4,481,378	(549,687)
Planning and Special Studies	42,355	28,215	14,140
Capital Projects	11,770	11,770	-
Total Enterprise Fund Net Position	31,121,398	32,033,650	(912,252)

East Bay Dischargers Authority

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2018

Capital Assets

Capital assets in Table 4 are reflected at June 30, 2018, net of depreciation. Net capital assets increased by 0.7% from 2017. The Authority uses \$3,000 as its capitalization threshold. Depreciation on each capitalized asset has been calculated using the straight-line method over applicable useful lives.

Capital Asset	2018	2017	Dollar Change	Percent Change
Land	10,161	10,161	-	0.0%
Permanent Easements	432,177	432,177	-	0.0%
Building and Structures	529,918	529,918	-	0.0%
Sewage and Disposal Facilities	17,956,621	16,908,691	1,047,930	6.2%
Data Acquisition System	510,858	436,846	74,012	16.9%
Water Recycling Facilities	747,709	747,709	-	0.0%
Subsurface Lines	40,111,305	40,111,305	-	0.0%
Office Equipment	134,183	121,381	12,802	10.5%
Field Equipment	71,054	71,054	-	0.0%
Automotive Equipment	19,718	19,718	-	0.0%
Accumulated Depreciation	(32,576,546)	(31,628,998)	(947,548)	3.0%
Net Capital Assets	27,947,158	27,759,962	187,196	0.7%

Factors Bearing on the Authority's Future

Significant economic factors affecting the Authority are as follows:

- The increasing age of the Authority's infrastructure will require increased capital spending from its Renewal and Replacement fund. A recent study of EBDA's subsurface lines showed that their useful life is longer than expected, likely another 20-50 years barring an earthquake or other uncontrollable event. EBDA is currently in the process of updating its Asset Management Plan, which will lay out required investments for asset renewal over the next 20 years.
- Future environmental permit regulations may necessitate that the Authority improve its level of treatment, requiring higher capital outlays than currently planned.
- The difficult long-term issues affecting CalPERS' investment performance will impact the Authority's long-term salary and benefits costs.
- EBDA's Joint Powers Agreement (JPA) is due to expire in January 2020, and negotiations are currently underway for its renewal. The framework of the new JPA may lead to different cost-sharing allocations between EBDA and its Member Agencies and among the Member Agencies.

East Bay Dischargers Authority

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2018

Contacting the Authority's Financial Management

This financial report is designed to provide member agencies, citizens, taxpayers, investors, and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the revenue it receives and the expenses it incurs. If you have any questions regarding this report or need additional financial information, contact:

Jacqueline T Zipkin, General Manager
East Bay Dischargers Authority
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San Lorenzo, CA 94580
(510) 278-5910
jzipkin@ebda.org

East Bay Dischargers Authority
Statement of Net Position
June 30, 2018

	Business-type Activities
Assets	
Current Assets:	
Cash and investments (Note 3)	\$5,497,297
Interest receivable	18,750
Accounts receivable	
Due from other governments:	
Other agencies	74,187
Inventory	29,002
Prepaid expenses	48,048
Deposits	1,352
Total Current Assets	5,668,636
Noncurrent Assets:	
Capital assets (Note 4):	
Land	10,161
Permanent easements	432,177
Buildings and structures	529,918
Sewage disposal facilities	17,956,621
Data acquisition system	510,858
Water recycling facilities	747,709
Subsurface lines	40,111,305
Office equipment	134,183
Field equipment	71,054
Automotive equipment	19,718
Less: accumulated depreciation	(32,576,546)
Total Capital Assets - Net	27,947,158
Total Noncurrent Assets - Net	27,947,158
Total Assets	33,615,794
Deferred outflow of resources:	
Pension related (Note 8)	402,785
OPEB related (Note 9)	97,873
Total Deferred outflow of resources	500,658
Liabilities	
Current Liabilities:	
Accrued claims payable	703,484
Member agencies	551,799
Other agencies	74,099
Total Current Liabilities:	1,329,382
Noncurrent Liabilities:	
Net pension liability (Note 8)	799,111
Net OPEB liability (Note 9)	695,921
Compensated absences (Note 5)	17,090
Total Noncurrent Liabilities	1,512,122
Total Liabilities	2,841,504
Deferred inflow of resources:	
Pension related (Note 8)	149,135
OPEB related (Note 9)	4,415
Total Deferred inflow of resources	153,550
Net Position	
Net Investment in Capital Assets	27,947,158
Unrestricted	3,174,240
Total Net Position	\$31,121,398

The notes to the financial statements are an integral part of this statement.

East Bay Dischargers Authority
Statement of Activities
For the Fiscal Year Ended June 30, 2018

	Expenses	Program Revenues Charges for Services	Net (Expense) Revenue and Changes in Net Assets
Business-type activities:			
Discharge services	\$4,998,897	\$4,737,744	(\$261,153)
Total business-type activities	\$4,998,897	\$4,737,744	(261,153)
General revenues:			
Interest and investment earnings			75,012
Total general revenues			75,012
Change in net assets			(186,141)
Net position beginning			32,033,650
Prior period adjustment (Note 2Q)			(726,111)
Net position ending			\$31,121,398

The notes to the financial statements are an integral part of this statement.

East Bay Dischargers Authority
Proprietary Funds
Statements of Net Position
June 30, 2018

With Comparative Totals as of June, 30 2017

	Business-type Activities - Enterprise Funds				Total June 30, 2018	Total June 30, 2017
	Operations and Maintenance	Water Recycling	Renewal and Replacement	Planning and Special Studies		
Assets						
Current Assets:						
Cash and investments	\$953,047	\$75,101	\$4,230,497	\$226,882	\$11,770	\$5,497,297
Interest receivable			18,750			18,750
Accounts receivable						2,100
Due from other governments:						
Other agencies			74,187			74,187
Due from other funds (Note 7)						
Inventory	29,002					29,002
Prepaid expenses	46,262			1,786		48,048
Deposits	1,352					1,352
Total Current Assets	<u>1,029,663</u>	<u>75,101</u>	<u>4,323,434</u>	<u>228,668</u>	<u>11,770</u>	<u>5,668,636</u>
Noncurrent Assets:						
Net OPEB asset (Note 9)						81,474
Capital assets (Note 4):						
Land	10,161					10,161
Permanent easements	429,457	2,720				432,177
Buildings and structures	529,918					529,918
Sewage disposal facilities	17,956,621					17,956,621
Data acquisition system	510,858					510,858
Water recycling facilities		747,709				747,709
Subsurface lines	40,111,305					40,111,305
Office equipment	134,183					134,183
Field equipment	71,054					71,054
Automotive equipment	19,718					19,718
Less: accumulated depreciation	<u>(31,985,888)</u>	<u>(590,658)</u>				<u>(32,576,546)</u>
Total Capital Assets - Net	<u>27,787,387</u>	<u>159,771</u>				<u>27,947,158</u>
Total Noncurrent Assets - Net	<u>27,787,387</u>	<u>159,771</u>				<u>27,947,158</u>
Total Assets	<u>28,817,050</u>	<u>234,872</u>	<u>4,323,434</u>	<u>228,668</u>	<u>11,770</u>	<u>33,615,794</u>
Deferred Outflow of Resources						
Pension related (Note 8)	402,785					402,785
OPEB related (Note 9)	97,873					97,873
Total Deferred Outflow of Resources	<u>500,658</u>					<u>500,658</u>
Liabilities						
Current Liabilities:						
Accrued claims payable	292,104	10,590	391,743	9,047		703,484
Due to other governments:						
Member agencies	386,774			165,025		551,799
Other agencies	61,858			12,241		74,099
Total Current Liabilities:	<u>740,736</u>	<u>10,590</u>	<u>391,743</u>	<u>186,313</u>		<u>1,329,382</u>
Noncurrent Liabilities:						
Net pension liability (Note 8)	799,111					799,111
Net OPEB liability (Note 9)	695,921					695,921
Compensated absences	17,090					17,090
Total Noncurrent Liabilities	<u>1,512,122</u>					<u>1,512,122</u>
Total Liabilities	<u>2,252,858</u>	<u>10,590</u>	<u>391,743</u>	<u>186,313</u>		<u>2,841,504</u>
Deferred Inflow of Resources						
Pension related (Note 8)	149,135					149,135
OPEB related (Note 9)	4,415					4,415
Total Deferred Inflow of Resources	<u>153,550</u>					<u>153,550</u>
Net Position						
Net Investment in Capital Assets	27,787,387	159,771				27,947,158
Unrestricted	<u>(876,087)</u>	<u>64,511</u>	<u>3,931,691</u>	<u>42,355</u>	<u>11,770</u>	<u>3,174,240</u>
Total Net Position	<u>\$26,911,300</u>	<u>\$224,282</u>	<u>\$3,931,691</u>	<u>\$42,355</u>	<u>\$11,770</u>	<u>\$31,121,398</u>
						<u>\$32,033,650</u>

The notes to the financial statements are an integral part of this statement.

