

COMPREHENSIVE ANNUAL FINANCIAL REPORT

for the year ended June 30, 2005



EAST BAY MUNICIPAL UTILITY DISTRICT • OAKLAND, CALIFORNIA 94623

Prepared by the Accounting Division of the Finance Department

Comprehensive Annual Financial Report

EAST BAY MUNICIPAL UTILITY DISTRICT

FOR THE FISCAL YEAR ENDED
JUNE 30, 2005



P.O. Box 24055
Oakland, California 94623-1055

Prepared by the Accounting Division
of the Finance Department

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INTRODUCTORY SECTION





December 20, 2005

Board of Directors
East Bay Municipal Utility District
Oakland, California

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the East Bay Municipal Utility District (EBMUD, or District) for the fiscal year ended June 30, 2005, as prepared by the staff of the Accounting Division.

The District's management is responsible for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures. We believe the report presented is accurate in all material respects, that it is presented in a manner designed to fairly set forth the financial position and the results of operations of the District and that all disclosures necessary to enable the reader to gain the maximum understanding of the District's financial activity have been included.

Maze & Associates, Accountancy Corporation, have issued an unqualified ("clean") opinion on the East Bay Municipal Utility District's financial statements for the year ended June 30, 2005. The independent auditor's report is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complement this letter of transmittal and should be read in conjunction with it.

The Comprehensive Annual Financial Report follows the guidelines recommended by the Government Finance Officers Association of the United States and Canada. The District is submitting the CAFR for review and possible certification.

The CAFR consists of three sections:

- **Introduction:**
This section includes this letter of transmittal, information relative to the District's background, highlights of the year, introductory facts and figures, and an organizational chart that describe the overall functions of the District.
- **Financial:**
This section includes the District's basic financial statements, management's discussion and analysis, and the independent auditor's report on the basic financial statements. The financial statements presented in this section were prepared in accordance with generally accepted accounting principles and are fully compliant with GASB 34.
- **Statistical:**
This section includes selected unaudited financial, operational, and demographic information generally presented on a multi-year basis.

Serving the East Bay

The Reporting Entity

At the beginning of the last century, East Bay residents were searching for a regional answer to their water supply needs. In 1923, faced with local supplies that were increasingly limited and poor in quality, people in parts of Alameda and Contra Cost counties voted to create the East Bay Municipal Utility District.

During a June heat wave in 1929, with just a 21-day supply of brackish water remaining in local reservoirs, the first water from the Mokelumne River watershed in the High Sierra reached the East Bay. Today EBMUD, a publicly owned utility, provides water quality that ranks among the best in the world for approximately 1.3 million people. Three aqueducts carry the water 90 miles across the San Joaquin Valley to East Bay reservoirs. Locally, EBMUD's water system features an internationally renowned seismic protection program, well-maintained treatment plants, and an outstanding laboratory that meticulously monitors water quality throughout the system – all public services provided by EBMUD's well-trained and highly committed workforce.

In addition to providing water, EBMUD treats wastewater for more than 640,000 customers, and has been doing so for more than fifty years. After World War II, the sewers that were in place could not handle the increasing volume of wastewater generated by growing cities along San Francisco Bay's east shore. In 1944, voters from shoreline cities authorized EBMUD to build a wastewater treatment system (which began operating in 1951) to protect the Bay from pollution. EBMUD's commitment to protecting the Bay regularly earns national recognition, and our employees' commitment to excellence shows in its outstanding record for meeting local, state and national wastewater regulations.

The District provides water and wastewater services. The Water System collects, transmits, treats, and distributes high-quality water to approximately 60% of the developed area within Alameda and Contra Costa counties of California. The Wastewater System intercepts and treats wastewater from residences and industries in the communities of Alameda, Albany, Berkeley, Emeryville, Oakland, Piedmont, and Stege Sanitary District. The water is supplied to industrial, commercial, residential, and public authority users in a 325 square mile service area while the wastewater system serves similar customers within a 70 square mile service area. The District recovers cost of service through user fees.

EBMUD takes pride in providing a reliable, high-quality supply of water for the East Bay and for future generations. Our mission statement guides us as responsible stewards of a shared water resource.

EBMUD Mission Statement

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

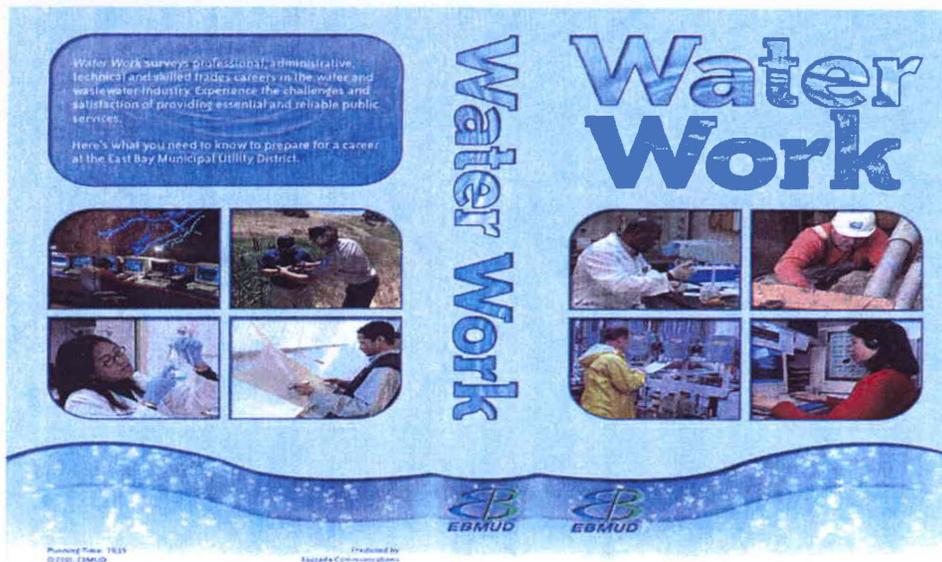
In carrying out this mission, we will:

- **Exercise Responsible Financial Management**
- **Ensure Fair Rates and Charges**
- **Provide Responsive Customer Service**
- **Promote Ethical Behavior in the Conduct of District Business**
- **Ensure Fair and Open Processes Involving the Public**
- **Provide a Healthy Work Environment**
- **Promote Diversity and Equality in Personnel Matters and Contracting**
- **Promote Environmental Responsibility**

EBMUD Key Initiatives for the Fiscal Year July 2001–June 2005

- **Long Term Water Supply**
Ensure a reliable high quality water supply for the future.
- **Water Quality and Environmental Protection**
Meet or surpass environmental and public health standards and protect public trust values.
- **Long Term Infrastructure Investment**
Maintain and improve the District's infrastructure in a cost effective manner to ensure delivery of reliable, high quality service now and in the future.
- **Customer Service**
Understand and be responsive to customer expectations for service.
- **Workforce Planning and Development**
Ensure ample talent to do the District's work today and tomorrow.

EBMUD Administrative Profile



EBMUD has approximately 1,900 full-time employees under the administrative direction of an appointed General Manager and management staff. Groups of employees are represented by the American Federation of State, County and Municipal Employees, Locals 444 and 2019, International Federation of Professional, Technical Engineers Local 21, and International Union of Operating Engineers Local 39. EBMUD is an equal opportunity employer and encourages diversity in contracting and in the workforces of District contractors. Following is the fiscal year 2003-2005 full-time equivalent employee details by Function/Program.

Function/Program	Fiscal Year 2005
System operations and maintenance	568.5
Water operations and maintenance	313.5
Water resources	45.0
Natural resources	63.0
Engineering and construction	274.5
Office of the general manager	40.0
Finance	112.5
Information systems	75.0
Administration department	39.5
Customer and community services	149.0
Human resources	50.5
Office of general counsel	16.5
Water recycling program	9.0
Total	1,756.5

Financial Strength & Stability

Profile

EBMUD's financial condition continues to be sound, with a stable revenue base and rates that compare favorably with other Bay Area water and wastewater agencies. EBMUD's revenues come from a variety of sources, including sales of water and hydroelectric power, meter service charges, sewage treatment charges, a wet-weather facilities charge, and property taxes. Our responsible fiscal management and planning, as confirmed by external auditor's reports, give us the financial means to ensure reliable water and wastewater system operations, while consistently meeting our principal and interest payments on bond debt.

Stability

Long-term planning and resourcefulness continue to put EBMUD at the forefront as a service agency. By investing wisely in our infrastructure and practicing sound fiscal management, we save our customers money and stay on track to implement projects important to East Bay homes and businesses.

It is a challenge for any utility facing the rising costs of health care, security and energy to keep rates low. EBMUD scrutinizes spending priorities, looks for operating efficiencies, reviews staffing needs and enhances revenues to fund essential operating and capital expenditures while keeping costs down.

Financial Highlights

- The total assets of the District exceeded the total liabilities by \$1.4 billion (*net assets*).
- Net assets increased by \$20 million or 1% during the fiscal year.
- Capital assets increased by \$131 million or 5% to \$3.0 billion.
- During the year, operating revenue decreased by \$3 million or 1% to \$312 million.
- Operating expense increased by \$20 million or 8% to \$284 million.
- Capital contributions, consisting of capital facility fees, increased by \$5 million or 18% from the prior fiscal year.

Financial Position

The District's net assets increased by \$20 million or 1% during the year. There was an increase of \$181 million in the level of current and other assets. By far the largest portion of the District's net assets (63%) or \$.9 billion represents its investment in capital assets necessary to provide services. The increase of 2% in Total Net Assets is consistent with the District's implementation of a five-year capital improvement program.



Budget and Rates

By investing wisely in our water system, we invest in our future. EBMUD's water and wastewater budgets support an aggressive pace for maintaining our 81-year old infrastructure and funding major recycling and supplemental water supply projects. Our commitment to fair and equitable rates means only modest rate increases for customers – 3.75 percent for fiscal year 2006 and 2007. That translates into one dollar per month more for the average customer in 2006 compared to 2005.

EBMUD works to maintain the high level of service that customers expect, while keeping rates low. EBMUD water rates are at the median for the Bay Area, while wastewater rates are in the upper third compared to similar agencies. Overall rate increases (3.75% in fiscal year 2004 and 2005) were at or below inflation for the fifth year. Projected annual rate increases in our five-year financial forecast show we can continue that trend.

The biennial budget combats rising costs and makes efficient use of rate payer dollars. This year, the focus is on financing a five-year Capital Improvement Program that includes funding EBMUD's \$415 million share of the Freeport Regional Water Project, which will provide up to 100 million gallons of water a day during dry years for EBMUD customers. In addition, seismic improvements for San Pablo Dam, completion of the 10 year district-wide Seismic Improvement Program, Lamorinda water system improvements, wastewater plant digester improvements and water recycling will be funded.

Our reputation as a financially stable agency continues this year, with the issuance of \$795 million in bonds for funding EBMUD's water and wastewater capital improvement programs and refinancing higher coupon bonds. The bond sale provided savings to our customers and our credit ratings continue to be high.

Strategic Purchasing

This year was challenging with soaring raw material prices and rising costs in most areas – including health care, chemical supplies, coupled with wastewater's loss of property tax revenue. EBMUD developed a contract price adjustment strategy that positions the District to adjust prices throughout the life of a contract both in terms of price increases and price decreases. These adjustments allow for raw material cost volatility adjustments and guarantee the vendor to remain profitable during periods of rising costs and it also guarantees the District price reductions during periods of decreasing raw material costs. This long-term approach helped EBMUD drive material costs down for several years before the jump this year. Though prices were up 13 percent from 2004, we paid only three percent more compared to 1996. In spite of a 30 percent rise in the consumer price index, EBMUD was able to avoid costs of about \$12.7 million in 2005 compared to what we could have paid had we done nothing. EBMUD was recognized as a finalist for the annual Clair A. Hill Award by the Association of California Water Agencies for our contract approach. Additionally, EBMUD is one of only 29 agencies in the U.S. and Canada to receive the Achievement of Excellence in Procurement six times.

Energy Savings



Operating EBMUD's water and wastewater systems is energy intensive. By producing and using green power, we can save on costs and function in a more sustainable way. At the wastewater plant, we use biogas to meet most of our power needs. For water, we sell the electricity generated from our two hydroelectric power facilities at the Camanche and Pardee dams, and we have installed photo-voltaic cells on the roof of some of our facilities to generate additional electricity.

The District has recently entered into a ten-year year contract to sell electricity to the Sacramento Municipal Utilities District that will stabilize EBMUD's energy revenue and renewable energy credits. The sale of these commodities enhances our power sales revenue by approximately \$1.0 million a year to \$4.5 million.

Investing in our Communities

EBMUD's hiring and purchasing practices contribute to our financial vitality and the health of our communities by providing equal opportunities for business owners of all races, ethnicities, and genders. Providing a chance for a small business to get on its feet can also help EBMUD (and ratepayers) save money. When staff worked together on a contract specification for biosolids removal (the solid organic material removed from wastewater), the result was a money saving contract with the supplier innovatively filling a district need. The contract (\$1.5 million annually for a period of five years) was awarded to a local minority business, saving the District about \$875,000 over the life of the contract. This contract opened the door for the company to successfully compete for two subsequent contracts with the District.

Savings and Efficiencies

Prudent financial management policies have resulted in bond ratings of AA from Standard & Poor's and AA2 from Moody's. Our high ratings keep debt costs low, which keeps rates low. By financing at favorable interest rates, the District carries a lower debt service, saving ratepayers' money.

EBMUD has made operational changes to reduce costs. At local reservoirs, we cut electrical costs by more than \$100,000 per year by changing how we run pumping plants. Our wastewater treatment plant in Oakland, built to serve industries that have left, uses excess plant capacity to process trucked wastes. In addition to increasing cost-effectiveness, processing these wastes increases methane gas energy production to power the plant. Disposing of wastes in this environmentally sound manner produced revenues of approximately \$3.4 million in fiscal year 2005.

By centralizing our customer service center and web-enabling more transactions, we improved how we communicate with our customers, and will save about \$650,000 per year in salaries and benefits. At EBMUD's two branch offices in Richmond and San Leandro, the cost per transaction to conduct business was high because they served only a small number of customers. These offices were closed at the end of last fiscal year, with customers able to pay their bills at local pay stations, by phone, online, or by using an automatic payment plan. The sale of these offices produced \$790,000 in gross revenue, and closing the offices allowed ratepayers to avoid paying \$1.2 million in needed seismic improvements.

Strategic Plan

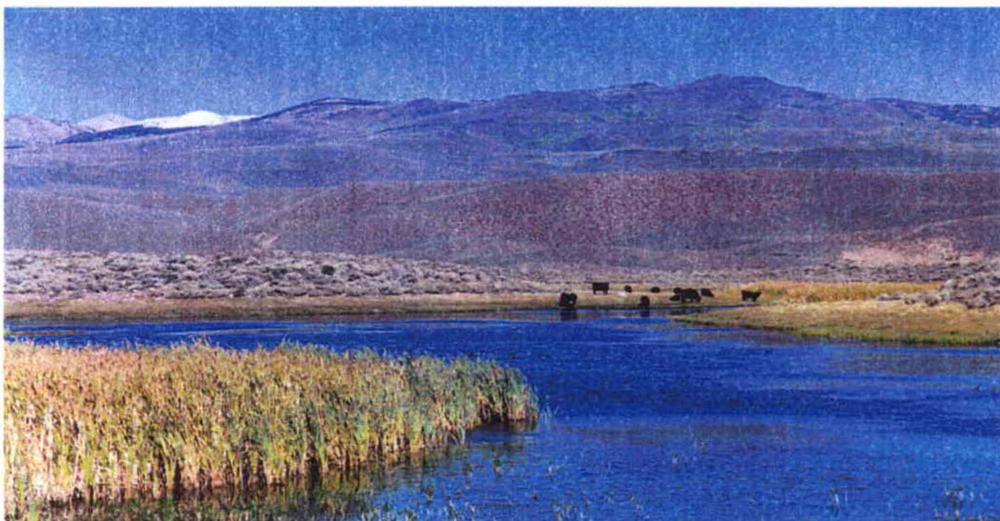
For 2005, EBMUD introduced a comprehensive strategic planning process. It sets the stage for a biennial budget process, incorporating diverse Districtwide plans, such as workforce development, water supply and watershed management. The strategic plan identifies critical issues for the next five years and beyond, establishes long term goals and strategies to address them, and identifies criteria to measure progress. This business planning process will help EBMUD make cost-effective investments and maximize efficiencies.