East Bay Dischargers Authority
Proprietary Funds
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2018
With Comparative Totals for the Fiscal Year Ended June 30, 2017

	Business-type Activities - Enterprise Funds					Total June 30, 2018	Total June 30, 2017
	Operations and Maintenance	Water Recycling	Renewal and Replacement	Planning and Special Studies	Capital Projects		
Operating Revenues:							
Member assessments	\$2,546,812		\$450,000	\$920,336		\$3,917,148	\$4,078,750
LAVWMA assessments	451,808		74,186	156,257		682,251	726,138
Sale of reclaimed water		\$120,000				120,000	114,000
Other operating revenues	18,345					18,345	16,823
Total Operating Revenues	3,016,965	120,000	524,186	1,076,593		4,737,744	4,935,711
Operating Expenses:							
Personnel services	739,750	6,680		21,311		767,741	796,336
Depreciation	936,533	11,015				947,548	923,194
Professional services	405,119	5,679		387,852		798,650	781,424
Monitoring	160,162	9,917				170,079	206,362
Contract services	51,189			6,000		57,189	48,410
Operating supplies	180,152			2,124		182,276	336,579
Utilities	557,563	3,446				561,009	587,647
Insurance	43,118					43,118	45,072
Commissioners' compensation	38,142					38,142	37,908
Rent and lease	30,171			638,382		668,553	805,530
Repairs and maintenance	603,755	28,678				632,433	755,980
Permit fees							3,882
Dues	100,976			20,924		121,900	117,470
Travel and meetings	6,825					6,825	4,622
Other general administrative	3,434					3,434	5,464
Total Operating Expenses	3,856,889	65,415		1,076,593		4,998,897	5,455,880
Operating Income (Loss)	(839,924)	54,585	524,186			(261,153)	(520,169)
Nonoperating Revenues (Expenses)							
Interest income			60,872			60,872	37,149
LAVWMA master agreement revenue				425,388		425,388	411,248
LAVWMA master agreement expense				(411,248)		(411,248)	(411,248)
Total Nonoperating Revenues (Expenses)			60,872	14,140		75,012	37,149
Other Financing Sources (Uses)							
Transfers in (Note 7)	1,134,745					1,134,745	459,710
Transfers out (Note 7)			(1,134,745)			(1,134,745)	(459,710)
Total Other Financing Sources (Uses)	1,134,745		(1,134,745)				
Change in Net Position	294,821	54,585	(549,687)	14,140		(186,141)	(483,020)
Net Position Beginning	27,342,590	169,697	4,481,378	28,215	\$11,770	32,033,650	32,516,670
Prior period adjustment (Note 2Q)	(726,111)					(726,111)	
Net Position Ending	\$26,911,300	\$224,282	\$3,931,691	\$42,355	\$11,770	\$31,121,398	\$32,033,650

The notes to the financial statements are an integral part of this statement.

East Bay Dischargers Authority
Proprietary Funds
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2018
With Comparative Totals for the Fiscal Year Ended June 30, 2017

	Business-type Activities - Enterprise Funds					Total June 30, 2018	Total June 30, 2017
	Operations and Maintenance	Water Recycling	Renewal and Replacement	Planning and Special Studies	Capital Projects		
Cash Flows from Operating Activities:							
Cash received from members	\$3,055,453		\$448,129	\$1,029,503		\$4,533,085	\$3,645,063
Cash received from LAVWMA	514,828		54,490	159,941		729,259	784,846
Cash received from others	20,445	\$120,000				140,445	137,223
Cash payments for personnel services	(889,937)	(6,680)		(21,311)		(917,928)	(626,891)
Cash payments to suppliers for goods and services	(2,158,889)	(55,578)	308,999	(1,058,248)		(2,963,716)	(3,771,007)
Net Cash Provided (Used) by Operating Activities	541,900	57,742	811,618	109,885		1,521,145	169,234
Cash Flows from Capital and Related Financing Activities:							
Acquisition of capital assets	(1,134,744)					(1,134,744)	(491,254)
Net Cash Provided (Used) by Capital and Related Financing Activities	(1,134,744)					(1,134,744)	(491,254)
Cash Flows from Investing Activities:							
Interest on investments			52,883			52,883	33,074
Net Cash Provided (Used) by Investing Activities			52,883			52,883	33,074
Cash Flows from Non Capital and Related Financing Activities:							
Cash paid for interfund loans							(11,958)
Cash received from interfund loans							11,958
LAVWMA master agreement interest				14,140		14,140	
Interfund transfers	1,134,745		(1,134,745)				
Net Cash Provided (Used) by Non Capital and Related Financing Activities	1,134,745		(1,134,745)	14,140		14,140	
Net Increase (Decrease) in Cash and Cash Equivalents	541,901	57,742	(270,244)	124,025		453,424	(288,946)
Cash and Cash Equivalents Beginning	411,146	17,359	4,500,741	102,857	\$11,770	5,043,873	5,332,819
Cash and Cash Equivalents Ending	\$953,047	\$75,101	\$4,230,497	\$226,882	\$11,770	\$5,497,297	\$5,043,873

(Continued)

The notes to the financial statements are an integral part of this statement.

East Bay Dischargers Authority
Proprietary Funds
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2018
With Comparative Totals for the Fiscal Year Ended June 30, 2017

	Business-type Activities - Enterprise Funds					Total June 30, 2018	Total June 30, 2017
	Operations and Maintenance	Water Recycling	Renewal and Replacement	Planning and Special Studies	Capital Projects		
Reconciliation of Operating Income (Loss) to Cash Flows Provided (Used) by Operating Activities:							
Operating Income (Loss)	(\$839,924)	\$54,585	\$524,186			(\$261,153)	(\$520,169)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:							
Depreciation	936,533	11,015				947,548	923,194
(Increase) decrease in assets and deferred outflows of resources:							
Accounts receivable	2,100					2,100	
Due from member agencies							(2,100)
Due from other agencies	123,029		(19,696)			103,333	(56,878)
Inventory	(5,389)					(5,389)	(4,488)
Prepaid expenses	(13,010)			\$20,924		7,914	(13,421)
Deposits	118					118	110
Net OPEB Asset	81,474					81,474	(4,168)
Pension related deferred outflows of resources	(242,161)					(242,161)	12,632
OPEB related deferred outflows of resources	(97,873)					(97,873)	
Increase (decrease) in liabilities and deferred inflows of resources:							
Accrued claims payable	39,998	(7,858)	308,999	(23,890)		317,249	(16,858)
Member agencies	386,774		(1,871)	109,167		494,070	(61,562)
Other agencies	61,858			3,684		65,542	(248,039)
Net pension liability	141,867					141,867	153,358
Net OPEB liability	(30,190)					(30,190)	
Pension related deferred inflows of resources	45,859					45,859	(19,225)
OPEB related deferred inflows of resources	4,415					4,415	
Compensated absences	(53,578)					(53,578)	26,848
Net Cash Provided (Used) by Operating Activities	<u>\$541,900</u>	<u>\$57,742</u>	<u>\$811,618</u>	<u>\$109,885</u>		<u>\$1,521,145</u>	<u>\$169,234</u>

The notes to the financial statements are an integral part of this statement.

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**EAST BAY DISCHARGERS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 1 – SUMMARY OF ORGANIZATION

East Bay Dischargers Authority (Authority) was formed on February 15, 1974, under a "joint exercise of powers agreement" entered into by the City of San Leandro, Oro Loma Sanitary District, Castro Valley Sanitary District, City of Hayward and Union Sanitary District (the Agencies). The Authority operates under a Commission consisting of a representative from each agency.

The purpose of the agreement is to provide for the "more efficient disposal of wastewater produced in each Agency, all to the economic and financial advantage of each Agency and otherwise for the benefit of each Agency; and, each of the Agencies is willing to plan with the other Agencies for joint wastewater facilities which will protect all the Agencies." Since the Authority's inception, it has administered numerous joint-use and sole-use grant funded construction and planning and special studies projects.

Legal title and all pertinent grant documents and conditions for sole-use facilities administered by the Authority under the grant program are transferred to the Owner-Agency upon completion of the project. Operation and maintenance of these sole-use facilities is the responsibility of the Owner-Agency.

Legal title and all pertinent grant documents and conditions for joint-use facilities remain with the Authority. Each Agency owns an undivided portion of the joint facilities used by it, equal to the percentage of project costs paid for it. Percentages are as defined by the Joint Exercise of Powers Agreement. Operations and maintenance of the completed joint-use facilities is the responsibility of the Authority.

The Authority operates under a National Pollutant Discharge Elimination System (NPDES) Permit No. CA 0037869 from the California Regional Water Quality Control Board to discharge up to 189.1 MGD of secondary treated wastewater to San Francisco Bay. It is the Authority's responsibility to ensure that all treatment of wastewater by each member agency is in compliance with the Federal Water Pollution Control Act (P.L. 92-500) and as amended by the Clean Water Act of 1986.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Basis of Presentation and Accounting*

The Authority is accounted for as an enterprise fund (proprietary fund type). A fund is defined as an accounting entity with a self-balancing set of accounts recording the financial position and results of operations of a specific governmental activity. The activities of enterprise funds closely resemble those of ongoing businesses in which the purpose is to conserve and add to basic resources while meeting operating expenses from current revenues. Enterprise funds account for operations that provide services on a continuous basis and are substantially financed by revenues derived from user charges. The Authority utilizes the accrual basis of accounting. With this measurement focus, all assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the enterprise are recorded on its statement of net position, and under the full accrual basis of accounting, all revenues are recognized when earned and all expenses, including depreciation, are recognized when incurred.

**EAST BAY DISCHARGERS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary fund types distinguish operating revenues and expenses from non-operating items. The operating expenses of the Authority are charged to the member agencies. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Deferred outflow of resources is a consumption of net assets by the Authority that is applicable to a future reporting period. For example, prepaid items and deferred charges. Deferred inflow of resources is an acquisition of net assets by the Authority that is applicable to a future reporting period. For example, unearned revenue and advance collections.

Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred inflows from unearned revenue.

B. Statement of Net Position

The statement of net position is designed to display the financial position of the Authority. The Authority's net position are classified into three categories as follows:

- Net Investment in Capital Assets - This component of net position consists of 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. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position, as applicable.
- Restricted - This component of net position consists of constraints placed on net asset 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. The Authority had no restrictions as of June 30, 2018.
- Unrestricted - This component of net position consists of the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. The Authority first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

C. 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. This statement distinguishes between operating and non-operating revenues and expenses and presents a separate subtotal for operating revenues, operating expenses, and operating income (loss). Revenues are reported by major source with operating revenues classified from the Authority's primary operating resources and all other revenue reported as non-operating revenue. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

**EAST BAY DISCHARGERS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgets and Budgetary Accounting

The Authority must adopt a budget prior to June 1 of each year for the following fiscal year. The budget for the fiscal year beginning July 1, 2017, was adopted by the Commission on May 18, 2017. Formal budgetary integration is employed as a management control device during the year.

E. Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash represents balances that can be readily withdrawn without substantial notice or penalty. Cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of changes in value because of changes in interest rates, and have an original maturity date of three months or less.

F. Investments

If the difference between cost and fair value is deemed material and significant, investments are reported in the statement of net position at fair value. Changes in fair market value that occur during the fiscal year are recognized as investment income or loss reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

The Authority participates in an investment pool managed by the State of California known as the Local Agency Investment Fund (LAIF), which has invested a portion of the pooled funds in structured notes and asset-backed securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, the structured notes and asset-backed securities are subject to market risk as to change in interest rates.

G. Receivables

Receivables include amounts due from member agencies and other agency assessments, other assessments and other resources. All receivables are current and reported net of an allowance for uncollectible accounts. The allowance for uncollectible accounts was zero as of June 30, 2018.

H. Funding

East Bay Dischargers Authority's capital projects and planning and special studies funds were funded by Federal, State, and Local agency grants and/or member agency contributions.

The eligible project's costs have been funded under the Clean Water Grants Program, which was administered by the Environmental Protection Agency (EPA) for the federal government and the State Water Resources Control Board (SWRCB) for the state government. The federal and state governments' share of the eligible projects costs were 75 percent and 12.5 percent, respectively.

The Authority's operations and maintenance is funded by the member agencies and other local agencies on the basis of formulas established in the Joint Powers Agreement and other service agreements.

**EAST BAY DISCHARGERS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

East Bay Dischargers Authority is also funded for the future replacement of certain joint-use facilities by the member agencies and local agencies. Each year the Authority calculates the annual contribution required for Renewal and Replacement based upon the method adopted by the Commission. Contributions for Renewal and Replacement are made in accordance with Resolution No. 90-11, dated May 17, 1990, and as amended annually by resolution.

I. Inventories

Inventories are valued at cost using a first in, first out (FIFO) method. Inventories are recorded as expenses when consumed rather than when purchased.

J. Capital Assets

Capital assets are defined by the Authority as assets with an initial, individual cost of \$3,000 or more and an estimated useful life of more than one year. Such assets are recorded at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated assets are valued at their estimated fair value on the date received. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Depreciation is computed utilizing the straight-line method over the following estimated useful lives:

Concrete and paving	40 years
Pavement	20 years
Structures	40 to 50 years
Mechanical and pump equipment	25 years
Electrical and plumbing	10 to 20 years
Piping-above ground	20 to 40 years
Subsurface lines	75 years
Motor control units	20 years
Heating, ventilating, and air-conditioning	20 years
Data acquisition system	5 years
Equipment and furnishings	5 to 20 years
Automotive equipment	8 years

K. Compensated Absences

Vacation Leave - All full-time regular employees other than temporary, provisional, or part-time employees shall earn vacation leave at the rate of 80 working hours per year from the date of employment. Employees shall not be permitted to take any vacation during the first six months of employment. Full time employees shall earn an additional eight (8) hours vacation leave allowance for each full year of continuous employment thereafter, up to a maximum of 160 working hours per year.

All part-time employees shall earn vacation leave at the rate of 8 working hours for each 200 hours worked from the date of employment, up to a maximum of 40 working hours per year.

**EAST BAY DISCHARGERS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Sick Leave – Regular employees accrue sick leave at the rate of four (4) hours per payroll period, up to 96 hours per calendar year. Sick leave shall be cumulative without limit.

Part-time and Temporary Employees who work thirty (30) or more days within a year from the beginning of employment are entitled to paid sick leave. The Authority will grant three days of paid sick leave upon hire, and on January 1 of each calendar year. An employee may use paid sick leave beginning on the 90th day of employment.

The Authority's contract for retirement benefits provides that sick leave earned but unused upon the termination or death of any employee enrolled in the pension plan shall be applied to the employee's total service credit subject to the following specifications. Pursuant to GC§20965, the employee whose effective date of retirement is within four months of separation from employment shall receive credit toward his or her retirement equal to 0.004 years of service credit for each unused day (8 hours) of sick leave.

Upon the death of an employee prior to separation from employment, the employee's heir(s) or beneficiary(ies) shall receive compensation for sick leave earned but unused by the employee equal to 0.167% of the number of hours of sick leave, times the number of whole months of continuous employment, times the employee's hourly rate of pay at the time of death.

L. Allocation of Costs

Expenses are allocated to the various member agencies in accordance with the Joint Exercise of Powers Agreement.

M. Comparative Data

Comparative total data for the prior fiscal year has been presented in order to provide an understanding of the changes in the financial position, operations, and cash flows of the Authority.

N. Accounting Estimates

The preparation of the 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 amounts reported in the financial statements and accompanying notes.

O. Subsequent Events

Management has reviewed subsequent events and transactions that occurred after the date of the financial statements through the date the financial statements were issued. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that there are no non-recognized subsequent events that require additional disclosure.

**EAST BAY DISCHARGERS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. 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.

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.

Q. Implementation of Governmental Accounting Standards Board (GASB) Pronouncements

Management adopted the provisions of the following Governmental Accounting Standards Board (GASB) Statement, which became effective during the year ended June 30, 2018.

GASB 75 – Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions - The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for post-employment benefits other than pensions (other post-employment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all post-employment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement required the Authority to make a prior period adjustment. As a result, the beginning net position of the Operations and Maintenance Fund was reduced by \$726,111.

GASB 81 – Irrevocable Split-Interest Agreements - This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. This Statement had no effect on the financial statements.

**EAST BAY DISCHARGERS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB 85 – *Omnibus 2017* - The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and OPEB). This Statement had no effect on the financial statements.