I want to thank the Accounting Division and the District's external auditors for completing this report in a timely and comprehensive manner.

Respectfully submitted,



Gary Breaux
Director of Finance



Board of Directors

EBMUD has a seven-member Board of Directors publicly elected from wards within the EBMUD service area. The Board of Directors and management believe that EBMUD has a public responsibility to preserve the region's resources and set industry standards for the way water and wastewater utilities conduct themselves. EBMUD is a customer-oriented and environmentally sensitive public agency, firmly committed to serving people and the environment.

John A. Coleman

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

Katy Foulkes

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

Doug Linney

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

Lesa R. McIntosh

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

Frank Mellon

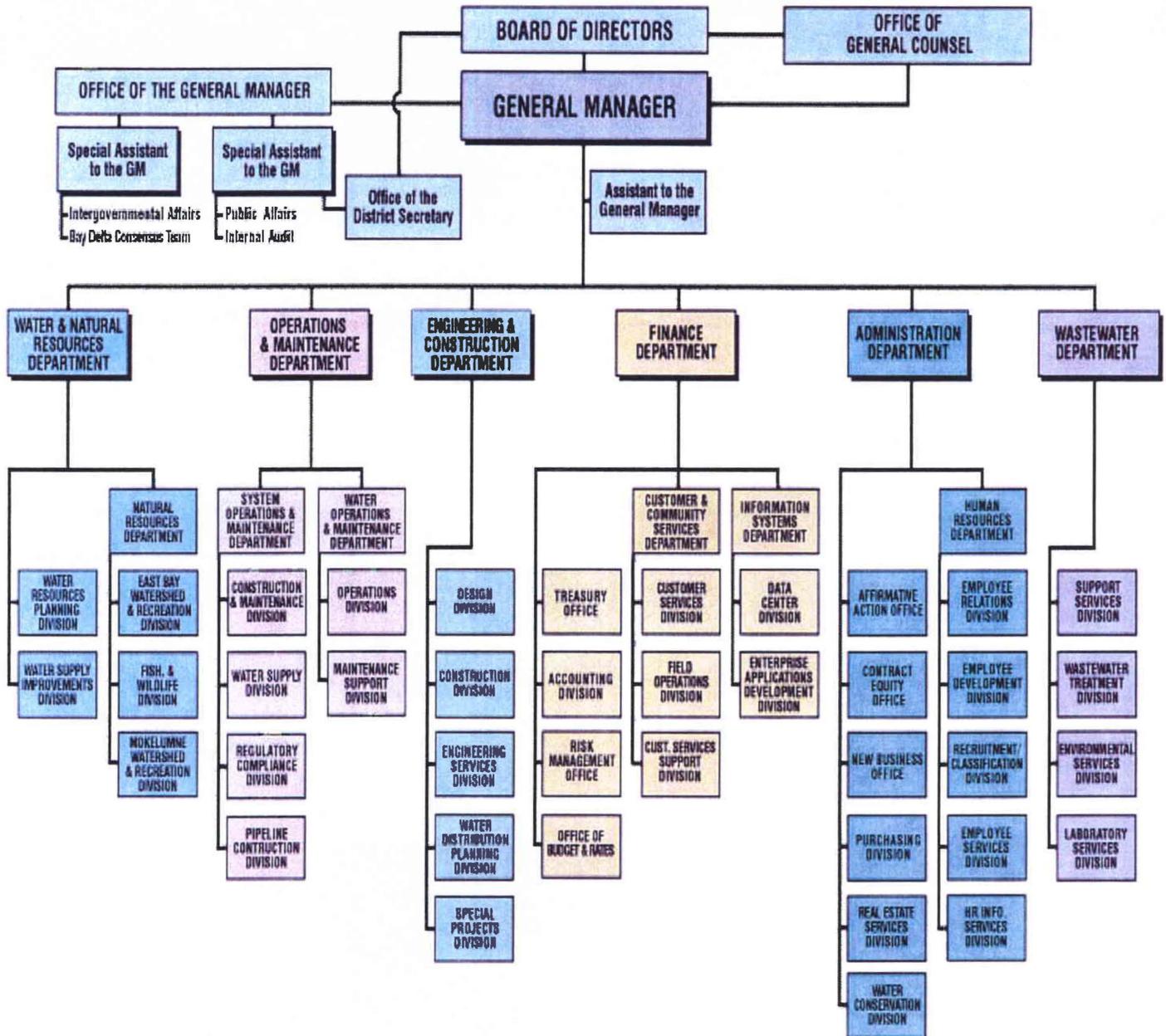
Director Mellon represents EBMUD's Ward No. 7 which is comprised of the town of Castro Valley and portions of San Leandro, Hayward and San Ramon.

William B. Patterson

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

David Richardson

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



FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Board of Directors
East Bay Municipal Utility District
Oakland, California

We have audited the financial statements of the business-type activities, each major fund and the discretely presented component unit, of the East Bay Municipal Utility District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit. The basic financial statements for the year ended June 30, 2004, were audited by other auditors, whose unqualified opinion was dated September 3, 2004.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards for the financial audits contained in *Government Auditing Standard*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly in all material respects the respective financial position of the business-type activities, each major fund and the discretely presented component unit of the East Bay Municipal Utility District at June 30, 2005 and the respective changes in the financial position and cash flows, where applicable, thereof for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

We have also prepared our report on the District's internal controls and compliance with law, rules, and regulations and other matters dated August 26, 2005.

The basic financial statements referred to above follow the requirements of Government Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment of GASB Statement No. 3, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as discussed in Note 1Q to the basic financial statements.

Management's Discussion and Analysis and Required Supplemental Information are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

The statistical section listed in the Table of Contents was not audited by us, and we do not express an opinion on this information.

Mage + Associates

August 26, 2005

EAST BAY MUNICIPAL UTILITY DISTRICT

Management's Discussion and Analysis

June 30, 2005

This section presents management's analysis of the East Bay Municipal Utility District's (the District) financial condition and activities as of and for the year ended June 30, 2005. Management's Discussion and Analysis (MDA) is intended to serve as an introduction to the District's basic financial statements.

This information should be read in conjunction with the audited financial statements that follow this section. The District, as the primary governmental entity, includes, within the financial statements, the financial position and activities of the District's Employees' Retirement System (Employees' Retirement System) as a component unit. The Employees' Retirement System issues its own financial statements and MDA under separate cover. Significant matters pertaining to the Employees' Retirement System have been included in the notes to the financial statements as deemed appropriate.

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

- Organization and Business
- Overview of the Basic Financial Statements
- Financial Analysis
- Capital Assets and Debt Administration
- Request for Information

ORGANIZATION AND BUSINESS

The District provides water and wastewater services. The Water System collects, transmits, treats, and distributes high-quality water to approximately 60% of the developed area within Alameda and Contra Costa counties of California. The Wastewater System intercepts and treats wastewater from residences and industries in the communities of Alameda, Albany, Berkeley, Emeryville, Oakland, Piedmont, and Stege Sanitary District. The District's water system serves approximately 1.3 million people. The water is supplied to industrial, commercial, residential, and public authority users in a 325 square mile service area. The wastewater system serves about 600,000 within a 70 square mile service area. The District recovers cost of service through user fees.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

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

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

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

EAST BAY MUNICIPAL UTILITY DISTRICT

Management's Discussion and Analysis

June 30, 2005

The District's proprietary fund statements include:

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

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

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

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

Notes to Basic Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to basic financial statements can be found on pages 21 to 54 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents *certain required supplementary information* concerning the District's progress in funding its obligation to provide pension and other post-employment healthcare benefits to its employees. Such required supplementary information can be found on page 55 of this report.

EAST BAY MUNICIPAL UTILITY DISTRICT

Management's Discussion and Analysis

June 30, 2005

FINANCIAL ANALYSIS

Financial Highlights

- The total assets of the District exceeded the total liabilities by \$1.4 billion (*net assets*).
- Net assets increased by \$20 million or 1% during the fiscal year.
- Capital assets increased by \$131 million or 5% to \$3.0 billion.
- During the year, operating revenue decreased by \$3 million or 1% to \$312 million.
- Operating expense increased by \$20 million or 8% to \$284 million.
- Capital contributions, consisting of capital facility fees, increased by \$5 million or 18% from the prior fiscal year.

Financial Position

The District's net assets increased by \$20 million or 1% during the year (see Table 1 below). There was an increase of \$181 million in the level of current and other assets. By far the largest portion of the District's net assets (63%) or \$.9 billion represents its investment in capital assets necessary to provide services. The increase of 2% in Total Net Assets is consistent with the District's implementation of a five-year capital improvement program.

EAST BAY MUNICIPAL UTILITY DISTRICT

Management's Discussion and Analysis

June 30, 2005

Table 1

Net Assets

Water and Wastewater

June 30, 2005 and 2004

(In thousands)

	<u>2005</u>	<u>2004</u>	<u>Variance</u>
Current and other assets	\$ 642,891	461,531	181,360
Capital assets	3,021,404	2,890,307	131,097
Total assets	<u>3,664,295</u>	<u>3,351,838</u>	<u>312,457</u>
Current and other liabilities	155,492	148,774	6,718
Long-term liabilities	2,068,201	1,782,298	285,903
Total liabilities	<u>2,223,693</u>	<u>1,931,072</u>	<u>292,621</u>
Net assets:			
Invested in capital assets, net of related debt	1,213,199	1,090,005	123,194
Restricted	92,119	67,359	24,760
Unrestricted	135,284	263,402	(128,118)
Total net assets	<u>\$ 1,440,602</u>	<u>1,420,766</u>	<u>19,836</u>

EAST BAY MUNICIPAL UTILITY DISTRICT

Management's Discussion and Analysis

June 30, 2005

Results of Operations

The following table (Table 2) shows changes in the District's net assets for the year:

Table 2

Changes in Net Assets

Water and Wastewater

June 30, 2005 and 2004

(In thousands)

	<u>2005</u>	<u>2004</u>	<u>Variance</u>	<u>%</u>
Operating Revenues:				
Water service revenues	\$ 235,790	241,927	(6,137)	(3)%
Wastewater service revenues	42,244	42,822	(578)	(1)%
Other revenues	33,771	29,559	4,212	14%
Total operating revenues	<u>311,805</u>	<u>314,308</u>	<u>(2,503)</u>	(1)%
Operating Expenses:				
Water operations	166,429	156,418	10,011	6%
Wastewater operations	38,400	36,801	1,599	4%
Depreciation (excluding amounts reported within the Water and Wastewater operations)	78,685	70,438	8,247	12%
Total operating expenses	<u>283,514</u>	<u>263,657</u>	<u>19,857</u>	8%
Net operating income	28,291	50,651	(22,360)	(44)%
Nonoperating expenses, net	<u>(42,148)</u>	<u>(38,998)</u>	<u>(3,150)</u>	8%
Income (Loss) before contributions	(13,857)	11,653	(25,510)	(219)%
Capital contributions	<u>33,693</u>	<u>28,579</u>	<u>5,114</u>	18%
Change in net assets	19,836	40,232	(20,396)	(51)%
Total net assets – beginning	<u>1,420,766</u>	<u>1,380,534</u>	<u>40,232</u>	3%
Total net assets – ending	<u>\$ 1,440,602</u>	<u>1,420,766</u>	<u>19,836</u>	1%

EAST BAY MUNICIPAL UTILITY DISTRICT

Management's Discussion and Analysis

June 30, 2005

The District's total operating revenue of \$312 million for the year decreased by \$3 million and total operating expense increased by \$20 million, providing a 40% decrease in net operating income. The District's change in net assets for the year, including capital contributions, increased by \$20 million or 1%. The major components of this decrease were:

- Water and wastewater revenues decreased by \$6 million and \$1 million, respectively, mainly reflecting decreased consumption.
- Other revenue increased by \$4 million, primarily reflecting increase in revenue from power generation.
- Operating expense increased by \$20 million, primarily reflecting increases in depreciation and amortization expense across both water and wastewater systems.
- Nonoperating expense (net of nonoperating revenue) increased by \$3 million, primarily reflecting a decrease in interest income.
- Capital contributions increased by \$5 million primarily reflecting increases in system capacity fees and service installations.

Capital Assets

The District had \$3.0 billion (net of accumulated depreciation) invested in a broad range of utility capital assets as of June 30, 2005. The investment in capital assets includes land, buildings, improvements, water treatment plants, filter plants, aqueducts, water transmission and distribution mains, water storage facilities, pump stations, water reclamation facilities, wastewater and wet weather treatment facilities, machinery and equipment (see Table 3 below). This amount represents an increase of \$131 million or 4.5% over the prior fiscal year, consistent with the District's implementation of a five-year (FY 02 to FY 06) capital improvement program. The District's net revenue, long-term debt, and contributions from customers are used to finance capital investments. More detailed information about the District's capital assets is presented in Note 3 to the basic financial statements.

Table 3
Capital Assets, Net of Depreciation
Water and Wastewater
June 30, 2005 and 2004
(In thousands)

	Water System		Wastewater System		Districtwide		Increase/(decrease)	
	2005	2004	2005	2004	2005	2004	Amount	%
Structures, buildings, and equipment	\$ 2,180,271	2,023,012	469,415	470,271	2,649,686	2,493,283	156,403	6.3%
Land and rights of way	48,993	48,924	5,587	5,587	54,580	54,511	69	0.1%
Construction work in progress	295,860	322,172	21,277	20,341	317,137	342,513	(25,376)	(7.4)%
Totals	\$ 2,525,124	2,394,108	496,279	496,199	3,021,403	2,890,307	131,096	4.5%

EAST BAY MUNICIPAL UTILITY DISTRICT

Management's Discussion and Analysis

June 30, 2005

This year's major capital additions included:

Water

Claremont Corridor Seismic Improvement Project	\$	22,605
Walnut Creek Water Treatment Plant long-term capacity upgrade		20,353
Walnut Creek - San Ramon Valley transmission improvements		20,223
Pipeline Infrastructure Renewals		13,104
Service Lateral Replacements Polybutylene		12,398
Reservoir Upgrades Seismic Improvement Project		10,867
New Service Installations		9,881
Pipeline System Extensions		9,073
East Bayshore Recycled Water Transmission System		8,687
Freeport Regional Water Project		7,928

Wastewater

Distributed Control System Upgrades	3,173
Treatment Plant Infrastructure Renewal	2,011
Primary Sedimentation Tanks Rehabilitation	1,809

Long-Term Debt

As of June 30, 2005, the District had total long-term debt outstanding of \$2.1 billion (net of unamortized costs), increasing by \$288 million or 15.8%, as shown in Table 4.

Table 4
Outstanding Debt
 (Net of Unamortized Costs)
 Water and Wastewater
 June 30, 2005 and 2004
 (In thousands)

	Water System		Wastewater System		Districtwide		Increase (decrease)	
	2005	2004	2005	2004	2005	2004	Amount	%
General obligation bonds	\$ —	3,922	38,252	40,031	38,252	43,953	(5,701)	(13.0)%
Revenue bonds	1,540,834	1,141,045	238,237	238,373	1,779,071	1,379,418	399,653	29.0%
Commercial paper	230,000	330,000	—	—	230,000	330,000	(100,000)	(30.3)%
Loans	20,333	22,054	42,668	46,668	63,001	68,722	(5,721)	(8.3)%
	\$ 1,791,167	1,497,021	319,157	325,072	2,110,324	1,822,093	288,231	15.8%

EAST BAY MUNICIPAL UTILITY DISTRICT

Management's Discussion and Analysis

June 30, 2005

The District issued \$300.0 million in Water System Subordinated Revenue Bonds, Series 2005A. Proceeds were allocated to the Reserved for Construction Account for future use.

The District issued \$325.0 million in Water System Subordinated Revenue Bonds, Series 2005B. Proceeds of \$92.5 million were used to retire Series 1996 Subordinated Revenue Bonds and proceeds of \$230.7 million were used to retire Series 1998 Subordinated Revenue Bonds.

The District issued \$100.0 million in Water System Subordinated Revenue Bonds, Series 2005C. Proceeds were used to retire \$100.0 million of outstanding commercial paper.

The District issued \$70.0 million in Wastewater System Subordinated Revenue Bonds, Series 2005. Proceeds of \$28.9 million were used to retire Series 1996 Subordinated Revenue Bonds and proceeds of \$39.2 million were used to retire Series 1998 Subordinated Revenue Bonds.

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

Debt Service Coverage Ratio: Maintain an annual revenue bond debt coverage ratio of at least 1.6 times coverage.

Debt-Funded Capital Spending: Limit debt-funded capital to no more than 65% of the total capital program over each five-year planning period.