GASB 86 – *Certain Debt Extinguishment Issues* - The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. This Statement had no effect on the financial statements.

NOTE 3 – CASH AND INVESTMENTS

A. *Policies*

The Authority invests in individual investments and in investment pools. Individual investments are evidenced by specific identifiable pieces of paper called *securities instruments*, or by an electronic entry registering the owner in the records of the institution issuing the security, called the *book entry system*.

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'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. In the Authority's case, fair value equals fair market value, since all Authority's investments are readily marketable.

**EAST BAY DISCHARGERS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 3 – CASH AND INVESTMENTS (Continued)

B. Classification

The Authority's cash and investments consist of the following at June 30:

	2018	2017
Cash in banks	\$1,412,945	\$1,148,112
Local Agency Investment Fund (LAIF)	2,925,794	2,891,623
Certificate of Deposit	1,158,558	1,004,138
 Total Cash and Investments	 \$5,497,297	 \$5,043,873

C. Investments Authorized by the California Government Code and the Authority's Investment Policy

The Authority's Investment Policy and the California Government Code allow the Authority to invest in the following, provided the credit ratings of the issuers are acceptable to the Authority and approved percentages and maturities are not exceeded. The table below also identifies certain provisions of the California Government Code or the Authority's Investment Policy where it is more restrictive that address interest rate risk, credit risk and concentration of credit risk:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
United States Treasury Obligations	5 years		100%	No Limit
United States Government Agency Obligations	5 years		100%	No Limit
State of California Obligations	5 years		100%	No Limit
Local Agency Obligations	5 years		100%	No Limit
Banker's Acceptances	180 days		40%	30%
Commercial Paper	270 days	A-1	25%	10%
United States Medium Term Corporate Notes	5 years	AA	30%	No Limit
Negotiable Certificates of Deposit	1 year	AA	30%	No Limit
			\$40 million	
Local Agency Investment Fund	n/a		per account	No Limit
Local Government Investment Pools	n/a	AAA	100%	No Limit
Money Market Mutual Funds	n/a		15%	10%
Insured savings or money market accounts	n/a		100%	No Limit

D. Local Agency Investment Fund

The Authority is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The Authority reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance is available for withdrawal on demand, and 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. At June 30, 2018 and 2017, these investments matured in an average of 193 and 194 days, respectively.

**EAST BAY DISCHARGERS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 3 – CASH AND INVESTMENTS (Continued)

E. Interest Rate Risk

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

Information about the sensitivity of the fair values of the Authority's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority's investments by maturity or earliest call dates, at June 30:

Type	12 Months or less	12-24 Months	25-60 Months	2018	2017
Cash in bank	\$1,412,945			\$1,412,945	\$1,148,112
Local Agency Investment Fund (LAIF)	2,925,794			2,925,794	2,891,623
Certificate of Deposit	419,249	\$394,444	\$344,865	1,158,558	1,004,138
Total Cash and Investments	\$4,338,739	\$394,444	\$344,865	\$5,497,297	\$5,043,873

F. Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. None of the Authority's investments were invested in specific securities. All monies in the LAIF and Wells Fargo Advisors are not evidenced by specific securities; and therefore are not subject to custodial credit risk.

Bank balances are insured up to \$250,000 per bank by the Federal Deposit Insurance Company ("FDIC"). The Authority's cash in bank exceeded the insured limit by \$1,162,945 as of June 30, 2018. None of the Authority's deposits with financial institutions in excess of FDIC limits were held in uncollateralized accounts.

G. Concentration Risk

The Authority's investment policy contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government code. As of June 30, 2018, 53% of the Authority's cash was invested in LAIF, 26% was deposited in banks and 21% was invested in certificates of deposit. LAIF, cash in banks and certificates of deposit do not have maximum portfolio requirements under the California Government code.

**EAST BAY DISCHARGERS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 3 – CASH AND INVESTMENTS (Continued)

H. Fair Value Hierarchy

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

Cash in bank and certificates of deposit are measured at cost. The California Local Agency Investment Fund are external investment pools measured at fair value, and exempt in the fair value hierarchy under GASB72.

NOTE 4 – CAPITAL ASSETS

The Authority's capital assets consisted of the following as of June 30, 2018:

Capital Assets - Cost	Balance at June 30, 2017	Additions	Balance at June 30, 2018
Capital assets not being depreciated:			
Land	\$10,161		\$10,161
Permanent Easements	432,177		432,177
Total capital assets not being depreciated	442,338		442,338
Capital assets being depreciated:			
Building and Structures:			
Operations center	529,918		529,918
Sewage Disposal Facilities:			
San Leandro pump station	2,356,906		2,356,906
Oro Loma pump station	7,908,829	\$341,267	8,250,096
Marina Dechlorination Facility	2,818,027	10,544	2,828,571
Hayward pump station	1,066,906	533,690	1,600,596
Alvarado pump station	2,758,023	162,429	2,920,452
Data acquisition system	436,846	74,012	510,858
Water Recycling Facilities:			
Skywest Golf Course irrigation facilities	747,709		747,709
Subsurface Lines:			
Bay outfall	19,662,313		19,662,313
San Leandro to Marina forcemain	3,707,991		3,707,991
Marina to Oro Loma forcemain	5,515,909		5,515,909
Oro Loma to Hayward forcemain	2,748,322		2,748,322
Hayward to Alvarado forcemain	8,465,123		8,465,123
Seismic design	11,647		11,647
Office equipment	121,381	12,802	134,183
Field equipment	71,054		71,054
Automotive equipment	19,718		19,718
Total Capital Assets, Being Depreciated	58,946,622	1,134,744	60,081,366
Total Cost of Capital Assets	\$59,388,960	\$1,134,744	\$60,523,704

(Continued)

**EAST BAY DISCHARGERS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 4 – CAPITAL ASSETS (Continued)

Accumulated Depreciation	Balance at June 30, 2017	Additions	Balance at June 30, 2018
Building and Structures:			
Operations center	(\$431,192)	(\$11,377)	(\$442,569)
Sewage Disposal Facilities:			
San Leandro pump station	(1,036,446)	(55,848)	(1,092,294)
Oro Loma pump station	(4,998,893)	(170,671)	(5,169,564)
Marina Dechlorination Facility	(2,276,615)	(56,396)	(2,333,011)
Hayward pump station	(660,387)	(22,332)	(682,719)
Alvarado pump station	(1,865,629)	(60,071)	(1,925,700)
Data acquisition system	(383,088)	(17,748)	(400,836)
Water Recycling Facilities:			
Skywest Golf Course irrigation facilities	(579,643)	(11,015)	(590,658)
Subsurface Lines:			
Bay outfall	(9,418,739)	(261,892)	(9,680,631)
San Leandro to Marina forcemain	(1,783,190)	(49,616)	(1,832,806)
Marina to Oro Loma forcemain	(2,616,538)	(74,211)	(2,690,749)
Oro Loma to Hayward forcemain	(1,325,881)	(36,462)	(1,362,343)
Hayward to Alvarado forcemain	(4,054,880)	(116,112)	(4,170,992)
Seismic design	(9,320)	(466)	(9,786)
Office equipment	(97,785)	(3,331)	(101,116)
Field equipment	(71,054)		(71,054)
Automotive equipment	(19,718)		(19,718)
Total Accumulated Depreciation	<u>(31,628,998)</u>	<u>(947,548)</u>	<u>(32,576,546)</u>
Total Capital Assets Net of Accumulated Depreciation	<u>\$27,759,962</u>	<u>\$187,196</u>	<u>\$27,947,158</u>

NOTE 5 – COMPENSATED ABSENCES

The Authority's compensated absences consisted of the following as of June 30:

	2018	2017
Beginning Balance	\$70,668	\$43,820
Additions	(6,653)	75,879
Payments	(46,925)	(49,031)
Ending Balance	<u>\$17,090</u>	<u>\$70,668</u>
Current Portion		
Non Current Portion	<u>\$17,090</u>	<u>\$70,668</u>

**EAST BAY DISCHARGERS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 6 – OPERATING LEASE COMMITMENTS

The Authority has a long-term operating lease on land, ending in the year 2020, with Oro Loma Sanitary District. Current payments on the lease are \$5,300 per year. Since the lease terms will be modified every 5th year, the future commitments are based on the land lease dated April 12, 1979 as amended on July 1, 2015. The total lease obligation as of June 30, 2018 was as follows:

Fiscal Year Ending June 30	Lease Obligation
2019	\$5,300
2020	5,300
Total	<u>\$10,600</u>

NOTE 7 – INTERFUND TRANSACTIONS

A. General

Interfund transactions are reported as either services provided, reimbursements, or transfers. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

B. Interfund Transfers

Interfund transfers consist of transfers from funds receiving revenue to funds through which the resources are to be expended.

Interfund transfers for the year ended June 30, 2018 were as follows:

<u>Fund Receiving Transfers</u>	<u>Fund Making Transfers</u>	<u>Amount</u>
Operations and Maintenance	Renewal and Replacement	\$1,134,744

**EAST BAY DISCHARGERS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 8 – DEFINED BENEFIT PENSION PLAN

A. Plan Description

The Authority contributes to the California Public Employees Retirement System (PERS), a cost-sharing multiple-employer public employee retirement system. PERS provides retirement and disability benefits, annual cost-of living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and Authority resolution. PERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained from CalPERS, 400 Q Street, Sacramento, CA 95811.

B. Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plan's provisions and benefits in effect at June 30, 2018, are summarized as follows:

Benefit formula	2.5% @ 55
Benefit vesting schedule	5 years service
Benefit payments	monthly for life
Retirement age	50 - 67
Monthly benefits, as a % of eligible compensation	2.00% to 2.50%
Required employee contribution rates	8.000%
Required employer contribution rates	10.110%

Contributions – Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Authority is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2018, the contributions recognized as part of pension expense for the Plan was \$172,580.

**EAST BAY DISCHARGERS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 8 – DEFINED BENEFIT PENSION PLAN

C. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2018, the Authority reported net pension liabilities for its proportionate shares of the net pension liability in the amount of \$799,111.

The Authority's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2017, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The Authority's proportionate share of the net pension liability for the Plan as of June 30 is as follows:

	2018	2017	Change Increase/(Decrease)
Percentage of Risk Pool Net Pension Liability	0.026520%	0.028070%	-0.001550%
Percentage of Plan (PERF C) Net Pension Liability	0.008058%	0.007595%	0.000463%

For the year ended June 30, 2018, the Authority recognized pension expense of \$118,145. At June 30, 2018, the Authority 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
Pension contributions subsequent to measurement date	\$172,580	
Differences between actual and expected experience	1,428	\$20,466
Change in employer's proportion	3,455	42,542
Differences between the employer's contributions and the employer's proportionate share of contribution	7,994	72,612
Changes in assumptions	177,243	13,515
Net differences between projected and actual earnings on plan investments	40,085	
Total	\$402,785	\$149,135

The \$172,580 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. 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 June 30	
2019	(\$6,460)
2020	70,543
2021	40,787
2022	(23,800)

**EAST BAY DISCHARGERS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 8 – DEFINED BENEFIT PENSION PLAN (Continued)

Actuarial Assumptions – The total pension liabilities in the June 30, 2016 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous Plan
Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Projected Salary Increase	(A)
Investment Rate of Return	7.15% (B)
Mortality	Derived using CalPERS Membership Data
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

(A) Depending on age, service and type of employment

(B) Net of pension plan investment expenses, including inflation

Discount Rate – The discount rate used to measure the total pension liability was 7.15 percent for Miscellaneous Plans. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.15 percent is applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained at CalPERS’ website under the GASB68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate 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.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds’ asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

**EAST BAY DISCHARGERS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 8 – DEFINED BENEFIT PENSION PLAN (Continued)

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	47%	4.90%	5.38%
Global Fixed Income	19%	0.80%	2.27%
Inflation Sensitive Assets	6%	0.60%	1.39%
Private Equity	12%	6.60%	6.63%
Real Estate	11%	2.80%	5.21%
Infrastructure and Forestland	3%	3.90%	5.36%
Liquidity	2%	-0.40%	-0.90%
Total	<u>100%</u>		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the Authority’s proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the Authority’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	<u>Miscellaneous Plan</u>
1% Decrease	6.15%
Net Pension Liability	\$1,383,354
Current Discount Rate	7.15%
Net Pension Liability	\$799,111
1% Increase	8.15%
Net Pension Liability	\$315,231

Pension Plan Fiduciary Net Position – Detailed information about each pension plan’s fiduciary net position is available in the separately issued CalPERS financial reports.

**EAST BAY DISCHARGERS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 9 – OTHER POST EMPLOYMENT BENEFITS

A. Plan Description

The Authority’s Retiree Healthcare Plan (the Plan) is a single-employer defined benefit healthcare plan administered by the Authority. The plan provides healthcare benefits to eligible retirees and their dependents. Benefit provisions are established and may be amended through agreements and memorandums of understanding between the Authority, its management employees, and unions representing Authority employees. As of June 30, 2018, the Authority has 3 active plan members and 6 inactive plan members currently receiving benefits.

Full Retirement Benefit	
Eligibility Age	50
Service Required	5 years in PERS
Benefit Amount	For the two current retirees, payment of any PERS Kaiser Premium for retiree and eligible dependents. For others, payment of \$473 monthly toward premiums or PERS Minimum if greater.
Benefit End	Paid for life
PERS Minimum Benefit	
Eligibility Age	50
Service Required	5 years in PERS
Benefit Amount	\$128 in 2017, \$133 in 2018. Indexed to the medical component of the Consumer price Index.
Benefit End	Paid for life
Post-retirement Death Benefit	Payment of one-party or two party Kaiser premium for eligible dependents for life of spouse or, while eligible, for children. Pay \$473 for retirees with that cap.
Pre-retirement Death Benefit	Same as post-retirement death benefit.
Disability Benefit	Same as Full Retirement Benefit shown above, at any age, as long as service requirement is met.

**EAST BAY DISCHARGERS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 9 – OTHER POST EMPLOYMENT BENEFITS (Continued)

B. Funding Policy

There is no statutory requirement for the Authority to prefund its OPEB obligation. The Authority has currently chosen to fund the entire Annual Required Contribution (ARC). There are no employee contributions. For fiscal year ending June 30, 2018, the Authority paid \$97,873 for retiree healthcare plan benefits. The Annual Required Contribution (ARC) is an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC is equal to the normal cost plus a 30-year amortization of the unfunded actuarial liability.

C. Net OPEB Liability

Actuarial Methods and Assumptions – The Authority’s net OPEB liability was measured as of June 30, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 2018 that was rolled forward using standard update procedures to determine the net OPEB liability as of June 30, 2017, based on the following actuarial methods and assumptions:

Valuation Date	July 1, 2017
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal
Actuarial Assumptions:	
Discount rate	6.00%
Inflation	2.75%
Payroll Growth	3.00%
Investment Rate of Return	6.00%
Healthcare Trend Rate	CalPERS medical premiums are assumed to increase 5% per year after 2018. The PEMHCA minimum contributions is assumed to increase 4% per year after 2018.
Mortality	2014 CalPERS OPEB Assumptions Model for "public agency miscellaneous"

**EAST BAY DISCHARGERS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 9 – OTHER POST EMPLOYMENT BENEFITS (Continued)

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of OPEB 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 best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global equity	57%	5.25%
Fixed income	27%	0.99%
Treasury securities	5%	0.45%
Real estate trusts	8%	4.50%
Commodities	3%	3.90%
Total	100%	

Discount Rate – The discount rate used to measure the total OPEB liability was 6.00%. The projection of cash flows used to determine the discount rate assumed that Authority’s contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

D. Changes in Net OPEB Liability

The changes in the net OPEB liability follows:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability/(Asset)
Balance at June 30, 2016 (Measurement Date)	\$847,921	\$122,649	\$725,272
Changes in the year:			
Service Cost	15,238		15,238
Interest on the total OPEB liability	48,858		48,858
Employer contributions		80,635	(80,635)
Net investment income		12,876	(12,876)
Administrative expenses		(64)	64
Benefits paid to retirees	(67,246)	(67,246)	-
Net changes	(3,150)	26,201	(29,351)
Balance at June 30, 2017 (Measurement Date)	\$844,771	\$148,850	\$695,921

Detailed information about the OPEB plan’s fiduciary net position is available in the separately issued plan financial report. The benefit payments and refunds include implied subsidy benefit payments.