Commercial Paper: Limit to 25% of outstanding long-term debt.

The District's debt ratings are outlined in Table 5.

EAST BAY MUNICIPAL UTILITY DISTRICT

Management's Discussion and Analysis

June 30, 2005

Revenue-supported debt authorization for the District can be approved by the District's board of directors, subject to a referendum process. At June 30, 2005, the District had \$650 million in authorized but unissued revenue bonds (\$450 million Water and \$200 million Wastewater).

Table 5
Debt Ratings
Water and Wastewater
June 30, 2005

District debt by type	Rating by	
	Moody's Investors Service	Standard & Poor's
Water system:		
Commercial Paper	A1+	P1
Subordinated Revenue Bonds	AA	Aa2
General Obligation Bonds	AA	Aa2
Wastewater system:		
Commercial Paper	A1+	P1
Subordinated Revenue Bonds	AA	Aa3
General Obligation Bonds	AA	Aa3

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

EAST BAY MUNICIPAL UTILITY DISTRICT

Management's Discussion and Analysis

June 30, 2005

REQUEST FOR INFORMATION

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

(Continued)

EAST BAY MUNICIPAL UTILITY DISTRICT
BALANCE SHEETS
PROPRIETARY FUNDS - ENTERPRISE
JUNE 30, 2005 and 2004
(DOLLARS IN THOUSANDS)

Assets	Water System		Wastewater System		Total	
	2005	2004	2005	2004	2005	2004
Current assets:						
Cash and investments (Note 2)	\$95,883	\$198,349	\$54,726	\$64,002	\$150,609	\$262,351
Receivables:						
Customer	17,134	19,599	3,231	3,104	20,365	22,703
Interest and other	12,524	9,521	1,761	2,163	14,285	11,684
Materials and supplies	9,506	9,521			9,506	9,521
Prepaid insurance	709	3,036		191	709	3,227
Total current assets	135,756	240,026	59,718	69,460	195,474	309,486
Noncurrent assets:						
Restricted cash and investments (Note 2):						
Bond construction fund	299,743		2,517	2,593	302,260	2,593
Bond interest and redemption fund	418		337	78	755	78
Debt service reserve fund	33,793	21,793	1,300		35,093	21,793
Funds received for construction	68,585	77,375			68,585	77,375
FERC partnership fund	2,286	2,294			2,286	2,294
Monetary reserve	619	619			619	619
Total restricted cash and investments	405,444	102,081	4,154	2,671	409,598	104,752
Unrestricted investments (Note 2):						
Reserve funded CIP			11,773	11,480	11,773	11,480
Seismic fund		13,254				13,254
Vehicle/equipment replacement fund	3,202	3,634	4,314	3,320	7,516	6,954
Total unrestricted cash and investments	3,202	16,888	16,087	14,800	19,289	31,688
Other assets:						
Deferred bond issuance costs	12,039	9,174	2,607	2,899	14,646	12,073
Other	3,191	2,673	693	859	3,884	3,532
Total other assets	15,230	11,847	3,300	3,758	18,530	15,605
Capital assets (Note 3):						
Structures, buildings, and equipment	3,037,421	2,824,348	677,726	662,697	3,715,147	3,487,045
Less accumulated depreciation	(857,149)	(801,336)	(208,311)	(192,426)	(1,065,460)	(993,762)
Subtotal	2,180,272	2,023,012	469,415	470,271	2,649,687	2,493,283
Land and rights-of-way	48,993	48,924	5,587	5,587	54,580	54,511
Construction in progress	295,859	322,172	21,278	20,341	317,137	342,513
Total capital assets, net	2,525,124	2,394,108	496,280	496,199	3,021,404	2,890,307
Total noncurrent assets	2,949,000	2,524,924	519,821	517,428	3,468,821	3,042,352
Total assets	\$3,084,756	\$2,764,950	\$579,539	\$586,888	\$3,664,295	\$3,351,838

(Continued)

See accompanying notes to basic financial statements

EAST BAY MUNICIPAL UTILITY DISTRICT
BALANCE SHEETS
PROPRIETARY FUNDS - ENTERPRISE
JUNE 30, 2005 and 2004
(DOLLARS IN THOUSANDS)

Liabilities and Net Assets	Water System		Wastewater System		Totals	
	2005	2004	2005	2004	2005	2004
Current liabilities:						
Current maturities of long-term debt and commercial paper (Note 5 and 6)	\$30,976	\$29,315	\$11,288	\$10,480	\$42,264	\$39,795
Accounts payable and accrued expenses (Note 4)	45,274	64,870	7,836	9,919	53,110	74,789
Accrued interest	6,651	5,946	2,106	2,269	8,757	8,215
Total current liabilities	82,901	100,131	21,230	22,668	104,131	122,799
Noncurrent liabilities:						
Other liabilities:						
Advances for construction	15,219	13,008			15,219	13,008
Other liabilities	26,642	6,217	9,500	6,750	36,142	12,967
Total other liabilities	41,861	19,225	9,500	6,750	51,361	25,975
Long-term liabilities, net of current maturities (Note 6)	1,760,333	1,467,706	307,868	314,592	2,068,201	1,782,298
Total noncurrent liabilities	1,802,194	1,486,931	317,368	321,342	2,119,562	1,808,273
Total liabilities	1,885,095	1,587,062	338,598	344,010	2,223,693	1,931,072
Net assets (Note 7):						
Invested in capital assets, net of related debt	1,033,558	918,879	179,641	171,126	1,213,199	1,090,005
Restricted for construction	53,784	64,367	185		53,969	64,367
Restricted for debt service	33,793		1,452	78	35,245	78
Restricted - other	2,905	2,914			2,905	2,914
Unrestricted	75,621	191,728	59,663	71,674	135,284	263,402
Total net assets	1,199,661	1,177,888	240,941	242,878	1,440,602	1,420,766
Total liabilities and net assets	\$3,084,756	\$2,764,950	\$579,539	\$586,888	\$3,664,295	\$3,351,838

See accompanying notes to basic financial statements

EAST BAY MUNICIPAL UTILITIES DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS - ENTERPRISE
FOR THE YEAR ENDED JUNE 30, 2005
WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2004
(DOLLARS IN THOUSANDS)

	Water System		Wastewater System		Total	
	2005	2004	2005	2004	2005	2004
Operating revenue:						
Water	\$235,790	\$241,927			\$235,790	\$241,927
Sewer			\$42,244	\$42,822	42,244	42,822
Power	7,031	2,833			7,031	2,833
System capacity charges	12,840	12,865			12,840	12,865
Wet weather facilities charges			13,900	13,861	13,900	13,861
Total operating revenue	255,661	257,625	56,144	56,683	311,805	314,308
Operating expense:						
Raw water	23,152	22,805			23,152	22,805
Water treatment and distribution	72,749	72,448			72,749	72,448
Recreation areas, net	7,825	7,783			7,825	7,783
Sewer lines and pumping			10,678	10,911	10,678	10,911
Sewer treatment plant operations			20,853	19,827	20,853	19,827
Customer accounting and collecting and collecting	11,382	11,029	1,572	1,601	12,954	12,630
Financial risk management	14,423	14,799	795	706	15,218	15,505
Facilities management	12,496	10,171			12,496	10,171
General administration	24,402	17,383	4,502	3,756	28,904	21,139
Depreciation on utility plant	62,295	54,552	16,390	15,886	78,685	70,438
Total operating expense	228,724	210,970	54,790	52,687	283,514	263,657
Net operating income	26,937	46,655	1,354	3,996	28,291	50,651
Other income (expense):						
Investment income	7,657	11,117	1,943	2,621	9,600	13,738
Taxes and subventions	18,267	17,438	4,670	6,253	22,937	23,691
Interest and amortization of bond expenses, net of capitalized interest of \$9,161 and \$6,588 for the Water System and \$836 and \$691 for the Wastewater System in 2005 and 2004, respectively	(68,547)	(59,138)	(15,523)	(13,087)	(84,070)	(72,225)
Other income (expense)	5,437	(2,561)	3,948	(1,641)	9,385	(4,202)
Total other expense, net	(37,186)	(33,144)	(4,962)	(5,854)	(42,148)	(38,998)
Income (loss) before capital contributions	(10,249)	13,511	(3,608)	(1,858)	(13,857)	11,653
Capital contributions	32,022	26,469	1,671	2,110	33,693	28,579
Change in net assets	21,773	39,980	(1,937)	252	19,836	40,232
Total net assets - beginning	1,177,888	1,137,908	242,878	242,626	1,420,766	1,380,534
Total net assets - ending	\$1,199,661	\$1,177,888	\$240,941	\$242,878	\$1,440,602	\$1,420,766

See accompanying notes to basic financial statements

EAST BAY MUNICIPAL UTILITY DISTRICT
 STATEMENTS OF CASH FLOWS
 PROPRIETARY FUNDS - ENTERPRISE
 YEAR ENDED JUNE 30, 2005
 WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2004
 (DOLLARS IN THOUSANDS)

	Water System		Wastewater System		Total	
	2005	2004	2005	2004	2005	2004
Cash flows from operating activities						
Cash received from customers	\$258,555	\$255,921	\$56,017	\$56,616	\$314,572	\$312,537
Reimbursements from other agencies:						
Billing and collection services	2,673	2,386			2,673	2,386
Administrative services	3,540	1,973			3,540	1,973
Laboratory services			4,579	5,805	4,579	5,805
Cash payments for judgments and claims	(6,010)	(8,633)		(185)	(6,010)	(8,818)
Cash payments to suppliers for goods and services	(22,920)	(15,052)	(17,482)	(20,414)	(40,402)	(35,466)
Cash payments to employees for services	(129,408)	(122,920)	(24,227)	(23,550)	(153,635)	(146,470)
Net cash provided by operating activities	106,430	113,675	18,887	18,272	125,317	131,947
Cash flows from noncapital financing activities:						
Tax receipts	18,167	17,438	4,631	6,253	22,798	23,691
Other noncapital financing increases	2,098	1,428	4,254	315	6,352	1,743
Other noncapital financing decreases	(1,377)	(4,247)	(153)	(871)	(1,530)	(5,118)
Net cash provided by financing activities	18,888	14,619	8,732	5,697	27,620	20,316
Capital and related financing activities:						
Capital contributions	32,022	26,469	1,671	2,110	33,693	28,579
Proceeds from advances for construction	7,874	6,644			7,874	6,644
Reductions in advances for construction	(5,663)	(5,251)			(5,663)	(5,251)
Interest received on construction funds	979	862			979	862
Proceeds from sale of capital assets	1,256	104			1,256	104
Net proceeds and premiums from sale of bonds	739,832		70,000		809,832	
Federal/state loans received		2,188				2,188
Acquisition and construction of capital assets	(205,601)	(200,457)	(16,533)	(9,807)	(222,134)	(210,264)
Principal retirement on long-term debt and commercial paper	(132,363)	51,414	(10,480)	(9,124)	(142,843)	42,290
Amount paid to refunding bond escrow agent	(322,918)		(67,454)		(390,372)	
Costs and discounts from issuance on long-term debt	(4,826)		(2,044)		(6,870)	
Interest paid on long-term debt	(56,146)	(55,736)	(15,486)	(13,345)	(71,632)	(69,081)
Net cash used in capital and related financing activities	54,446	(173,763)	(40,326)	(30,166)	14,120	(203,929)
Cash flows from investing activities:	63,023					
Purchase of investment securities	(301,330)	(372,925)	(5,997)	(75,707)	(307,327)	(448,632)
Proceeds from sale of investment securities	63,023	315,394	22,597	77,157	85,620	392,551
Interest received on investments	7,356	9,753	2,202	2,846	9,558	12,599
Net cash provided by (used in) investing activities	(230,951)	(47,778)	18,802	4,296	(212,149)	(43,482)
Net decrease in cash and cash equivalents	(51,187)	(93,247)	6,095	(1,901)	(45,092)	(95,148)
Cash and cash equivalents:						
Beginning of year	57,247	150,494	7,132	9,033	64,379	159,527
End of year	\$6,060	\$57,247	\$13,227	\$7,132	\$19,287	\$64,379

(Continued)

See accompanying notes to basic financial statements

EAST BAY MUNICIPAL UTILITY DISTRICT
 STATEMENTS OF CASH FLOWS
 PROPRIETARY FUNDS - ENTERPRISE
 YEAR ENDED JUNE 30, 2005
 WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2004
 (DOLLARS IN THOUSANDS)

	Water System		Wastewater System		Total	
	2005	2004	2005	2004	2005	2004
Reconciliation of net operating income to net cash provided by operating activities:						
Net operating income	\$26,937	\$46,655	\$1,354	\$3,996	\$28,291	\$50,651
Adjustments to reconcile net operating income to net cash provided by operating activities:						
Depreciation	67,173	59,210	15,885	15,886	83,058	75,096
Amortization	12,697	7,683	(74)	(263)	12,623	7,420
Changes in assets/liabilities:						
Materials and supplies	15	395		(191)	15	204
Prepaid insurance	2,327	(1,255)	191	(67)	2,518	(1,322)
Customer receivables	2,465	(3,457)	(127)		2,338	(3,457)
Other receivables	(1,668)	(1,687)			(1,668)	(1,687)
Other assets			161		161	
Accounts payable and accrued expenses	(4,916)	2,933	1,021	(1,362)	(3,895)	1,571
Other liabilities	1,400	3,198	476	273	1,876	3,471
Net cash provided by operating activities	<u>\$106,430</u>	<u>\$113,675</u>	<u>\$18,887</u>	<u>\$18,272</u>	<u>\$125,317</u>	<u>\$131,947</u>

See accompanying notes to basic financial statements

EAST BAY MUNICIPAL UTILITY DISTRICT
STATEMENTS OF FIDUCIARY NET ASSETS
FIDUCIARY FUND - PENSION AND OTHER EMPLOYEE BENEFIT TRUST
(COMPONENT UNIT)
JUNE 30, 2005 AND 2004
(DOLLARS IN THOUSANDS)

	2005	2004
Assets:		
Cash and investments (Note 2)	\$8,697	\$8,474
Invested securities lending collateral (Note 1.L)	86,367	67,384
Receivables:		
Contributions	2,398	2,046
Interest and other	8,431	23,999
Prepaid insurance	274	218
Retirement system investments, at fair value (Note 2)	702,991	643,523
 Total assets	 809,159	 745,644
Liabilities:		
Accounts payable and accrued expenses	736	831
Retirement system liabilities	27,466	36,788
Securities lending collateral (Note 1.L.)	86,367	67,384
 Total liabilities	 114,568	 105,003
Net assets:		
Held in trust for pension benefits	691,191	638,026
Held in trust for post employment healthcare benefits	3,400	2,615
 Total net assets	 \$694,591	 \$640,641

See accompanying notes to basic financial statements.

EAST BAY MUNICIPAL UTILITY DISTRICT
 STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUND - PENSION AND OTHER EMPLOYEE BENEFIT TRUST
 (COMPONENT UNIT)
 YEAR ENDED JUNE 30, 2005 AND 2004
 (DOLLARS IN THOUSANDS)

	2005	2004
Additions:		
Contributions		
Employer	\$32,806	\$27,831
Plan members	8,509	7,084
	41,315	34,915
Investment income (loss):		
Net appreciation (depreciation) in fair value of investments		
Traded securities	42,695	87,911
Real estate		
Interest	3,188	3,727
Dividends	10,108	5,401
Real estate operating (loss) income, net	(3)	4
	55,987	97,043
Less investment expense	(2,406)	(2,252)
Borrowers' rebates and other agent fees on securities lending transactions	(1,730)	(468)
	51,851	94,323
Net investment income	51,851	94,323
Total additions, net	93,167	129,238
Deductions:		
Benefits paid	38,066	32,853
Refund of contributions	307	476
Administrative expenses	843	795
	39,217	34,124
Total deductions	39,217	34,124
Change in net assets (post employment healthcare benefits of \$785 and \$819, respectively)	53,950	95,114
Net assets:		
Beginning of year	640,641	545,527
End of year	\$694,591	\$640,641

See accompanying notes to basic financial statements

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EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Dollars in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Primary Government

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

B. Description of the Component Unit

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

Copies of the audited financial statements of the Employees' Retirement System may be obtained by writing to the Controller, P.O. Box 24055, Oakland, CA 94623.

C. Basis of Presentation

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

The basic financial statements include partial prior year comparative information. A complete presentation of the prior year information can be found in the District's financial statements for the year ended June 30, 2004.

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

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

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

Additionally, the District reports the following fiduciary fund:

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

EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Dollars in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

D. Basis of Accounting

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

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

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

For its proprietary activities, the District does not apply Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989. The proprietary funds apply all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as statements and interpretations of FASB, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

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

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

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Dollars in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- **Restricted** – This component of net assets 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.
- **Unrestricted** – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

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

E. Uses of Estimates and Assumptions

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

F. Capital Assets

Utility Plant – at Original Cost

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

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

Water Supply Management Program

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

Preliminary Survey and Investigation Costs

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

EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Dollars in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Depreciation

Depreciation of capital assets is computed on a straight-line basis using the estimated service lives of the related assets (5 to 75 years). The aggregate provision for depreciation was 2.12% and 2.11% of the average net book value of capital assets for the years ended June 30, 2005 and 2004, respectively.

H. Restricted Assets

The District segregates certain cash and investments which have legal or other external restrictions.

The Bond Construction Fund is used to report proceeds of bond issuances that are restricted for use in the capital program. The Bond Interest and Redemption Fund is used to segregate resources accumulated for debt service payments. Funds received for construction represent capital contributions restricted to fund specific construction projects or amounts received by the District from applicants and developers to cover the cost of extending water and wastewater service to new customers or to fund large wastewater treatment equipment replacements.

I. Deferred Amount on Bond Refundings

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

J. Cash and Cash Equivalents

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

K. District Investments

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

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

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

EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Dollars in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Retirement System Investments

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

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

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

Retirement Board policies permit the Employees' Retirement System to use investments of the pension plan to enter into securities lending transactions, which are loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return collateral for the same securities in the future. The System's securities custodian is an agent in lending the Plan's securities for cash collateral, U.S. government securities, and irrevocable letters of credit of 102% for domestic securities lent and 105% for international securities lent. As of June 30, 2005, the Employees' Retirement System had no credit risk exposure to borrowers because the amounts the Employees' Retirement System owes the borrowers exceed the amounts the borrowers owe the Employees' Retirement System.

Contracts with the lending agent require them to indemnify the Employees' Retirement System under certain circumstances if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the System for income distributions by the securities issuers while the securities are on loan. The risk of any loss of collateral or investment of cash collateral (including a loss of income or principal, or loss of market value thereon) lies with the System, except for losses resulting from negligence or intentional misconduct of the agent in performing the duties allocated under the securities lending agreement with respect to collateral. During the year ended June 30, 2005, there were no violations of legal or contractual provisions, and no borrower or lending agent default losses known to the securities lending agent.

EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Dollars in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In lending securities, cash collateral is invested in the lending agent's short-term investment pool, which as of June 30, 2005, had a weighted average maturity of 30 days. The relationship between the maturities of the investment pool and the System's loans is affected by the maturities of the securities loans made by other entities that use the agent's pool, which the System cannot determine. Cash collateral may also be invested separately in term loans, in which collateral cannot be pledged or sold unless the borrower defaults. All securities loans can be terminated on demand by either the lender or the borrower, although the average term of overall loans for the System was approximately 70 days. There are no dividends or coupon payments owing on the securities lent. Cash received as collateral on securities lending transactions is reported as an asset of the System with a corresponding liability.

As of June 30, 2005, the fair value of securities on loan was \$86.367 million. The total cash and non-cash collateral held by the System's custodian to secure these securities on loan was valued at \$88.803 million, consisting of \$83.807 million cash collateral and \$4.996 million non-cash collateral.

M. Material and Supplies

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

N. Compensated Absences

Compensated absences are accrued and reported as a liability in the period earned. Amounts payable as of June 30 are included on the balance sheet in other non-current liabilities.

The changes in compensated absences were as follows:

Beginning Balance	\$20,481
Additions	27,112
Payments	<u>(25,511)</u>
Ending Balance	<u><u>\$22,082</u></u>

O. Revenue

Customer water meters are read on a cyclical basis throughout a monthly or bimonthly period. Bills are rendered and revenue is recognized in the period that meters are read.

Wastewater treatment billings are a combination of flow, strength charges, and a monthly service charge. Customer bills are rendered on a cyclical basis throughout a monthly or bimonthly period, and revenue is recognized in the period in which bills are rendered.

Wet weather facilities charges are designed to finance the operating costs related to wet weather sewage flows.

EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Dollars in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Interest Rate Swap

The District enters into interest rate swap agreements to modify interest rates on some outstanding debt. Other than the net interest expense resulting from these agreements, no amounts are recorded in the financial statements.

Q. New Accounting Principles

(i) Governmental Accounting Standards Board Statement No. 40

The District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures—an amendment of GASB Statement No.* This Statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, the Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in the Statement also should be disclosed.

(ii) Governmental Accounting Standards Board Statement No. 45

The System adopted the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* This Statement establishes uniform financial reporting standards for employers providing postemployment benefits (OPEB) and supersedes the guidance included in Statement No. 12, *Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Governmental Employers* and Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers.* The approach followed in this Statement generally is consistent with the approach adopted in Statement No. 27.

EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Dollars in thousands)

NOTE 2 - CASH AND INVESTMENTS

A. Classification

Reconciliations of cash and investments reported on the financial statements as of June 30, 2005 and 2004 are as follows:

	<u>2005</u>	<u>2004</u>
District Enterprise Funds:		
Cash and investments included in current assets	\$150,609	\$262,351
Cash and investments included in restricted assets	409,598	104,752
Cash and investments included in unrestricted assets	<u>19,289</u>	<u>31,688</u>
Total District cash and investments	579,496	398,791
Less investments with original maturities in excess of three months	<u>(560,209)</u>	<u>(334,412)</u>
District cash and cash equivalents	<u><u>\$19,287</u></u>	<u><u>\$64,379</u></u>
	<u>2005</u>	<u>2004</u>
System Pension Trust Funds:		
Cash and cash equivalents	\$8,697	\$8,474
Invested securities lending collateral	86,367	67,384
Investments	<u>702,991</u>	<u>643,523</u>
Total System cash and investments	<u><u>\$798,055</u></u>	<u><u>\$719,381</u></u>

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Dollars in thousands)**

NOTE 2 - CASH AND INVESTMENTS (Continued)

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

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Minimum Credit Quality</u>	<u>Maximum in Portfolio</u>	<u>Maximum Investment In One Issuer</u>
Repurchase Agreements	270 Days	N/A	20%	N/A
State of California Local Agency Investment Fund (LAIF Pool)	Upon Demand	N/A	\$40,000 per account	N/A
U. S. Treasury Bonds, Notes and Bills	5 Years	N/A	0 to 100%	N/A
U.S. Government Agency and U.S. Government-Sponsored Enterprise Obligations	5 Years	N/A	0 to 100%	40% in each Agency
Bankers Acceptances	180 Days	N/A	40%	30%
Commercial Paper	270 Days	A1, P1, F1	25%	10%
Negotiable Certificates of Deposit	5 Years	AA	30%	N/A
Time Certificates of Deposit – Banks or Savings and Loans	5 Years	N/A	30%	N/A
Medium Term Corporate Notes	5 Years	Top 3 Ratings	30%	N/A
Money Market Mutual Funds	N/A	AAA	20%	N/A

The District does not enter into reverse repurchase agreements.

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Dollars in thousands)**

NOTE 2 - CASH AND INVESTMENTS (Continued)

C. District Investments Authorized by Debt Agreements

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

Authorized Investment Type	Minimum Credit Quality
Repurchase Agreements	Top Four Rating Category
U. S. Treasury Bonds, Notes and Bills	N/A
U.S. Government Agency and U.S. Government-Sponsored Enterprise Obligations	N/A
State Obligations	Not lower than their bond rating
Commercial Paper	Top Rating Category
Negotiable Certificates of Deposit	N/A
Time Certificates of Deposit – Banks or Savings and Loans	N/A
Corporate Notes and Bonds	Not lower than their bond rating
Variable Rate Obligations	Not lower than their bond rating
Cash Sweep Account	Top Rating Category
Guaranteed Investment Contract	Not lower than their bond rating
Shares of Beneficial Interest	Top Rating Category

EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Dollars in thousands)

NOTE 2 - CASH AND INVESTMENTS (Continued)

D. Employees Retirement System Authorized Investment Strategy

The System's investment policies authorize the System to invest in financial instruments in three broad investment categories: equity, fixed income, and real estate. These financial instruments can include, but are not limited to, corporate bonds, commercial paper, U.S. government securities, common and preferred stock, real estate investment trusts, and mutual funds. Fixed income investments may include futures and options contracts in order to provide added flexibility in managing the fixed income portfolio. The following is a summary of the System investment policy adopted by the System with *Resolution No. 6443*.

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

Fixed Income	30%
Domestic Equity	53%
U.S. Large Cap Equities	33%
U.S. Mid Cap Equities	10%
U.S. Small Cap Equities	10%
International Equity	17%
Allocation to Cash	0%

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

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

The equity and fixed income asset allocation may range $\pm 5\%$ from the long-range asset allocation goals. The equity allocation target (70% of the total portfolio) will consist of approximately 33% in large cap market related growth and value (average risk) securities, (10%) in mid capitalization issues, (10%) in small capitalization securities, and (17%) in international equities with an expected higher return but not closely correlated to domestic returns.

Fixed income targets may also be met by allocating portions of assets among different types of funds or managers. Individual managers may invest up to 20% of their assets in international fixed income securities.

EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Dollars in thousands)

NOTE 2 - CASH AND INVESTMENTS (Continued)

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

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

The use of futures and options in the fixed income accounts may be used as part of their portfolio management strategy and will be incidental to their securities trading activities. The resulting aggregate risk profile (volatility) of the portfolio will not be different from that permissible by using securities only.

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

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

Structured notes with significant short options positions or increasing leverage will not be purchased, and in no case will structured notes exceed 5% of portfolio value.

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

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

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

EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Dollars in thousands)

NOTE 2 - 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 to changes in market interest rates. The District generally manages its interest rate risk by holding investments to maturity.

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

Investment Type	12 Months or less	13 to 24 Months	Total
U.S. Government-Sponsored Enterprise Agencies			
Non-callable	\$49,533	\$109,580	\$159,113
Callable	20,229		20,229
Corporate securities	22,652	11,678	34,330
Guaranteed investment contracts	334,836		334,836
Demand deposits and certificate of deposit	795		795
Mutual funds (U.S. Securities)	8,000		8,000
California Local Agency Investment Fund	15,350		15,350
Total Investments	<u>\$451,395</u>	<u>\$121,258</u>	572,653
Cash in banks			<u>6,843</u>
Total District Cash and Investments			<u>\$579,496</u>

EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Dollars in thousands)

NOTE 2 - CASH AND INVESTMENTS (Continued)

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

Investment Type	12 Months or less	13 to 24 Months	25 to 60 Months	More than 60 Months	Total
U.S. Treasury Securities	\$871	\$14,455	\$5,457	\$20,105	\$40,888
U.S. Government-Sponsored Enterprise Agencies:					
Non-Callable		228	220		448
Callable	2,314		892	15,452	18,658
Corporate Securities	1,316	1,876	7,482	19,279	29,953
Mortgage Backed Securities				11,406	11,406
Asset Backed Securities			779	5,555	6,334
Equity Securities	311,519				311,519
International Notes		201		1,811	2,012
Mutual Funds	281,773				281,773
Total System Investments	\$597,793	\$16,760	\$14,830	\$73,608	\$702,991

The District and System are participants in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. They report their investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. At June 30, 2005, these investments matured in an average of 151 days.

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

Highly Sensitive Investments	Fair Value at Year End
Mortgage Backed Securities	\$11,406
U.S. Government -Sponsored Enterprise Agencies: Collateralized Mortgage Obligations	13,893

EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Dollars in thousands)

NOTE 2 - CASH AND INVESTMENTS (Continued)

F. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical credit rating organization. Presented below is the actual rating as of June 30, 2005, for each investment type as provided by Moody's.

District Enterprise Funds:

Investment Type	Aaa	A1	A3	Baa1	Baa2	Total
U.S. Government-Sponsored Enterprise Agencies						
Non-callable	\$159,113					\$159,113
Callable	20,229					20,229
Corporate Securities	6,931	\$7,126	\$5,775	\$4,545	\$9,953	34,330
Demand deposits and certificate of deposit	795					795
Mutual Funds (U.S. Securities)	8,000					8,000
Totals	<u>\$195,068</u>	<u>\$7,126</u>	<u>\$5,775</u>	<u>\$4,545</u>	<u>\$9,953</u>	<u>222,467</u>
<i>Not rated:</i>						
Guaranteed investment contracts						334,836
California Local Agency Investment Fund						15,350
Cash in Banks						<u>6,843</u>
Total Investments						<u>\$579,496</u>

EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Dollars in thousands)

NOTE 2 - CASH AND INVESTMENTS (Continued)

System Pension Trust Fund:

Investment Rating	U.S. Government-Sponsored Enterprise Agencies		Corporate Securities	Mortgage Backed Securities	Asset Backed Securities	International Securities	Mutual Funds	Totals
	Non - Callable	Callable						
Aaa/AAA	\$448	\$18,460	\$1,748	\$11,294	\$4,436		\$96,372	\$132,758
Aa2/AA			334					334
Aa3/AA-			629	112	625	\$201		1,567
A1/A+		198	2,419					2,617
A2/A			2,260					2,260
A3/A-			913					913
Baa1/BBB+			1,229		21			1,250
Baa2/BBB			3,012		477	1,811		5,300
Baa3/BBB-			4,935					4,935
Ba1/BB+			4,189					4,189
Ba2/BB			3,038					3,038
Ba3/BB-			583					583
B1/B+			2,117					2,117
B2/B			66					66
B3/B-			841		213			1,054
Caa1/CCC+			1,266		51			1,317
Caa2/CCC			337		85			422
Caa3/CCC-			36					36
Ca					190			190
D					235			235
Subtotals	\$448	\$18,658	\$29,952	\$11,406	\$6,333	\$2,012	\$96,372	165,181
Not Rated:								
Equity Securities								311,520
Mutual Funds								185,401
Exempt From Ratings Disclosure:								
U.S. Treasury Securities								40,889
Total								\$702,991

EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Dollars in thousands)

NOTE 2 - CASH AND INVESTMENTS (Continued)

G. Concentration Risk

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

<u>Reporting Unit</u>	<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
District-wide			
	FNMA	Federal agency securities	\$31,748
	FHLB	Federal agency securities	123,556
	FSA	Guaranteed investment contracts	322,318
Major Funds:			
Water Fund			
	FHLB	Federal agency securities	100,883
	FNMA	Federal agency securities	17,348
	FHLMC	Federal agency securities	10,234
	FSA	Guaranteed investment contracts	321,018
Wastewater Fund			
	FHLB	Federal agency securities	22,673
	FHLMC	Federal agency securities	11,830
	FNMA	Federal agency securities	14,400
	AIG	Medium term notes	4,985

Significant System Pension Trust Fund investments are:

<u>Nature of investment</u>	<u>2005</u>
Northern Trust Collective Daily Aggregate Bond Index Fund	\$82,687
Northern Trust Collective Daily Standard & Poor's Midcap 400 Equity Index Fund	73,977
Templeton Institutional Funds, Inc. Foreign Equity Series	77,758

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Dollars in thousands)**

NOTE 2 - CASH AND INVESTMENTS (Continued)

H. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair values of an investment or deposit. Presented below in US dollars is the fair market value of the System's foreign investments at June 30, 2005:

<u>Foreign Currency</u>	<u>Equity Securities Investment Type</u>
Australian Dollar	\$3,284
Swiss Franc	3,065
Euro	25,640
British Pound Sterling	9,071
Hong Kong Dollar	1,071
Japanese Yen	19,839
Norwegian Krone	991
Swedish Krona	1,849
 Total	 <u><u>\$64,810</u></u>

I. Custodial Credit Risk

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

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

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

As of June 30, 2005 and 2004, the System's brokers/dealers held \$709 and \$950, respectively, in cash and US government bonds exposed to custodial credit risk.

**EAST BAY MUNICIPAL UTILITY DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2005
 (Dollars in thousands)**

NOTE 3 – CAPITAL ASSETS

A. Summary

The District capitalizes all assets with a historical cost of at least \$5,000 and a useful life of at least three years. Contributed property is recorded at estimated fair market value at the date of donation.