**EAST BAY DISCHARGERS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 9 – OTHER POST EMPLOYMENT BENEFITS (Continued)

E. Sensitivity of the Net OPEB Liability to Changes in the Discount Rate and Healthcare Cost Trend Rates

The following presents the net OPEB liability of the Authority, as well as what the Authority's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.00%) or 1-percentage-point higher (7.00%) than the current discount rate:

	1% Decrease (5.00%)	Current Discount (6.00%)	1% Increase (7.00%)
Net OPEB Liability (Asset)	\$797,014	\$695,921	\$613,101

The following presents the net OPEB liability of the Authority, as well as what the Authority's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (4.00%) or 1-percentage-point higher (6.00%) than the current healthcare cost trend rates:

	1% Decrease (4.00%)	Healthcare Cost Trend Rates Current Rate (5.00%)	1% Increase (6.00%)
Net OPEB Liability (Asset)	\$687,707	\$695,921	\$704,564

F. OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the Authority recognized OPEB expense of \$55,699. At June 30, 2018, the Authority reported deferred outflows and inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Employer contribution made subsequent to measurement date	\$97,873	-
Difference between expected and actual experience	-	-
Changes of assumptions	-	-
Net difference between projected and actual earnings on OPEB plan investments	-	4,415
Total	\$97,873	\$4,415

**EAST BAY DISCHARGERS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 9 – OTHER POST EMPLOYMENT BENEFITS (Continued)

\$97,873 reported as deferred outflows of resources related to contributions subsequent to the Note.

Year Ended June 30	Annual Amortization
2019	(\$1,104)
2020	(1,104)
2021	(1,104)
2022	(1,103)
2023	-
Thereafter	-

NOTE 10 – JOINT POWERS ASSOCIATION

The Authority participates in a joint venture activity through a formally organized and separate entity, the Bay Area Clean Water Agencies (BACWA) established under the Joint Exercise of Powers Act of the State of California. As a separate legal entity, BACWA exercises full power and authority within the scope of the related Joint Powers Agreement including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the right to sue and be sued. Obligations and liabilities of the separate entity are not those of the Authority. BACWA was established by Central Contra Costa Sanitary District, East Bay Municipal Utility District, East Bay Dischargers Authority, the City and County of San Francisco, and the City of San Jose for the purpose of coordinating the water quality activities of the members, to jointly contract for consultant services that are of joint benefit and to interpret data collected by BACWA and by others, in order to assess the effects of pollution and other factors on the San Francisco Bay system. A summary of BACWA's June 30, 2018 and 2017 financial statements is as follows:

	2018	2017
Total Assets	\$4,167,957	\$3,456,949
Total Liabilities	188,737	172,665
Total Equity	3,979,220	3,284,284
Total Revenue	4,747,641	3,648,092
Total Expenditures	4,052,705	3,965,554

**EAST BAY DISCHARGERS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 11 – SELF INSURANCE

The Authority has limited pollution legal liability insurance coverage as provided by the California Sanitation Risk Management Authority (CSRMA). As of the audit date, the Authority had no claims. The possibility of an incurred but not reported claim is remote, as the Authority only discharges disinfected secondarily treated effluent. The Authority is exposed to various other risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Authority. There were no settled claims in any of the past five fiscal years.

The following is a summary of the insurance policies in force carried by the Authority as of June 30, 2018:

	<u>Limits</u>	<u>Deductibles</u>
Excess Liability	\$1,000,000,000	\$15,500,000
General Liability	15,500,000	100,000
Pollution	1,000,000	25,000
Equipment	250,000	1,000

NOTE 12 – LEASE OF ADDITIONAL CAPACITY

The Authority signed an agreement with Livermore-Amador Valley Water Management Agency (LAVWMA) dated February 1, 1978, and as amended on March 26, 1981, June 20, 1985, and February 18, 1993. The purpose of the agreement was to allow LAVWMA to use the facilities of the Authority to discharge wastewater. The agreement provided for a reasonable method of allocating costs to LAVWMA that would be incurred as a result of the discharge rights. The term was for thirty years, with the right of renewal or early termination. The Authority signed an Interim Agreement with LAVWMA on March 18, 1998, to provide additional system discharge services.

The 1998 Interim Agreement provided for a capital buy-in fee of \$7,000,000. LAVWMA elected to defer making payments until July 1, 2001. The Interim Agreement provided that buy-in fees accrue interest from October 1, 1997 through June 30, 2001. The final buy-in fee was \$7,921,966. During the fiscal year, LAVWMA made an annual principal and interest payment of \$256,276 and \$154,972, respectively, totaling \$411,248 towards the buy-in fee.

On April 26, 2007, the Authority and LAVWMA signed a new Master Agreement that supersedes all previous agreements. The purpose of the Master Agreement was to incorporate all applicable items from the previous agreements into a single document. All the financial terms and conditions for the lease of additional capacity from the Interim Agreement have been incorporated into the Master Agreement.

On August 3, 2018, LAVWMA paid off the outstanding capital buy-in fee in the amount of \$4,122,725 which included principal of \$4,117,432 and interest of \$5,293.

REQUIRED SUPPLEMENTAL INFORMATION

EAST BAY DISCHARGERS AUTHORITY
Cost-Sharing Multiple-Employer Defined Pension Plan
Last 10 Years*
SCHEDULE OF THE PLAN'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY AND RELATED RATIOS AS OF
THE MEASUREMENT DATE

	Miscellaneous Plan			
	6/30/2017	6/30/2016	6/30/2015	6/30/2014
Plan's proportion of the Net Pension Liability (Asset)	0.008058%	0.007595%	0.007341%	0.00416%
Plan's proportion share of the Net Pension Liability (Asset)	\$799,111	\$657,244	\$503,886	\$258,711
Plan's Covered Payroll	422,884	377,037	393,451	399,793
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll	188.97%	174.32%	128.07%	64.71%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	73.31%	74.06%	78.40%	79.82%

* - Fiscal year 2015 was the 1st year of implementation

EAST BAY DISCHARGERS AUTHORITY
 Cost-Sharing Multiple Employer Defined Pension Plan
 Last 10 Years*
SCHEDULE OF CONTRIBUTIONS

	Miscellaneous Plan			
	6/30/2018	6/30/2017	6/30/2016	6/30/2015
Actuarially determined contribution	\$72,580	\$55,390	\$43,419	\$37,170
Contributions in relation to the actuarially determined contributions	(172,580)	(55,390)	(143,419)	(37,170)
Contribution deficiency (excess)	(\$100,000)	\$0	(\$100,000)	\$0
Covered payroll	\$533,854	\$422,884	\$377,037	\$393,451
Contributions as a percentage of covered-employee payroll	32.33%	13.10%	38.04%	9.45%

Notes to Schedule

Valuation date: 6/30/2016

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	14 years
Asset valuation method	5-year smoothed market
Inflation	2.75%
Salary increases	(1)
Investment rate of return	7.15% (2)
Mortality	Derived using CalPERS Membership Data
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

(1) Depending on age, service and type of employment

(2) Net of pension plan investment expenses, including inflation

* Fiscal year 2015 was the 1st year of implementation

EAST BAY DISCHARGERS AUTHORITY

Other Post-Employment Benefits (OPEB) Plan
Last 10 Years*

Schedule of Changes in the Net OPEB Liability and Related Ratios

	<u>2018</u>
Total OPEB liability	
Service cost	\$15,238
Interest	48,858
Differences between expected and actual experience	-
Change in assumptions	-
Benefit payments, including refunds of employee contributions	(67,246)
Changes of benefit terms	-
Net change in total OPEB liability	<u>(3,150)</u>
Total OPEB liability - beginning	<u>847,921</u>
Total OPEB liability - ending (a)	<u><u>\$844,771</u></u>
OPEB fiduciary net position	
Contributions - employer	\$80,635
Contributions - employee	-
Net investment income	12,876
Benefit payments, including refunds of employee contributions	(67,246)
Administrative expense	(64)
Other changes	-
Net change in plan fiduciary net position	<u>26,201</u>
Plan fiduciary net position - beginning	<u>122,649</u>
Plan fiduciary net position - ending (b)	<u><u>148,850</u></u>
Plan net OPEB liability - ending (a) - (b)	<u><u>\$695,921</u></u>
Plan fiduciary net position as a percentage of the total OPEB liability	17.62%
Covered-employee payroll	<u><u>\$422,884</u></u>
Net OPEB liability as a percentage of covered-employee payroll	<u><u>164.57%</u></u>

* Fiscal year 2018 was the first year of implementation.