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

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

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

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

EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Dollars in thousands)

NOTE 3 – CAPITAL ASSETS (Continued)

B. Additions and Retirements

Capital assets activity for all business-type activities for the year ended June 30, 2005 was as follows:

	Balance at June 30, 2004	Additions and Transfers, net	Retirements and Transfers, net	Balance at June 30, 2005
Water System:				
Capital assets, not being depreciated:				
Land and rights-of-way	\$48,924	\$69		\$48,993
Construction in progress	322,172	208,521	(\$234,834)	295,859
Total capital assets, not being depreciated	371,096	208,590	(234,834)	344,852
Capital assets, being depreciated:				
Buildings and improvements	154,779	16,200		170,979
System and improvements	2,585,457	214,081	(18,859)	2,780,679
Machinery and equipment	84,112	4,388	(2,737)	85,763
Total capital assets, being depreciated:	2,824,348	234,669	(21,596)	3,037,421
Less accumulated depreciation for:				
Buildings and improvements	(45,339)	(4,158)		(49,497)
System and improvements	(695,469)	(53,967)	4,252	(745,184)
Machinery and equipment	(60,528)	(4,358)	2,418	(62,468)
Total accumulated depreciation	(801,336)	(62,483)	6,670	(857,149)
Total capital assets, being depreciated, net	2,023,012	172,186	(14,926)	2,180,272
Water System capital assets, net	\$2,394,108	\$380,776	(\$249,760)	\$2,525,124
Wastewater System:				
Capital assets, not being depreciated:				
Land and rights-of-way	\$5,587			\$5,587
Construction in progress	20,341	\$17,490	(\$16,553)	21,278
Total capital assets, not being depreciated	25,928	17,490	(16,553)	26,865
Capital assets, being depreciated:				
Buildings and improvements	67,131	557		67,688
System and improvements	588,249	15,896	(1,501)	602,644
Machinery and equipment	7,317	100	(23)	7,394
Total capital assets, being depreciated	662,697	16,553	(1,524)	677,726
Less accumulated depreciation for:				
Buildings and improvements	(16,745)	(1,733)		(18,478)
System and improvements	(169,416)	(14,172)	278	(183,310)
Machinery and equipment	(6,265)	(276)	18	(6,523)
Total accumulated depreciation	(192,426)	(16,181)	296	(208,311)
Total capital assets, being depreciated, net	470,271	372	(1,228)	469,415
Wastewater System capital assets, net	\$496,199	\$17,862	(\$17,781)	\$496,280
Business-type activities capital assets, net	\$2,890,307	\$398,638	(\$267,541)	\$3,021,404

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Dollars in thousands)**

NOTE 3 – CAPITAL ASSETS (Continued)

C. Construction in Progress

Construction in Progress in fiscal 2004-2005 comprises:

	Expended to Date
<i>Water System</i>	
District Construction Projects	\$96,588
Walnut Creek and San Ramon Valley Transmission Improvements	41,761
Service Lateral Replacement Polybutylene	36,684
Walnut Creek Treatment Plant Long Term Capacity Upgrade	32,816
Claremont Corridor Seismic Improvement Project	25,222
Pipeline Infrastructure Upgrades	18,793
Reservoir Upgrades Seismic Improvement Project	13,433
Pipeline System Extensions	9,335
Freeport Regional Water Project	7,941
Raw Water Aqueduct Improvement	6,988
San Ramon Valley Recycled Water Project	6,298
Total	295,859
<i>Wastewater System</i>	
District Construction Projects	9,811
District Control System Upgrades	3,184
Treatment Plant Infrastructure Upgrades	2,324
Grit System Upgrade	2,286
National Pollutant Discharge Elimination System	2,255
Main Waste Water Treatment Plant Master Plan	1,418
Total	21,278
Total Construction in Progress	\$317,137

At June 30, 2005, remaining project commitments of the District's current major projects are estimated to be \$336,930 for the Water System and \$18,518 for the Wastewater System.

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Dollars in thousands)**

NOTE 4 – ACCOUNTS PAYABLE & ACCRUED EXPENSES

Accounts payable and accrued expenses at June 30, 2005 and 2004 consist of:

	Water System		Wastewater System		Total	
	2005	2004	2005	2004	2005	2004
Accounts payable	\$5,780	\$17,687	\$3,059	\$3,330	\$8,839	\$21,017
Accrued salaries	4,579	21,861	752	3,380	5,331	25,241
Workers' compensation reserves	13,494	13,971	2,381	1,904	15,875	15,875
General liability reserves	6,234				6,234	
Other	15,187	11,351	1,644	1,305	16,831	12,656
Total	<u>\$45,274</u>	<u>\$64,870</u>	<u>\$7,836</u>	<u>\$9,919</u>	<u>\$53,110</u>	<u>\$74,789</u>

NOTE 5 – COMMERCIAL PAPER NOTES

The District's board of directors has authorized a short-term commercial paper borrowing program of up to the lesser of either (1) the average of the total annual revenue for the three preceding years or (2) 25% of the District's total outstanding bonds. The proceeds from the issuance of commercial paper are restricted as to use. Under this program, which must be authorized by the Board of Directors every seven years and is subject to the right of referendum, the Water System or the Wastewater System may issue commercial paper and bank notes at prevailing interest rates for periods not more than 270 days from the date of issuance. The program was last authorized on October 24, 2000.

As of June 30, 2005 and 2004, \$230,000 and \$330,000 in commercial paper notes were outstanding under this program, with terms of 8 to 50 days and interest rates ranging from 2.37% to 2.67% as of June 30, 2005 and terms of 1 to 78 days and interest rates ranging from 0.92% to 1.12% as of June 30, 2004. There were no unused proceeds as of June 30, 2005. It is the District's policy to refinance its commercial paper notes with long-term bonds.

To provide liquidity for the program, the District maintains a liquidity support agreement (line of credit) with a commercial bank. Combined borrowings by the Water System and the Wastewater System with the commercial paper and bank notes cannot exceed the amount of this agreement. Drawings under the agreement are restricted to pay maturing commercial paper. There were no borrowings under the line of credit agreement during the years ended June 30, 2005 and 2004. Effective August 1, 2003, the agreement was extended to August 1, 2008, in the amount of \$330,000.

NOTE 6 - LONG TERM DEBT

A. Composition and Changes

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

EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Dollars in thousands)

NOTE 6 - LONG TERM DEBT (Continued)

	Original Issue Amount	Balance June 30, 2004	Additions	Refundings & Retirements	Balance June 30, 2005	Amount due within one year
<i>Water System General Obligation Bonds:</i>						
Series M						
3.00-7.50%, due 3/1/08	\$9,935	\$3,940		\$3,940		
<i>Water System Revenue Bonds:</i>						
Subordinated Series 1993						
5.00%, due 6/1/06	222,530	37,360		18,225	\$19,135	\$19,135
Subordinated Series 1994						
5.50-8.50%, due 6/1/05	80,000	1,795		1,795		
Subordinated Series 1996						
3.75 - 6.00%, due 6/1/26	290,475	244,775		90,685	154,090	2,440
Subordinated Series 1998						
4.00 - 5.25%, due 6/1/38	300,000	298,180		224,815	73,365	3,865
Subordinated Series 2001						
3.60-5.25%, due 6/1/26	250,000	250,000			250,000	2,280
Subordinated Series 2002						
3.825%/swap rate, due 6/1/25	241,850	234,160		2,510	231,650	330
Subordinated Series 2003						
2.00 - 5.00%, due 6/1/21	115,730	114,880		80	114,800	80
Subordinated Series 2005 A						
5.00%, due 6/1/35	300,000		\$300,000		300,000	
Subordinated Series 2005 B						
3.34%/swap rate, due 6/1/38	325,000		325,000		325,000	1,225
Subordinated Series 2005 C						
auction rate 2.10% at June 30, 2005, due 6/1/35	100,000		100,000		100,000	
<i>Wastewater System General Obligation Bonds:</i>						
Series F						
2.5 % - 5.00%, due 4/1/18	41,730	40,320		1,845	38,475	1,970
<i>Wastewater System Revenue Bonds</i>						
Subordinated Series 1996						
3.75 % - 6.00%, due 6/1/26	91,410	75,800		29,590	46,210	1,650
Subordinated Series 1998						
4.00-5.25%, due 6/1/38	50,000	49,710		37,540	12,170	640
Subordinated Series 2003						
3.468%/swap rate, due 6/1/33	125,050	122,960		2,470	120,490	2,550
Subordinated Series 2005						
3.0975%/swap rate, due 6/1/38	70,000		70,000		70,000	350
Total long term bonds	<u>2,613,710</u>	<u>1,473,880</u>	<u>795,000</u>	<u>413,495</u>	<u>1,855,385</u>	<u>36,515</u>

EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Dollars in thousands)

NOTE 6 - LONG TERM DEBT (Continued)

	Original Issue Amount	Balance June 30, 2004	Additions	Retirements	Balance June 30, 2005	Amount due within one year
<i>Water Loans:</i>						
1977 Federal Drought Loan						
5.00%, due 9/1/17	\$5,973	\$1,993		\$142	\$1,851	\$142
2003 California Energy Commission						
3.00%, due 6/22/13	1,992	1,828		180	1,648	185
2004 Upper San Leandro Reservoir Project						
2.51%, due 1/1/24	2,188	2,146		86	2,060	89
<i>State Water Resources Control Board</i>						
1989 Galbraith Golf Course Project						
4.01%, due 2/28/09	122	41		7	34	8
1992 Alameda Reclamation Project						
3.20%, due 4/30/11	1,359	617		75	542	78
1993 Chevron Water Reclamation Project						
3.00%, due 8/8/15	22,292	15,429		1,087	14,342	1,120
<i>Wastewater Loans:</i>						
<i>State Water Resources Control Board</i>						
1989 Oakport Project						
4.01%, due 12/14/10	2,495	1,012		138	874	142
1991 Adeline Street Project						
3.50%, due 10/1/10	8,141	6,076		445	5,631	461
1991 South Foothill Project						
3.50%, due 10/1/10	14,293	3,463		781	2,682	808
1992 Point Isabel Wet Weather Project						
3.10%, due 10/2/13	21,515	12,805		1,112	11,693	1,146
1994 North Interceptor Project						
2.90%, due 12/31/14	10,091	6,373		500	5,873	515
1995 San Antonio Creek Project						
3.40%, due 11/30/16	15,331	11,406		713	10,693	737
1997 Pump Station C Project						
2.80%, due 1/31/17	3,849	2,957		175	2,782	180
2000 Pump Station B Project						
2.20%, due 2/1/09	3,088	2,576		136	2,440	139
Total long term loans	<u>112,729</u>	<u>68,722</u>		<u>5,577</u>	<u>63,145</u>	<u>5,750</u>
Amount due within one year		(39,795)		(2,469)	(42,264)	36,515
Less: Unamortized discount and issuance costs		(50,509)		(12,446)	(38,065)	
Total long term liabilities, net	<u>\$2,726,439</u>	<u>\$1,452,298</u>	<u>\$795,000</u>	<u>\$404,159</u>	<u>\$1,838,201</u>	<u>\$42,264</u>

EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Dollars in thousands)

NOTE 6 - LONG TERM DEBT (Continued)

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

Water System

2005 Water System Subordinated Revenue Refunding Bonds, Series 2005A-The District issued Series 2005A Bonds on May 5, 2005, to provide moneys to finance improvements to the Water System, fund a reserve fund for the Series 2005A Bonds, and to pay costs of issuance incidental to the issuance of the Series 2005A Bonds. The Series 2005A Bonds are special obligations of the District, payable solely from and secured by a pledge of Subordinated Water Revenues. Principal payments are payable annually on June 1. Interest payments are payable semi-annually on June 1 and December 1.

2005 Water System Subordinated Revenue Refunding Bonds (Variable Rate Demand Bonds) 2005B-Net proceeds of the Series 2005B Bonds amounting to \$311.165 million were used to purchase U.S. government securities which were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded portions of the 1996 and 1998 bonds. As a result, the refunded portions of the 1996 and 1998 Bonds are considered defeased and the liability for the defeased portion of those bonds along with the escrow account assets have been removed from the statement of net assets.

The advance refundings resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$16.672 million. This difference has been capitalized and reported in the accompanying financial statements as a deduction from long term debt and is being amortized annually. The District completed the advance refunding to reduce its total debt service payments over the next 33 years by \$91.073 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$49.585 million.

The Series 2005B Bonds are special obligations of the District, payable solely from and secured by a pledge of Subordinated Water Revenues. Principal payments are payable annually on June 1. Interest payments are payable semi-annually on June 1 and December 1.

2005 Water System Subordinated Revenue Refunding Bonds (Auction Rate Securities) Series 2005C-The District issued Series 2005C Bonds on June 21, 2005, to be used together with funds from the District to retire approximately \$100 million principal amount of the District's outstanding Commercial Paper Notes (Water Series) and to pay costs of issuance incidental to the issuance of the Series 2005C Bonds. The Series 2005C Bonds are special obligations of the District, payable solely from and secured by a pledge of Subordinated Water Revenues. Principal payments are payable annually on June 1. Interest payments are payable on the business day immediately following each auction period.

EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Dollars in thousands)

NOTE 6 - LONG TERM DEBT (Continued)

Wastewater System

2005 Wastewater System Subordinated Revenue Refunding Bonds (Variable Rate Demand Bonds) Series 2005-The District issued Series 2005 Bonds on May 27, 2005, to refund approximately \$28.04 million principal amount of the District's Wastewater System Subordinated Revenue Refunding Bonds, Series 1996, and approximately \$36.925 million principal amount of the District's Wastewater System Subordinated Revenue Refunding Bonds, Series 1998, fund a reserve fund for the Series 2005 Bonds, and to pay costs of issuance incidental to the issuance of the Series 2005 Bonds. The Series 2005 Bonds are special obligations of the District, payable solely from and secured by a pledge of Subordinated Wastewater Revenues. Principal payments are payable annually on June 1. Interest payments are payable semi-annually on June 1 and December 1.

Net proceeds of the Series 2005 Bonds amounting to \$69.148 million were used to purchase U.S. government securities which were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded portions of the 1996 and 1998 bonds. As a result, the refunded portions of the 1996 and 1998 Bonds are considered defeased and the liability for the defeased portion of those bonds along with the escrow account assets have been removed from the statement of net assets.

The advance refundings resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$9.3 million. This difference has been capitalized and reported in the accompanying financial statements as a deduction from long term debt and is being amortized annually. The District completed the advance refunding to reduce its total debt service payments over the next 33 years by \$16.9 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$10.1 million.

C. Debt Service Requirements

Annual debt service requirements are shown below for the above debt issues:

For the Year Ending June 30	Water System		Wastewater System		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$30,975	\$81,010	\$11,288	\$15,689	\$42,264	\$96,699
2007	32,420	79,607	11,766	15,272	44,187	94,879
2008	33,661	78,249	12,278	12,813	45,939	91,062
2009	36,193	76,890	12,835	12,311	49,028	89,201
2010	37,719	75,453	14,596	11,893	52,315	87,346
2011-2015	214,580	351,704	73,904	51,851	288,484	403,555
2016-2020	270,595	284,111	65,784	36,486	336,379	320,597
2021-2025	339,452	171,787	38,195	14,756	377,647	186,544
2026-2030	245,835	104,398	45,215	10,100	291,050	114,497
2031-2035	304,285	46,180	35,800	2,521	340,085	48,701
2036-2040	42,800	2,530	8,350	282	51,150	2,812
Totals	\$1,588,515	\$1,351,919	\$330,013	\$183,974	\$1,918,528	\$1,535,893

EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Dollars in thousands)

NOTE 6 - LONG TERM DEBT (Continued)

Interest payments on auction rate debt were calculated using the rate in affect at June 30, 2005. Interest payments on debt subject to swap agreements were calculated using the rate under each swap agreement.

D. Prior-Year Defeasances

In the current and prior years, the District defeased certain debt issues by placing proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the defeased debt are not included in the District's financial statements. On June 30, 2005, \$376 million of bonds outstanding are considered defeased.

E. Variable Rate Debt

The District has several bond issues with variable interest rates. The bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest and delivery to the District's remarketing agent. The remarketing agent is authorized to use its best efforts to sell the repurchased bonds at a price equal to 100 percent of the principal amount by adjusting the interest rate. Under Standby Purchase Agreements issued by banks for each variable rate debt issue, the trustee or the remarketing agent is entitled to draw an amount sufficient to pay the purchase price of bonds delivered to it. The District is required to pay to the Banks an initial take out agreement fee and an annual commitment fee. In addition, the remarketing agent receives an annual fee of one-eighth of 1 percent of the outstanding principal amount of the bonds. Terms of these arrangements are presented below by debt issue.

Issue	Standby Purchase Agreement Terms		
	Expiration Date	Interest Rate	Interest Rate Swap
Water System Revenue Bonds:			
Subordinated Series 2002	3/6/2007	Variable Bank Rate	See below
Series 2005B	6/2/2020	Variable Bank Rate	See below
Wastewater System Revenue Subordinated Bonds:			
Series 2003B	3/5/2008	Variable Bank Rate	See below
Series 2005	6/2/2020	Variable Bank Rate	See below

EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Dollars in thousands)

NOTE 6 - LONG TERM DEBT (Continued)

F. Interest Rate Swap Agreements

On January 31, 2002, the District, in anticipation of the issuance of Series 2002 Water System Refunding Bonds, entered into a matched interest rate swap contract with two providers, in which the District contracted to pay a fixed rate of 3.835% on the nominal amount of outstanding Series 2002 Bonds, in exchange for a floating rate payment, set monthly, two business days prior to the end of each month, at a contract rate reflecting 65% of 30-day LIBOR on that date. The effect of these transactions is structured to result in the approximate equivalent of the District paying a fixed rate of 3.835% on the Series 2002 Refunding Bonds, since the inflow of payments from the LIBOR-based swap is anticipated to approximate the outflow of payments on the variable rate bonds. Only the net difference in interest payments to the swap providers is made under the swap contracts. The District will be exposed to variable rates if the providers to the swap contracts default or if the swap contracts are terminated. A termination of the swap contracts may also result in the District's making or receiving a termination payment based on market interest rates at the time of the termination. As of June 30, 2005, the District has an unrealized and unrecorded loss of approximately \$21.3 million and a net accrued interest payable of \$351 thousand related to the Water System interest rate swap contracts based on the market interest rates in effect at June 30, 2005.

On October 17, 2002, the District, in anticipation of the issuance of Series 2003 Wastewater System Refunding Bonds, entered into a matched interest rate swap contract with two providers, in which the District contracted to pay a fixed rate of 3.468% on the nominal amount of outstanding Wastewater Series 2003 Bonds, in exchange for a floating rate payment, set monthly, two business days prior to the end of each month, at a contract rate reflecting 65% of 30-day LIBOR on that date. The effect of these transactions is structured to result in the approximate equivalent of the District paying a fixed rate of 3.468% on the Series 2003 Refunding Bonds, since the inflow of payments from the LIBOR-based swap is anticipated to approximate the outflow of payments on the variable rate bonds. The District will be exposed to variable rate if the providers to the swap contracts default or if the swap contracts are terminated. A termination of the swap contracts may also result in the District's making or receiving a termination payment based on market interest rates at the time of the termination. As of June 30, 2005, the District has an unrealized and unrecorded loss of approximately \$4.044 million and a net accrued interest payable of \$85 thousand related to the Wastewater System interest rate swap contracts based on the market interest rates in effect at June 30, 2005.

On May 4, 2005, the District, in anticipation of the issuance of Series 2005B Water System Refunding Bonds, entered into a matched interest rate swap contract with four providers, in which the District contracted to pay a fixed rate of 3.115% on the nominal amount of outstanding Water Series 2005 Bonds, in exchange for a floating rate payment, set monthly, two business days prior to the end of each month, at a contract rate reflecting 62.3% of 30-day LIBOR on that date. The effect of these transactions is structured to result in the approximate equivalent of the District paying a fixed rate of 3.115% on the Series 2005 Refunding Bonds, since the inflow of payments from the LIBOR-based swap is anticipated to approximate the outflow of payments on the variable rate bonds. The District will be exposed to variable rate if the providers to the swap contracts default or if the swap contracts are terminated. A termination of the swap contracts may also result in the District's making or receiving a termination payment based on market interest rates at the time of the termination. As of June 30, 2005, the District has an unrealized and unrecorded loss of approximately \$11.935 million and a net accrued interest payable of \$291 thousand related to the Water System interest rate swap contracts based on the market interest rates in effect at June 30, 2005.

EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Dollars in thousands)

NOTE 6 - LONG TERM DEBT (Continued)

On May 4, 2005, the District, in anticipation of the issuance of Series 2005 Wastewater System Refunding Bonds, entered into a matched interest rate swap contract with two providers, in which the District contracted to pay a fixed rate of 3.0975% on the nominal amount of outstanding Wastewater Series 2005 Bonds, in exchange for a floating rate payment, set monthly, two business days prior to the end of each month, at a contract rate reflecting 62.3% of 30-day LIBOR on that date. The effect of these transactions is structured to result in the approximate equivalent of the District paying a fixed rate of 3.0975% on the Series 2003 Refunding Bonds, since the inflow of payments from the LIBOR-based swap is anticipated to approximate the outflow of payments on the variable rate bonds. The District will be exposed to variable rate if the providers to the swap contracts default or if the swap contracts are terminated. A termination of the swap contracts may also result in the District's making or receiving a termination payment based on market interest rates at the time of the termination. As of June 30, 2005, the District has an unrealized and unrecorded loss of approximately \$2.403 million and a net accrued interest payable of \$49 thousand related to the Wastewater System interest rate swap contracts based on the market interest rates in effect at June 30, 2005.

At June 30, 2005, the District had \$600 million in authorized but unissued revenue bonds (\$450 million Water and \$150 million Wastewater).

General obligation and revenue bonds are generally callable at future dates. The general obligation bonds are backed by the assessed values of real property within the District.

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

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

The District is subject to certain revenue bond covenants on outstanding debt, the most restrictive of which requires the setting of rates and charges to yield net revenue, as defined, equal to at least 110% of the current annual debt service requirements of the combined senior and subordinated Water System and Wastewater System Revenue Bonds, respectively. The District has designated \$65,000 (\$50,000 for the Water System and \$15,000 for the Wastewater System) in net revenues as a rate stabilization fund, which is available to satisfy the coverage requirements for debt service in future years. There have never been any draws for this purpose.

EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Dollars in thousands)

NOTE 7 – NET ASSETS

Net Assets is the excess of all the District's assets over all its liabilities, regardless of fund. Net Assets are divided into three captions under GASB Statement 34. These captions apply only to Net Assets, which is determined only at the Government-wide level, and are described below:

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

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

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

NOTE 8 – EMPLOYEES' RETIREMENT PLAN

A. Description

The Employees' Retirement System is a single-employer, contributory, defined benefit pension plan (the Plan) which provides retirement, disability, survivorship, and post-employment healthcare benefits for eligible directors, officers, and employees of the District. The Plan is administered by a Retirement Board composed of three members appointed by the District's board of directors and two members elected by and from the active membership of the Plan, and a nonvoting member elected by the retirees of the Plan. Retirement Ordinance No. 40 assigns the authority to establish Plan benefit provisions to the District's board of directors.

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

The Plan is funded by contributions from its members and from the District. District contribution percentages are recommended by the Retirement Board, employee contribution rates are established by the Board of Directors pursuant to the Ordinance, giving consideration to actuarial recommendations and prospective changes in factors which affect funding. Each member contributes to the Plan based upon a percentage of his or her covered compensation, which was 4.24% effective June 16, 2003 through September 7, 2003, increasing to 4.61% effective September 8, 2003 through December 14, 2003, increasing again to 5.27% on December 15, 2003 through April 18, 2004, increasing again to 5.93% effective April 19, 2004. The District's contribution is based upon the aggregate amount of members' covered compensation, at an actuarially determined rate.

EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Dollars in thousands)

NOTE 8 – EMPLOYEES’ RETIREMENT PLAN (Continued)

B. Post-employment Healthcare Cost

In addition to retirement benefits, the District provides post-employment health benefits assistance (administered by the Employees’ Retirement System) for employees who retire from the District or their surviving spouses. As of June 30, 2005, there were 992 participants receiving these health care benefits.

Effective July 1, 1996, a 20-year vesting schedule for full benefits was implemented for all new participants. Effective January 1, 1999, retired members who had separated from the District prior to their retirement and who had at least 10 years of service also became eligible for the post-employment health benefits based on the same sliding scale. The scale provides for 50% of healthcare benefits for service from 10 through 15 years, 75% of healthcare benefits for service from 15 through 20 years, and 100% of healthcare benefits for service of 20 years or more. Effective July 1, 2003, the District reimbursed up to \$450 per month (\$550 per month effective July 1, 2004, for membership of a spouse or registered domestic partner) for any health, dental, or long-term care insurance premiums paid by the retiree for themselves, current spouse, or domestic partner, or any health, dental, or long-term care insurance premiums paid by the eligible surviving spouse of a retiree. These benefits are paid from a separate post-employment healthcare benefits fund which up until June 17, 2002, was advance funded entirely by the District on an actuarially determined basis. Cash reimbursement of these benefits totaled \$4,577 million in the year ended June 30, 2005. Effective June 18, 2002, a portion of the post-employment healthcare benefit costs is recovered through employee contributions.

Through June 30, 1999, the medical premium subsidy was not a vested benefit and the District reserved the right to modify or terminate the benefit at any time. If the medical subsidy were terminated, assets accumulated from contributions made for the subsidy would be used to provide other pension benefits. Effective July 1, 1999, the medical premium subsidy became a vested benefit to a maximum of \$200 per month, was changed effective October 1, 2000, to a maximum of \$250 per month, and was changed effective July 1, 2002 to a maximum of \$400 per month, and was changed effective July 1, 2003 to a maximum of \$450 per month, and was changed again effective July 1, 2004 to a maximum of \$450 per month and \$550 per month for membership of a spouse or registered domestic partner.

C. Contributions Required and Contributions Made

The Plan’s funding policy provides for periodic District contributions at actuarially determined amounts sufficient to accumulate the necessary assets to pay benefits when due as specified by ordinance. The individual-entry-age-normal method is used to determine the normal cost, and the unfunded actuarial accrued liability (past service liability) is amortized as a level percentage of future covered payroll over 17 years for the pension plan, and 27 years for the post-employment healthcare benefit plan. District contributions for the year to cover normal cost and to amortize the unfunded actuarial liability approximated a total of 20.80% of covered payroll, increasing to 23.53% effective July 1, 2004, inclusive of post-employment health care benefits.

Significant assumptions used to compute contribution requirements are as follows:

- 8.28% investment rate of return
- 6.01% projected average salary increases
- 4.00% inflation rate
- 3.50% cost-of-living adjustments

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Dollars in thousands)**

NOTE 8 – EMPLOYEES’ RETIREMENT PLAN (Continued)

Contributions for the year ended June 30, 2005, based on the actuarial valuation (including amounts for post-employment healthcare benefits), were as follows:

	Water System Fund	Wastewater System Fund	Total
Regular contributions:			
District contributions	\$28,016	\$4,790	\$32,806
Member contributions	7,166	1,224	8,390
	35,182	6,014	41,196
Other contributions:			
Member buybacks	91	28	119
	\$35,273	\$6,042	\$41,315

Regular District and member contributions in fiscal 2005 represent an aggregate of 20.80% and 5.03% of covered payroll, respectively. The District’s contributions include amounts for post-employment healthcare benefits at a rate of 3.31% of covered payroll through December 14, 2003, increasing to 3.34% of covered payroll beginning December 15, 2003 through June 13, 2004, and 3.69% of covered payroll beginning June 14, 2004. The payroll for the District employees covered by the Plan for the year ended June 30, 2005 was \$138,259, which was 89.65% of the total District payroll of \$154,224. The total District contribution of \$32,806 consisted of \$15,412 for normal cost and \$17,394 for amortization of the unfunded actuarial accrued liability. The payroll for the District employees covered by the Plan for the year ended June 30, 2004 was \$138,585, which was 90.4% of the total District payroll of \$153,283. The total District contribution of \$27,831 consisted of \$15,341 for normal cost and \$12,490 for amortization of the unfunded actuarial accrued liability.

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

D. Schedule of Employer Contributions

The schedule of employer contributions is shown below:

	Annual required contribution	Percentage contributed
Fiscal year ended June 30:		
2005	\$32,806	100%
2004	27,831	100%
2003	21,467	100%

The annual required contributions for fiscal years ended June 30, 2005 and 2004, include amounts for the pay-as-you-go amounts for post-employment healthcare benefits.

EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Dollars in thousands)

NOTE 9 - RISK MANAGEMENT

The District has purchased commercial insurance for general, property and public officials' liability from Marsh Risk & Insurance Company. During the fiscal year ended June 30, 2005, the District paid \$1,903 for current year coverage.

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

Selected other coverages are:

<u>Coverage</u>	<u>Policy limit</u>	<u>Self-insured retention</u>
Workers' compensation	\$100,000	\$5,000
All risk property (except earthquake and flood)	125,000	100
Flood	25,000	1,000
Earthquake	25,000	5% or replacement
Liability	90,000	10,000 Water 10,000 Wastewater
Crime	10,000	25

Settled claims have not exceeded the District's policy limits in any of the past five fiscal years.

Claim expenses and liabilities are recorded when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. As of June 30, 2005, the amount of these liabilities was \$22,109 and is included in accounts payable and accrued expenses and other non-current liabilities in the accompanying balance sheet. This amount (which has not been discounted) has been actuarially determined and includes an estimate of incurred but not reported losses. Changes in the reported liability are as follows:

	<u>2005</u>	<u>2004</u>
Liability at beginning of year	\$20,233	\$15,760
Current year claims and changes in estimates	7,886	13,291
Payments of claims	<u>(6,010)</u>	<u>(8,818)</u>
Liability at end of year	<u>\$22,109</u>	<u>\$20,233</u>

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Dollars in thousands)**

NOTE 10 - CONTINGENT LIABILITIES

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

**EAST BAY MUNICIPAL UTILITY DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2005
(Dollars in thousands)**

(1) Pension Plan

Schedule of funding progress for the pension plan (in thousands):

<u>Actuarial valuation date</u>	<u>Actuarial value of assets (a)</u>	<u>Actuarial liability (AAL) – entry age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded ratio (a/b)</u>	<u>Covered payroll (c)</u>	<u>UAAL as a percentage of covered payroll ((b-a)/c)</u>
06/30/94	\$271,293	\$374,495	\$103,202	72.4%	\$81,712	126.3%
06/30/95	292,629	413,471	120,842	70.8%	86,886	139.1%
06/30/96	324,580	417,606	93,026	77.7%	93,708	99.3%
06/30/97	371,172	428,589	57,417	86.6%	97,171	59.1%
06/30/98	426,193	466,387	40,194	91.4%	106,099	37.9%
06/30/99	491,935	512,074	20,139	96.1%	111,955	18.0%
06/30/00	556,759	611,441	54,682	91.1%	118,798	46.0%
06/30/01	606,896	663,763	56,867	91.4%	125,313	45.4%
06/30/02	631,700	719,660	87,960	87.8%	129,791	67.8%
06/30/03	639,382	838,385	199,003	76.3%	133,678	148.9%
06/30/04	662,387	886,663	224,276	74.7%	137,138	163.5%

**EAST BAY MUNICIPAL UTILITY DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 FOR THE YEAR ENDED JUNE 30, 2005
 (Dollars in thousands)**

(2) Post-Employment Healthcare Plan

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

Actuarial valuation date	Actuarial value of assets (a)	Actuarial liability (AAL) – entry age (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
6/30/1997	\$0	\$15,829	\$15,829	0.0%	\$97,171	16.3%
6/30/1998	—	15,978	15,978	0.0%	106,099	15.1%
6/30/1999	357	23,132	22,775	1.5%	111,955	20.3%
6/30/2000	805	29,581	28,776	2.7%	118,798	24.2%
6/30/2001	841	30,971	30,130	2.7%	125,313	24.0%
6/30/2002	1,265	50,358	49,093	2.5%	129,791	37.8%
6/30/2003	2,113	58,752	56,639	3.6%	133,678	42.4%
6/30/2004	2,715	62,357	59,642	4.4%	137,138	43.5%

Unaudited.

EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2005
(Dollars in thousands)

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

Valuation date	June 30, 2004
Actuarial cost method	Individual entry age normal method
Amortization method	Level percent open
Remaining amortization period	Average – 19 years
Assets valuation method	5-year smoothing of market value
Actuarial assumptions:	
Investment rate of return	8.25%
Average projected salary increases	6.01%
Inflation rate	4.00%
Cost-of-living adjustments	3.50%

Unaudited.