EAST BAY DISCHARGERS AUTHORITY

Other Post-Employment Benefits (OPEB) Plan
Last 10 Years*

Schedule of Contributions

	<u>2018</u>
Actuarial determined contribution	\$66,000
Contributions in relation to the actuarial determined contribution	<u>97,873</u>
Contributions deficiency (excess)	<u><u>(\$31,873)</u></u>
Covered Payroll	\$422,884
Contributions as a percentage of covered payroll	23.1%

Methods and Assumptions used to determine contribution rates:

Valuation Date	July 1, 2017
Actuarial Assumptions:	
Discount Rate	6.00%
Inflation	2.75%
Payroll Growth	3.00%
Investment Rate of return	6.00%
Healthcare Trend Rate	5.00%

*- Fiscal year 2018 was the first year of implementation

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SUPPLEMENTARY INFORMATION

East Bay Dischargers Authority
Operations and Maintenance Fund
Schedule of Expenses
Budget vs. Actual
For the Fiscal Year Ended June 30, 2018

	Final Budget	Actual	Variance Positive (Negative)
Operations and Maintenance Programs:			
General and administration	\$1,093,966	\$990,673	\$103,293
Outfall and forcemains	179,516	162,834	16,682
San Leandro pump station	107,155	84,932	22,223
Marina Dechlorination Facility	515,861	365,597	150,264
Oro Loma pump station	474,213	380,935	93,278
Hayward pump station	124,016	109,534	14,482
Alvarado pump station	361,515	274,970	86,545
Bay and effluent monitoring	676,012	550,881	125,131
Subtotal	<u>\$3,532,254</u>	<u>2,920,356</u>	<u>\$611,898</u>
Depreciation Expense		<u>936,533</u>	
Total Expenses		<u>\$3,856,889</u>	

East Bay Dischargers Authority
Operations and Maintenance Fund
Schedule of General and Administrative Expenses
Budget vs. Actual
For the Fiscal Year Ended June 30, 2018

	Final Budget	Actual	Variance Positive (Negative)
General and Administrative Expenses:			
Salaries	\$480,487	\$443,140	\$37,347
Employee benefits	277,179	260,197	16,982
Commissioners' compensation	45,000	38,142	6,858
Deferred compensation	16,000	15,060	940
Insurance	16,000	12,469	3,531
Memberships	5,000	3,557	1,443
Supplies	10,000	16,596	(6,596)
Contractual services	20,000	13,562	6,438
Professional services	165,000	148,569	16,431
Printing and publications			
Rental	7,300	5,300	2,000
Maintenance	21,000	12,230	8,770
Travel	16,000	6,825	9,175
Utilities	15,000	11,592	3,408
Other		3,434	(3,434)
Total Expenses	<u>\$1,093,966</u>	<u>\$990,673</u>	<u>\$103,293</u>

East Bay Dischargers Authority
Water Recycling Fund
Schedule of Expenses
Budget vs. Actual
For the Fiscal Year Ended June 30, 2018

	Final Budget	Actual	Variance Positive (Negative)
Water Recycling Programs:			
Skywest Golf Course Irrigation	\$120,000	\$54,400	\$65,600
Subtotal	<u>\$120,000</u>	<u>54,400</u>	<u>\$65,600</u>
Depreciation Expense		<u>11,015</u>	
Total Expense		<u><u>\$65,415</u></u>	

East Bay Dischargers Authority
Planning and Special Studies Fund
Schedule of Expenses
Budget vs. Actual
For the Fiscal Year Ended June 30, 2018

	Final Budget	Actual	Variance Positive (Negative)
Planning and Special Studies Fund:			
LAVWMA Master Agreement:			
City of San Leandro	\$76,492	\$76,492	
Oro Loma Sanitary District	79,371	79,371	
Castro Valley Sanitary District	42,770	42,770	
City of Hayward	135,712	135,712	
Union Sanitary District	76,903	76,903	
NPDES Permit Fees	400,000	395,101	\$4,899
NPDES Permit Issues	10,000	116	9,884
NPDES Testing-Member Agencies	81,000	47,829	33,171
JPA Evaluation Studies	100,000	91,255	8,745
Regional Monitoring Plan	245,000	243,281	1,719
Peracetic Acid Pilot Plan	75,000	88,894	(13,894)
Transport System Evaluation	250,000	189,193	60,807
Hayward Pump/Ponds Foundation (WERF)	22,000	20,924	1,076
Total Expenses	\$1,594,248	\$1,487,841	\$106,407

East Bay Dischargers Authority
Schedule of Cumulative Expenditures
Capital Projects and Planning and Special Studies Fund
For the Fiscal Year Ended June 30, 2018

	Construction Fund					Planning and Special Studies Fund	Total
	Preliminary Engineering Step I	Final Design Step II	Construction Step III	Construction Preservation	Right-of-Way Acquisitions		
Cumulative Balance - June 30, 2017	\$1,793,555	\$6,446,495	\$131,368,161	\$108,686	\$1,428,899	\$23,286,735	\$164,432,531
Current year expenses						1,487,841	1,487,841
Cumulative Balance - June 30, 2018	1,793,555	6,446,495	131,368,161	108,686	1,428,899	24,774,576	165,920,372
Transfer of completed joint-use facilities to funds	(770,081)	(1,960,537)	(46,455,940)	(108,686)	(712,274)	(58,866)	(50,066,384)
Transfer of completed sole-use facilities to owner-agency	(901,554)	(3,844,269)	(84,746,231)		(716,625)		(90,208,679)
PreDischarge monitoring study expensed	(121,920)	(641,689)					(763,609)
Grants Close-Out Programs Expensed:							
Joint-use			(129,270)				(129,270)
Sole-use			(36,720)				(36,720)
Planning and Special Studies Programs Expensed:							
Joint-use						(22,375,851)	(22,375,851)
Sole-use						(2,339,859)	(2,339,859)
Total Construction In-Progress - June 30, 2018							

East Bay Dischargers Authority
Schedule of Sole-Use Projects
Capital Projects Fund
For the Fiscal Year Ended June 30, 2018

COMPLETED PROJECTS

City of San Leandro:	
Treatment plant improvements	\$1,480,369
Secondary treatment improvements	6,216,527
Data Acquisition system	1,195
Completion contract	23,717
Site improvements at Marina Dechlorination Facility	<u>15,466</u>
Total San Leandro	<u>7,737,274</u>
Oro Loma/Castro Valley Sanitary Districts:	
Treatment plant improvements	1,183,182
Incinerator modifications	404,780
Dechlorination Facilities	<u>76,321</u>
Total Oro Loma/Castro Valley Sanitary Districts	<u>1,664,283</u>
City of Hayward:	
Treatment plant improvements	2,039,560
Sand filter	216,875
Innovative/alternative pilot study	184,413
Secondary treatment facilities - unit 1, fixed film reactor	6,064,511
Sludge drying beds	64,319
Oxidation ponds	842
Secondary treatment facilities - unit 2, wastewater plant	<u>15,254,732</u>
Total City of Hayward	<u>23,825,252</u>
Union Sanitary District:	
Dechlorination Facilities	140,235
Treatment plant	26,918,937
Rotating biological contactors modification	16,386
Alvarado to Newark force main	10,059,045
Newark to Irvington force main	13,311,800
Newark gravity sewer	224,495
Completion contracts	44,566
Newark pump station	3,039,602
Irvington pump station	2,072,808
Cathodic protection	112,138
Miscellaneous improvements	59,089
Demolition of Irvington treatment plant and miscellaneous improvements	647,388
Treatment plant expansion	1,477
Treatment plant odor control	<u>283,904</u>
Total Union Sanitary District	<u>56,931,870</u>
Skywest Golf Course Irrigation	<u>50,000</u>
Grants Close-Out Programs Expenses:	
City of San Leandro	5,492
City of Hayward	14,930
Union Sanitary District	<u>16,298</u>
Total Grants Close-Out Programs Expenses	<u>36,720</u>
TOTAL CAPITAL PROJECTS	<u><u>\$90,245,399</u></u>

East Bay Dischargers Authority
Schedule of Joint-Use Projects
Capital Projects Fund
For the Fiscal Year Ended June 30, 2018

COMPLETED PROJECTS:	
Operations Center	\$456,205
Data acquisition system	405,827
Bay Outfall	19,475,150
San Leandro to Marina Forcemain	3,775,940
Marina to Oro Loma Forcemain	5,410,434
Oro Loma to Hayward Forcemain	2,760,721
Hayward to Alvarado Forcemain	8,656,375
San Leandro pump station	408,316
Oro Loma pump station	4,878,889
Hayward pump station	473,018
Union Sanitary District pump station	1,215,335
Marina Dechlorination Facility	1,139,870
Completion contracts	70,230
Site improvements at Marina Dechlorination Facility	121,240
Miscellaneous improvements	3,035
Systems modification	67,026
Cathodic protection	68,211
Skywest Golf Course Irrigation	619,712
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Total	50,005,534
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PreDischarge Monitoring Study Expensed	763,609
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Grants Close-Out Programs Expensed	129,270
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TOTAL	<u><u>\$50,898,413</u></u>