STATISTICAL SECTION



Table 1
Demographics

Fiscal Year 2005

		Water System	Wastewater System
Established		1928	1944
Service Area	(square miles)	325	85
Population Served	(in thousands)	1,300	642
Unemployment Rate	(%-Alameda County)	5.3	5.3
Facilities:			
Acres of groundwater recharge ponds			
Miles of canals		91.5	
Miles of pipeline		4,065	
Miles of tunnels		14.6	
Miles of interceptors		0	29
Number of treatment plants		12	
Number of pumping stations		24	14
Number of treated water reservoirs		177	
Number of reservoirs		189	
Total District reservoir capacity (acre feet)		755,770	
Water demand per fiscal year			
District-provided water	(acre feet)	228,631	
Water recycling per day	(in million gallons)		6
Waste water treatment capacity			
Primary treatment			320
Secondary treatment			160
Energy Recovery	(%)		75
Number of employees		1,900	278
Average years of service of employees		13.1	14.3

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

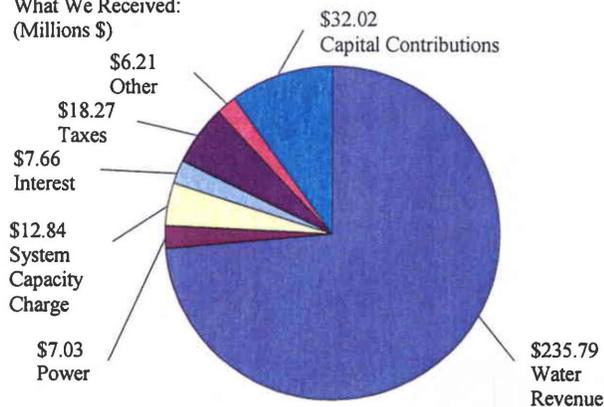
Table 2
Comparative Highlights

WATER SYSTEM	2005	2004
During the Year:		
Total Water Consumption, millions of gallons	74,666	82,088
Average Daily Water Consumption, MGD*	205	224
Maximum Daily Water Consumption, MGD	310	310
Minimum Daily Water Consumption, MGD	139	144
At Year End:		
Number of Accounts	379,192	378,251
Number of Employees	1,622	1,612
Miles of Water Distribution Pipe	4,065	4,033
Operating Distribution Storage Capacity, millions of gallons	832	848
WASTEWATER SYSTEM		
During the Year:		
Average Daily Wastewater Flow, MGD	78	72
At Year End:		
Number of Accounts	177,367	177,195
Number of Employees	278	258

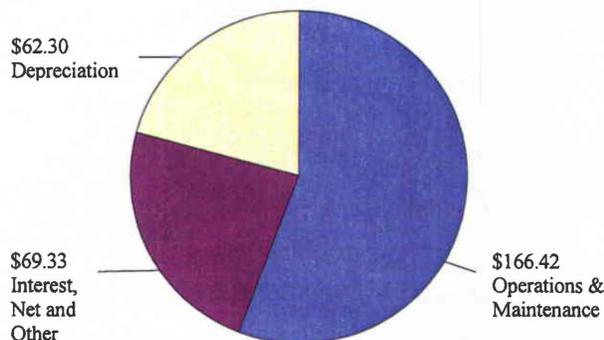
* = million gallons per day

Water System

What We Received:
(Millions \$)

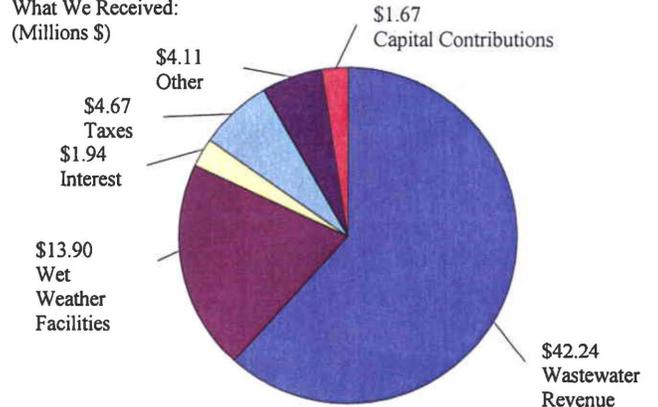


How It Was Used:
(Millions \$)



Wastewater System

What We Received:
(Millions \$)



How It Was Used:
(Millions \$)

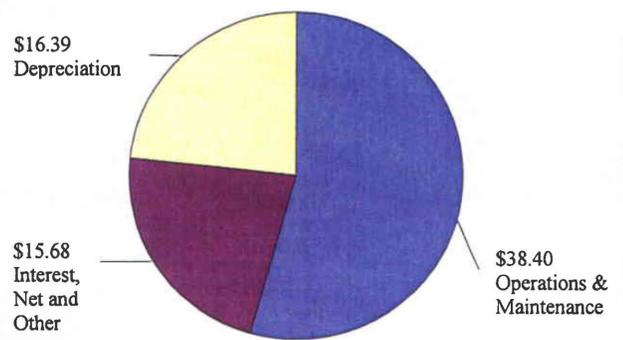


Table 3
Changes in Net Assets

Fiscal Years 2003 to 2005
(In Thousands)

	Fiscal Year Ended June 30		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
Expenses			
Business-type activities:			
Water	\$197,164	\$210,970	\$228,724
Wastewater	51,406	52,687	54,790
Total business-type activities expenses	<u>248,570</u>	<u>263,657</u>	<u>283,514</u>
Program Revenues			
Business-type activities			
Charges for services:			
Water	235,399	254,792	248,630
Wastewater	55,514	56,683	56,144
Power	4,050	2,833	7,031
Capital grants and contributions	34,344	28,579	33,693
Total business-type activities program revenues	<u>329,307</u>	<u>342,887</u>	<u>345,498</u>
Net (Expense)/Revenue			
Business-type activities	80,737	79,230	61,984
General Revenues and Other Changes in Net Assets			
Business-type activities			
Investment income	16,253	13,738	9,600
Taxes and subventions	22,246	23,691	22,937
Interest and amortization of bond expenses	(74,939)	(72,225)	(84,070)
Other income (expense)	7,131	(4,202)	9,385
Total business-type activities	<u>(29,309)</u>	<u>(38,998)</u>	<u>(42,148)</u>
Changes in Net Assets			
Business-type activities	<u>\$51,428</u>	<u>\$40,232</u>	<u>\$19,836</u>

Table 4

Net Assets by Component

Fiscal Years 2003 to 2005
(In Thousands)

	Fiscal Year Ended June 30		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
<u>Business-type activities</u>			
Invested in capital assets, net of related debt	\$1,006,470	\$1,090,005	\$1,213,199
Restricted for construction	65,811	64,367	53,969
Restricted for debt service		78	35,245
Restricted-other	2,900	2,914	2,905
Unrestricted	<u>305,353</u>	<u>263,402</u>	<u>135,284</u>
 Total business-type activities net assets	 <u>\$1,380,534</u>	 <u>\$1,420,766</u>	 <u>\$1,440,602</u>

Table 5
Capital Asset Statistics by Function/Program

Fiscal Years 2003 to 2005

<u>Function/Program</u>	Fiscal Year Ended June 30		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
Water System			
Water mains (miles)	4,032	4,033	4,065
Fire hydrants	28,380	28,499	28,817
Storage capacity (thousands of gallons)	840,000	848,000	785,000
Wastewater System			
Sanitary sewers (miles)			Owned by various communities
Storm sewers (miles)			Owned by various communities
Treatment capacity (thousands of gallons per day)	168,000	168,000	168,000

Source: Annual Reports/
 Engineering/ISD/
 Water Operations/WW

Table 6
Outstanding Debt by Type

Fiscal Years 1996 to 2005

Water System
(In thousands)

Fiscal Year	General Obligation Bonds	Revenue Bonds	Loans Payable	Total
1996	\$13,701	\$741,730	\$26,419	\$781,850
1997	8,916	733,211	27,088	769,215
1998	8,310	721,720	26,082	756,112
1999	7,679	996,148	24,289	1,028,116
2000	7,017	981,020	23,140	1,011,177
2001	6,274	1,189,102	21,954	1,217,330
2002	5,540	1,182,044	20,616	1,208,200
2003	4,757	1,163,796	21,363	1,189,916
2004	3,922	1,141,046	22,054	1,167,022
2005	0	1,540,834	20,476	1,561,310

Wastewater System
(In thousands)

Fiscal Year	General Obligation Bonds	Revenue Bonds	Loans Payable	Total
1996	\$46,594	\$171,732	\$61,018	\$279,344
1997	45,780	168,984	66,471	281,235
1998	45,392	166,711	64,644	276,747
1999	44,974	212,309	60,088	317,371
2000	44,526	208,985	60,498	314,009
2001	42,787	197,359	57,945	298,091
2002	42,079	193,457	54,307	289,843
2003	41,380	241,613	50,543	333,536
2004	40,031	238,373	46,668	325,072
2005	38,252	238,237	42,668	319,157

Table 7

Full-time Equivalent District Employees by Function/Program

Fiscal Years 2003 to 2005

<u>Function/Program</u>	Fiscal Year Ended June 30		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
System Operations and Maintenance	567.5	567.5	578.5
Water Operations and Maintenance	314.5	312.5	311.5
Water Resources	45.0	45.0	43.0
Natural Resources	63.0	63.0	63.0
Engineering and Construction	275.5	274.5	275.5
Office of the General Manager	39.5	40.0	37.5
Finance	111.5	112.5	68.0
Information Systems	75.0	75.0	79.0
Administration Department	39.5	40.5	103.5
Customer and Community Services	152.0	149.0	130.0
Human Resources	50.5	50.5	50.5
Office of General Counsel	16.5	16.5	16.5
Water Recycling Program	9.0	9.0	9.0
Wastewater	284.5	278.0	281.0
Total	<u>2,043.5</u>	<u>2,033.5</u>	<u>2,046.5</u>

Table 8

Ten-Year Summary of Net Revenue and Debt Service Coverage

Fiscal Years 1996 to 2005

Water System

(In Millions)

<u>Fiscal Year</u>	<u>Total Revenue</u>	<u>Operations & Maintenance Expense</u>	<u>Net Revenue Available for Debt Service</u>	<u>Debt Service</u>	<u>Coverage Ratio</u>
1996	190.3	87.8	102.5	44.1	2.32
1997	207.1	106.0	101.1	49.9	2.03
1998	204.1	110.1	94.0	50.4	1.87
1999	229.9	114.2	115.7	60.6	1.91
2000	251.9	118.2	133.7	65.9	2.03
2001	267.9	114.2	153.7	68.4	2.25
2002	273.1	109.3	163.8	75.1	2.18
2003	279.5	119.1	160.4	79.0	2.03
2004	285.5	132.7	152.8	81.3	1.88
2005	283.6	136.1	147.5	81.7	1.81

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

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

Table 8A

Ten-Year Summary of Net Revenue and Debt Service Coverage

Fiscal Years 1996 to 2005

Wastewater System

(In Millions)

<u>Fiscal Year</u>	<u>Total Revenue</u>	<u>Operations & Maintenance Expense</u>	<u>Net Revenue Available for Debt Service</u>	<u>Debt Service</u>	<u>Coverage Ratio</u>
1996	50.5	26.9	23.6	10.1	2.34
1997	54.0	25.8	28.2	9.9	2.85
1998	54.5	29.4	25.1	10.7	2.35
1999	55.7	26.8	28.9	11.1	2.60
2000	54.2	28.2	26.0	15.1	1.72
2001	57.9	28.9	29.0	17.3	1.67
2002	57.9	28.9	29.0	17.0	1.71
2003	58.7	29.4	29.3	17.4	1.69
2004	58.4	30.6	27.8	15.5	1.79
2005	62.2	33.2	29.0	15.9	1.82

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

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

Table 9
Authorized but Unissued Revenue Bonds
and Outstanding Short-Term Debt

As of June 30, 2005
(In Thousands)

Water System

Authorized but unissued revenue bonds	\$450,000
Outstanding short-term debt (due within one year)	\$30,976

Wastewater System

Authorized but unissued revenue bonds	\$200,000
Outstanding short-term debt (due within one year)	\$11,288

Table 10

Ten-Year Summary of Revenue by Source

Fiscal Years 1996 to 2005

Water System
(In Millions)

	Fiscal Year Ended June 30									
	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Water	\$160.6	\$175.1	\$174.9	\$184.0	\$197.8	\$206.8	\$214.0	\$223.1	\$241.9	\$235.8
Taxes	11.1	11.5	11.8	12.6	13.5	14.3	15.6	16.5	17.5	18.3
Construction from SCC	10.4	10.6	10.9	11.4	12.0	11.8	11.6	12.3	12.9	12.8
Interest	13.2	13.1	11.9	21.3	17.5	20.8	25.4	13.3	11.1	7.6
Power	2.5	4.9	3.9	5.5	5.6	7.3	3.1	4.0	2.8	7.0
Rental & Other	3.6	3.4	4.2	7.7	7.8	4.3	4.4	7.2	2.1	5.5
Total	<u>\$201.4</u>	<u>\$218.6</u>	<u>\$217.6</u>	<u>\$242.5</u>	<u>\$254.2</u>	<u>\$265.3</u>	<u>\$274.1</u>	<u>\$276.4</u>	<u>\$288.3</u>	<u>\$287.0</u>

Table 11
Ten-Year Summary of Revenue by Source

Fiscal Years 1996 to 2005

Wastewater System
(In Millions)

	Fiscal Year Ended June 30									
	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Wastewater	\$34.3	\$37.2	\$37.8	\$37.4	\$37.5	\$38.7	\$39.8	\$41.6	\$42.8	\$42.2
Wet Weather Facilities	12.2	13.2	13.3	13.3	13.8	13.2	13.5	13.9	13.9	13.9
Taxes	4.3	4.9	4.9	5.3	5.1	5.2	5.9	5.8	6.2	4.7
Interest	3.7	3.5	3.4	4.9	4.0	4.9	4.3	2.9	2.6	2.1
Other	0.3	0.1	0.1	0.1	(1.0)	1.0	0.2	0.3	(0.9)	4.0
Total	<u>\$54.8</u>	<u>\$58.9</u>	<u>\$59.5</u>	<u>\$61.0</u>	<u>\$59.4</u>	<u>\$63.0</u>	<u>\$63.7</u>	<u>\$64.5</u>	<u>\$64.6</u>	<u>\$66.9</u>

Table 12
Operating Indicators by Function/Program

Fiscal Years 2003 to 2005

<u>Function/Program</u>	Fiscal Year Ended June 30		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
Water System			
New connections	2,442	2,075	2,234
Water main breaks	747	864	866
Average daily consumption (thousands of gallons)	213,000	224,000	205,000
Peak daily consumption (thousands of gallons)	310,000	373,000	310,000
Wastewater System			
Average daily sewage treatment (thousands of gallons)	73,000	72,000	76,000

Table 13
Ten-Year Summary of Property, Plant & Equipment

Fiscal Years 1996 to 2005

Water System
(In Millions)

	Fiscal Year Ended June 30									
	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Structures, Buildings and Equipment	\$1,540.3	\$1,638.2	\$1,730.4	\$1,891.2	\$2,039.7	\$2,211.6	\$2,338.0	\$2,533.9	\$2,824.3	\$3,037.4
Less Accumulated Depreciation	(463.8)	(495.8)	(526.4)	(563.1)	(600.5)	(645.6)	(695.4)	(744.9)	(801.3)	(857.1)
Subtotal	<u>1,076.5</u>	<u>1,142.4</u>	<u>1,204.0</u>	<u>1,328.1</u>	<u>1,439.2</u>	<u>1,566.0</u>	<u>1,642.6</u>	<u>1,789.0</u>	<u>2,023.0</u>	<u>2,180.3</u>
Land and Rights-of-Way	37.0	38.2	38.2	38.4	39.0	46.1	48.8	48.9	48.9	49.0
Construction in Progress	<u>272.8</u>	<u>317.2</u>	<u>386.0</u>	<u>373.4</u>	<u>354.8</u>	<u>341.6</u>	<u>419.8</u>	<u>421.0</u>	<u>322.2</u>	<u>295.8</u>
Total Capital Assets, Net	<u>\$1,386.3</u>	<u>\$1,497.8</u>	<u>\$1,628.2</u>	<u>\$1,739.9</u>	<u>\$1,833.0</u>	<u>\$1,953.7</u>	<u>\$2,111.2</u>	<u>\$2,258.9</u>	<u>\$2,394.1</u>	<u>\$2,525.1</u>

Table 13A
Ten-Year Summary of Property, Plant & Equipment

Fiscal Years 1996 to 2005

Wastewater System
(In Millions)