East Bay Dischargers Authority
Schedule of Sole-Use Projects
Planning and Special Studies Fund
For the Fiscal Year Ended June 30, 2018

City of San Leandro:	
NPDES testing	\$422,529
Oro Loma/Castro Valley Sanitary Districts:	
Energy optimization study	52,280
NPDES testing	398,208
OLSD project assistance	10,261
Total Oro Loma/Castro Valley Sanitary Districts	460,749
City of Hayward:	
Hayward project assistance	52,465
NPDES testing	413,055
Russell City Energy Center	3,211
Total City of Hayward	468,731
Union Sanitary District:	
NPDES testing	666,606
Treatment plant expansion	933
USD project assistance	203,483
Total Union Sanitary District	871,022
LAVWMA:	
LAVWMA project studies	84,141
DSRSD:	
DSRSD Antidegradation Analysis	106,524
TOTAL PLANNING AND SPECIAL STUDIES	\$2,413,696

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OTHER INDEPENDENT AUDITOR'S REPORT

**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 Commission
East Bay Dischargers Authority
San Lorenzo, 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 Dischargers Authority (Authority), California, 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 November 8, 2018. 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 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 November 8, 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
November 8, 2018

EAST BAY DISCHARGERS AUTHORITY

**MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS**

FOR THE YEAR ENDED JUNE 30, 2018

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EAST BAY DISCHARGERS AUTHORITY
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS

For The Year Ended June 30, 2018

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MEMORANDUM ON INTERNAL CONTROL

To the Commission
East Bay Dischargers Authority
San Lorenzo, California

In planning and performing our audit of the basic financial statements of the Authority as of and for the year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the East Bay Dischargers Authority's (Authority) internal control over financial reporting (internal control) as a basis for designing our auditing 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. 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.

Included in the Schedule of Other Matters are recommendations not meeting the above definitions that we believe are opportunities for strengthening internal controls and operating efficiency.

This communication is intended solely for the information and use of management, Commission, others within the organization, and agencies and pass-through entities requiring compliance with Government Auditing Standards, and is not intended to be and should not be used by anyone other than these specified parties.

Maze + Associates

Pleasant Hill, California
November 8, 2018

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MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

NEW GASB PRONOUNCEMENTS OR PRONOUNCEMENTS NOT YET EFFECTIVE

The following comment represents new pronouncements taking affect in the next few years. We cite them here to keep you informed of developments:

EFFECTIVE FISCAL YEAR 2018/19:

GASB 83 – Certain Asset Retirement Obligations

This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO.

This Statement requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. The best estimate should include probability weighting of all potential outcomes, when such information is available or can be obtained at reasonable cost. If probability weighting is not feasible at reasonable cost, the most likely amount should be used. This Statement requires that a deferred outflow of resources associated with an ARO be measured at the amount of the corresponding liability upon initial measurement.

This Statement requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually. In addition, it requires a government to evaluate all relevant factors at least annually to determine whether the effects of one or more of the factors are expected to significantly change the estimated asset retirement outlays. A government should remeasure an ARO only when the result of the evaluation indicates there is a significant change in the estimated outlays. The deferred outflows of resources should be reduced and recognized as outflows of resources (for example, as an expense) in a systematic and rational manner over the estimated useful life of the tangible capital asset.

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

GASB 83 – Certain Asset Retirement Obligations (Continued)

A government may have a minority share (less than 50 percent) of ownership interest in a jointly owned tangible capital asset in which a nongovernmental entity is the majority owner and reports its ARO in accordance with the guidance of another recognized accounting standards setter. Additionally, a government may have a minority share of ownership interest in a jointly owned tangible capital asset in which no joint owner has a majority ownership, and a nongovernmental joint owner that has operational responsibility for the jointly owned tangible capital asset reports the associated ARO in accordance with the guidance of another recognized accounting standards setter. In both situations, the government's minority share of an ARO should be reported using the measurement produced by the nongovernmental majority owner or the nongovernmental minority owner that has operational responsibility, without adjustment to conform to the liability measurement and recognition requirements of this Statement.

In some cases, governments are legally required to provide funding or other financial assurance for their performance of asset retirement activities. This Statement requires disclosure of how those funding and assurance requirements are being met by a government, as well as the amount of any assets restricted for payment of the government's AROs, if not separately displayed in the financial statements.

This Statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. If an ARO (or portions thereof) has been incurred by a government but is not yet recognized because it is not reasonably estimable, the government is required to disclose that fact and the reasons therefor. This Statement requires similar disclosures for a government's minority shares of AROs.

GASB 88 – Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements

The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

GASB 88 – Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements (Continued)

How the Changes in This Statement Improve Financial Reporting

The requirements of this Statement will improve financial reporting by providing users of financial statements with essential information that currently is not consistently provided. In addition, information about resources to liquidate debt and the risks associated with changes in terms associated with debt will be disclosed. As a result, users will have better information to understand the effects of debt on a government's future resource flows.

EFFECTIVE FISCAL YEAR 2019/20:

GASB 84 – Fiduciary Activities

The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less.

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

A fiduciary component unit, when reported in the fiduciary fund financial statements of a primary government, should combine its information with its component units that are fiduciary component units and aggregate that combined information with the primary government's fiduciary funds.

This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

GASB 90 - *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*

The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

EFFECTIVE FISCAL YEAR 2020/21:

GASB 87 – Leases

The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this Statement.

GASB 89 - Accounting for Interest Cost Incurred before the End of a Construction Period

The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

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REQUIRED COMMUNICATIONS

To the Commission
East Bay Dischargers Authority
San Lorenzo, California

We have audited the basic financial statements of the East Bay Dischargers Authority (Authority), for the year ended June 30, 2018. Professional standards require that we communicate to you the following information related to our audit under generally accepted auditing standards.

Significant Audit Findings

Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year, except as follows:

GASB 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

In June 2015, GASB issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Statement 75 establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain non-employer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities.

This Statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria.

The pronouncement became effective, and as disclosed in Note 2Q and 9 to the financial statements required a prior period restatement for the cumulative effect on the financial statements.

Unusual Transactions, Controversial or Emerging Areas

We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the Authority's financial statements were:

Estimated Net Pension Liabilities and Pension-Related Deferred Outflows and Inflows of Resources: Management's estimate of the net pension assets and liabilities and deferred outflows/inflows of resources are disclosed in Note 8 to the financial statements and are based on actuarial studies determined by a consultant, which are based on the experience of the Authority. We evaluated the key factors and assumptions used to develop the estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Estimated Net OPEB Liabilities: Management's estimate of the net OPEB Liabilities is disclosed in Note 9 to the financial statements and is based on actuarial study determined by a consultant, which is based on the experience of the Authority. We evaluated the key factors and assumptions used to develop the estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Estimated Fair Value of Investments: As of June 30, 2018, the Authority held approximately \$5.5 million of cash and investments as measured by fair value as disclosed in Note 3 to the financial statements. Fair value is essentially market pricing in effect as of June 30, 2018. These fair values are not required to be adjusted for changes in general market conditions occurring subsequent to June 30, 2018.

Estimate of Depreciation: Management's estimate of the depreciation is based on useful lives determined by management. These lives have been determined by management based on the expected useful life of assets as disclosed in Note 2 to the financial statements. We evaluated the key factors and assumptions used to develop the depreciation estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Estimate of Compensated Absences: Accrued compensated absences which are comprised of accrued vacation, holiday, and certain other compensating time is estimated using accumulated unpaid leave hours and hourly pay rates in effect at the end of the fiscal year as disclosed in Note 2K and Note 5 to the financial statements. We evaluated the key factors and assumptions used to develop the accrued compensated absences and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Disclosures

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. We did not propose any audit adjustments that, in our judgment, could have a significant effect, either individually or in the aggregate, on the Authority's financial reporting process.

Professional standards require us to accumulate all known and likely uncorrected misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We have no such misstatements to report to the Board of Directors.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in a management representation letter dated November 8, 2018.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Information Accompanying the Financial Statements

We applied certain limited procedures to the required supplementary information that accompanies and supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the required supplementary information and do not express an opinion or provide any assurance on the required supplementary information.

We were engaged to report on the supplementary information which accompany the financial statements, but are not required supplementary information. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of Commission and management and is not intended to be, and should not be, used by anyone other than these specified parties.

Mazze + Associates

Pleasant Hill, California
November 8, 2018