	Fiscal Year Ended June 30									
	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Structures, Buildings and Equipment	\$361.1	\$444.8	\$481.5	\$485.6	\$529.7	\$603.1	\$633.7	\$653.4	\$662.7	\$677.7
Less Accumulated Depreciation	<u>(82.7)</u>	<u>(93.4)</u>	<u>(105.8)</u>	<u>(116.5)</u>	<u>(130.8)</u>	<u>(144.9)</u>	<u>(160.7)</u>	<u>(176.5)</u>	<u>(192.4)</u>	<u>(208.3)</u>
Subtotal	<u>278.4</u>	<u>351.4</u>	<u>375.7</u>	<u>369.1</u>	<u>398.9</u>	<u>458.2</u>	<u>473.0</u>	<u>476.9</u>	<u>470.3</u>	<u>469.4</u>
Land and Rights-of-Way	5.2	5.3	5.3	5.6	5.6	5.6	5.6	5.6	5.6	5.6
Construction in Progress	<u>149.7</u>	<u>101.3</u>	<u>92.1</u>	<u>106.5</u>	<u>89.2</u>	<u>38.1</u>	<u>23.9</u>	<u>14.1</u>	<u>20.3</u>	<u>21.3</u>
Total Capital Assets, Net	<u>\$433.3</u>	<u>\$458.0</u>	<u>\$473.1</u>	<u>\$481.2</u>	<u>\$493.7</u>	<u>\$501.9</u>	<u>\$502.5</u>	<u>\$496.6</u>	<u>\$496.2</u>	<u>\$496.3</u>

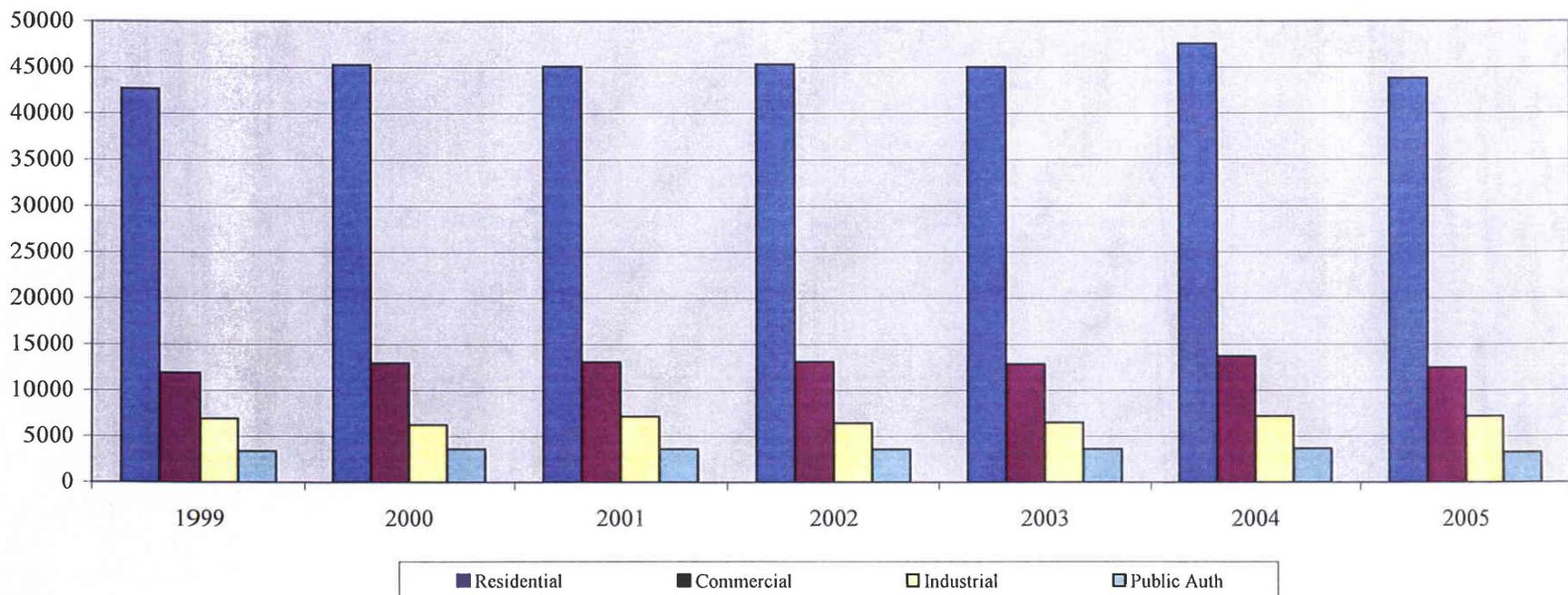
Table 14
Debt Ratings

Fiscal Year 2005

District Debt by Type	Rating by	
	Moody's Investors Service	Standard & Poor's
Water System		
Commercial Paper	A1+	P1
Subordinated Revenue Bonds	AA	Aa2
General Obligation Bonds	AA	Aa2
Wastewater System		
Commercial Paper	A1+	P1
Subordinated Revenue Bonds	AA	Aa3
General Obligation Bonds	AA	Aa3

Table 15
Water Sold by Type of Customer

Fiscal Years 1999 to 2005



(In millions of gallon)

Fiscal Year	Type of Customer				Total
	Residential	Commercial	Industrial	Public Auth	
1999	42,680	11,929	6,937	3,390	64,936
2000	45,285	12,981	6,248	3,619	68,133
2001	45,107	13,061	7,159	3,614	68,941
2002	45,350	13,106	6,409	3,583	68,448
2003	45,034	12,838	6,488	3,610	67,970
2004	47,555	13,702	7,199	3,681	72,137
2005	43,796	12,483	7,177	3,254	66,710

Source data not available for Fiscal Years 1996-98.

District retention schedule requires five fiscal years of source data.

Table 17
Rate History

Fiscal Years 1996 to 2005

<u>Fiscal Year</u>	<u>Water</u>		<u>Wastewater</u>	
	<u>Monthly Base Rate</u>	<u>Rate per 1,000 Gallons</u>	<u>Monthly Base Rate</u>	<u>Rate per 1,000 Gallons</u>
1996	5.54	1.09	5.98	0.340
1997	5.79	1.14	5.98	0.376
1998	6.21	1.19	6.63	0.393
1999	6.44	1.23	6.86	0.408
2000	6.67	1.27	6.86	0.408
2001	6.92	1.32	7.45	0.388
2002	7.20	1.37	7.45	0.388
2003	7.47	1.42	7.45	0.388
2004	7.75	1.47	8.23	0.442
2005	8.04	1.53	8.56	0.459

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

Table 18**Ratio of Net General Obligation Bonded Debt to Annual Billings
and Net General Bonded Debt per Account**

Fiscal Years 1996 to 2005

(In Millions)

Water System					
Fiscal Year	Accounts (1)	General Obligation Bonded Debt (2)	General Bonded Debt Per Account (In Dollars)	Annual Billings (2)	Percentage of General Bonded Debt To Annual Billings
1996	359,000	\$13,701	\$38	\$160,539	8.53%
1997	361,000	8,915	25	175,112	5.09%
1998	362,000	8,310	23	174,862	4.75%
1999	364,000	7,679	21	183,965	4.17%
2000	366,000	7,017	19	197,772	3.55%
2001	368,000	6,274	17	206,791	3.03%
2002	370,000	5,541	15	214,000	2.59%
2003	373,000	4,757	13	223,126	2.13%
2004	375,000	3,922	10	241,927	1.62%
2005	376,000	0	0	235,790	0.00%

Wastewater System					
Fiscal Year	Accounts (1)	General Obligation Bonded Debt (2)	General Bonded Debt Per Account (In Dollars)	Annual Billings (2)	Percentage of General Bonded Debt To Annual Billings
1996	173,000	\$46,594	\$269	\$34,308	135.81%
1997	174,000	45,780	263	37,186	123.11%
1998	174,000	45,392	261	37,840	119.96%
1999	175,000	44,974	257	37,426	120.17%
2000	176,000	44,526	253	37,518	118.68%
2001	177,000	42,787	242	38,666	110.66%
2002	177,000	42,078	238	39,862	105.56%
2003	177,000	41,333	234	41,590	99.38%
2004	177,000	40,031	226	42,822	93.48%
2005	177,000	38,252	216	42,244	90.55%

Source: (1) CIS

(2) Financial and Statistical Reports

Table 19
Assessed Valuation

Fiscal Year 2005

EAST BAY MUNICIPAL UTILITY DISTRICT, SPECIAL DISTRICT NO. 1

2004-05 Assessed Valuation: \$55,334,783,906
 Redevelopment Incremental Valuation: 8,866,243,895
 Adjusted Assessed Valuation: \$46,468,540,011

<u>Direct and Overlapping Tax and Assessment Debt:</u>	<u>% Applicable</u>	<u>Debt 6/30/05</u>
Bay Area Rapid Transit District	13.870%	\$ 13,870,000
Peralta Community College District	100.000	146,130,000
Alameda Unified School District	100.000	71,018,093
Albany Unified School District	100.000	27,260,000
Berkeley Unified School District	100.000	187,465,147
Oakland Unified School District	100.000	310,968,979
Piedmont Unified School District	100.000	34,260,000
West Contra Costa Unified School District	18.609	70,832,252
Other School Districts	Various	17,278,184
City of Alameda	100.000	10,455,000
City of Albany	100.000	7,875,000
City of Berkeley	100.000	69,940,000
City of Oakland	99.971	227,250,119
East Bay Municipal Utility District	39.348	1,200,114
East Bay Municipal Utility District, Special District No. 1	100.000	38,475,000
East Bay Regional Park District	20.488	29,797,747
West Contra Costa Healthcare District Parcel Tax Obligations	17.131	4,454,060
City of El Cerrito Lease Tax Obligations	99.875	4,239,694
City of Alameda Community Facilities District Nos. 1 and 2	100.000	16,655,000
City of Berkeley Community Facilities District No. 1	100.000	9,085,000
1915 Act bonds	100.000	<u>75,146,515</u>
Total Gross Direct and Overlapping Tax and Assessment Debt		\$1,373,655,904
Less: East Bay Municipal Utility District (100% self-supporting)		<u>1,200,114</u>
Total Net Direct and Overlapping Tax and Assessment Debt		\$1,372,455,790

(continued)

Table 19 (continued)
Assessed Valuation

Fiscal Year 2005

<u>Overlapping General Fund Debt:</u>	<u>% Applicable</u>	<u>Debt 6/30/05</u>
Alameda County General Fund Obligations	32.660%	\$ 208,149,692
Alameda County Pension Obligations	32.660	100,221,517
Alameda County Board of Education Certificates of Participation	32.660	666,264
Contra Costa County General Fund Obligations	2.789	8,801,805
Contra Costa County Pension Obligations	2.789	15,471,559
Contra Costa County Board of Education	2.789	47,274
Alameda-Contra Costa Transit District Certificates of Participation	41.533	8,611,868
Oakland Unified School District Certificates of Participation	100.000	27,035,000
Other School District Certificates of Participation	Various	4,402,530
City of Alameda Certificates of Participation	100.000	17,183,735
City of Berkeley General Fund Obligations and Pension Obligations	100.000	46,615,000
City of Oakland General Fund Obligations	99.971	571,427,263
City of Oakland Pension Obligations	99.971	366,388,558
Other City General Fund Obligations	Various	12,255,856
Contra Costa County Mosquito Abatement District Certificates of Participation	2.789	<u>8,088</u>
Total Overlapping General Fund Debt		\$1,387,286,009
Gross Combined Total Debt		\$2,760,941,913 (1)
Net Combined Total Debt		\$2,759,741,799

(1) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2004-05 Assessed Valuation:

Direct Debt (\$38,475,000)	0.07%
Total Gross Direct and Overlapping Tax and Assessment Debt	2.48%
Total Net Direct and Overlapping Tax and Assessment Debt	2.48%

Ratios to Adjusted Assessed Valuation:

Gross Combined Total Debt	5.94%
Net Combined Total Debt	5.94%

State School Building and Repayable as of 6/30/05: \$117,311

Table 20
Assessed Valuation of Taxable Property

Fiscal Years 1996 to 2005
(In Millions)

	Fiscal Year Ended June 30									
	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Water System										
Alameda County	37,774	39,042	40,753	41,861	44,199	46,919	49,437	51,866	55,508	58,190
Contra Costa County	35,159	36,243	38,212	38,926	41,091	43,849	48,479	51,916	55,475	60,592
Total	<u>\$72,933</u>	<u>\$75,285</u>	<u>\$78,965</u>	<u>\$80,787</u>	<u>\$85,290</u>	<u>\$90,768</u>	<u>\$97,916</u>	<u>\$103,782</u>	<u>\$110,983</u>	<u>\$118,782</u>
Wastewater System										
Alameda County	27,403	28,422	29,000	29,651	31,115	33,389	36,135	38,517	41,216	43,534
Contra Costa County	1,683	1,738	1,768	1,842	1,982	2,119	2,314	2,469	2,677	2,898
Total	<u>\$29,086</u>	<u>\$30,160</u>	<u>\$30,768</u>	<u>\$31,493</u>	<u>\$33,097</u>	<u>\$35,508</u>	<u>\$38,449</u>	<u>\$40,986</u>	<u>\$43,893</u>	<u>\$46,432</u>

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

Table 21

Ten-Year Summary of Expense by Source

Fiscal Years 1996 to 2005

(In Millions)

	Fiscal Year Ended June 30									
	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Interest and Amortization of Bonds	\$53.6	\$56.6	\$54.7	\$62.9	\$65.0	\$66.3	\$75.6	\$74.9	\$72.2	\$84.1
Depreciation on Utility Plant	\$40.1	\$45.8	\$46.2	\$48.8	\$58.4	\$60.9	\$64.5	\$67.7	\$70.4	\$78.7
Water Treatment and Distribution	\$48.3	\$53.4	\$54.7	\$59.7	\$61.0	\$58.8	\$61.2	\$62.3	\$72.5	\$72.7
General Administration	\$8.9	\$11.2	\$21.0	\$15.2	\$18.2	\$21.7	\$19.1	\$26.2	\$21.2	\$28.9
Raw Water	\$18.6	\$21.9	\$21.0	\$22.0	\$24.0	\$24.2	\$21.7	\$22.9	\$22.8	\$23.1
Sewer Treatment Plant Operations	\$19.4	\$17.9	\$18.2	\$18.8	\$19.7	\$18.9	\$20.0	\$19.3	\$19.8	\$20.9
Financial and Risk Management	\$7.7	\$10.6	\$11.3	\$11.4	\$11.4	\$11.2	\$11.2	\$13.1	\$15.5	\$15.2
Customer Accounting and Collecting	\$9.2	\$10.0	\$9.5	\$9.2	\$10.9	\$10.7	\$11.4	\$11.7	\$12.6	\$13.0
Facilities Management	\$5.9	\$6.3	\$7.2	\$7.4	\$8.5	\$8.0	\$7.8	\$9.0	\$10.2	\$12.5
Sewer Lines and Pumping	\$7.9	\$8.9	\$11.2	\$8.9	\$9.3	\$8.7	\$8.8	\$9.4	\$10.9	\$10.7
Recreation Areas, Net	\$5.9	\$6.4	\$7.3	\$6.8	\$6.2	\$6.4	\$6.9	\$7.0	\$7.8	\$7.8
Total:	<u>\$225.5</u>	<u>\$249.0</u>	<u>\$262.3</u>	<u>\$271.1</u>	<u>\$292.6</u>	<u>\$295.8</u>	<u>\$308.2</u>	<u>\$323.5</u>	<u>\$335.9</u>	<u>\$367.6</u>

Table 22

Summary of Debt Outstanding*

As of June 30, 2005
(Thousands of Dollars)

Water System

General Obligation Bonds	None Outstanding
Revenue Bonds	
Series 1993	\$19,135
Series 1996	154,090
Series 1998	73,365
Series 2001	250,000
Series 2002	231,650
Series 2003	114,800
Series 2005A	300,000
Series 2005B	325,000
Series 2005C	100,000
Senior Lien Revenue Bonds	<u>None Outstanding</u>
Total Water System Debt Outstanding	<u><u>\$1,568,040</u></u>

Wastewater System

General Obligation Bonds	
Series F	38,475
Revenue Bonds	
Series 1996	46,210
Series 1998	12,170
Series 2003	120,490
Series 2005	70,000
Senior Lien Revenue Bonds	<u>None Outstanding</u>
Total Wastewater System Debt Outstanding	<u><u>\$287,345</u></u>

*Debt outstanding does not include State low interest loans, commercial paper or outstanding refunded but not yet called debt.