

COMPREHENSIVE ANNUAL FINANCIAL REPORT

for the year ended June 30, 2006



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

Comprehensive Annual Financial Report
East Bay Municipal Utility District

FOR THE FISCAL YEAR ENDED
JUNE 30, 2006



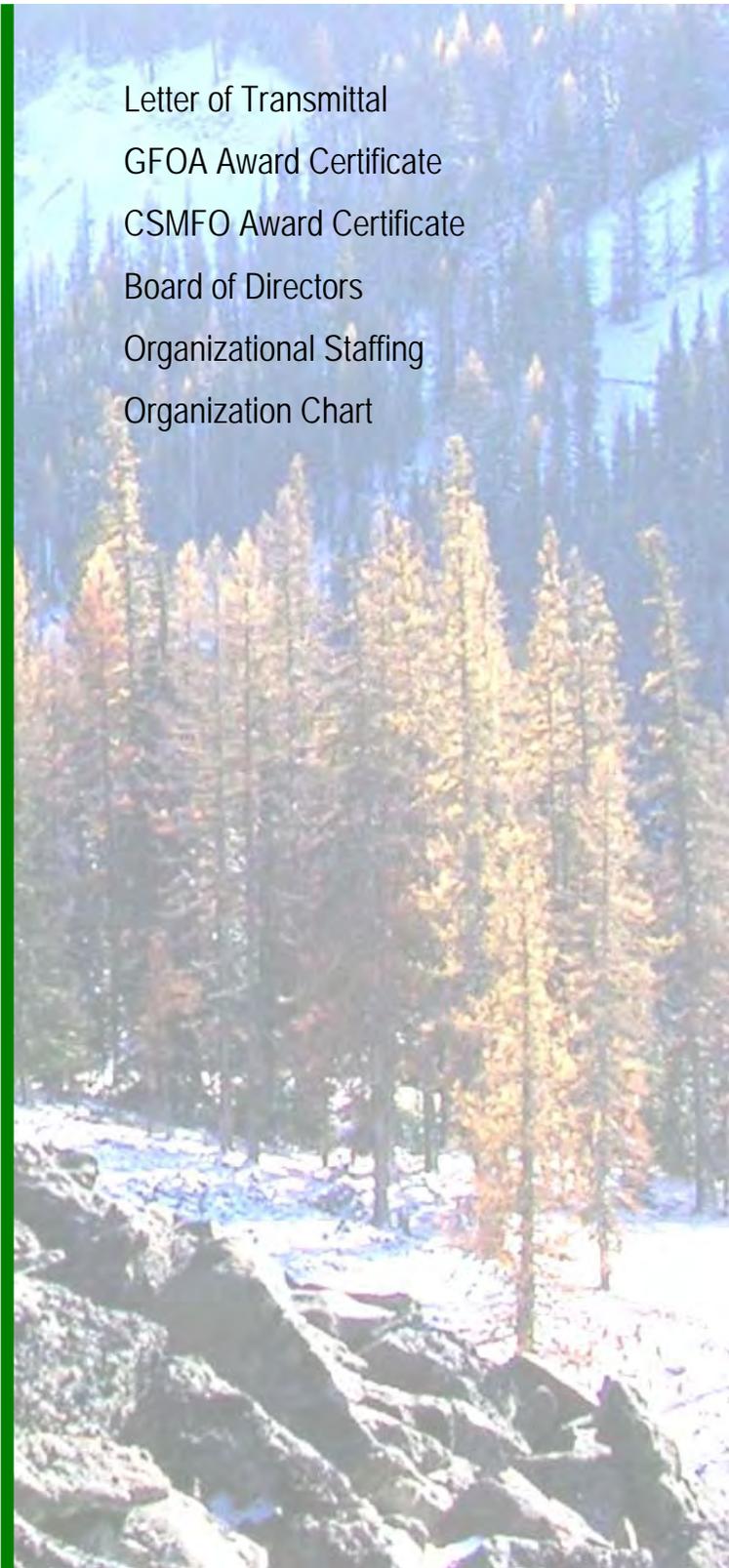
P.O. Box 24055
Oakland, California 94623-1055

Prepared by Financial Reporting
of the Accounting Department

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Letter of Transmittal
GFOA Award Certificate
CSMFO Award Certificate
Board of Directors
Organizational Staffing
Organization Chart

December 26, 2006

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, 2006, as prepared by the staff of the Financial Reporting Section 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, 2006. 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, along with the CAFR Award Certifications from the previous fiscal year.

- **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.

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 an 83 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.

Fresh, Healthful Water is the Lifeblood of Any Community

Today, 1.3 million customers count on EBMUD to deliver the best water and wastewater services. Surveys of our customers reaffirm what we suspect: that water is something we all know we can't live without, yet most of us don't want to worry about it – and expect that anytime we turn on our taps, that high-quality EBMUD water will be there. EBMUD staff work around the clock while our customers lead busy lives, confidently leaving the challenges of drought protection, water supply planning, infrastructure maintenance, watershed protection wastewater treatment and financial stability to us. Providing a reliable water supply and protecting San Francisco Bay is our core mission.

Rather than rely on a single water source, EBMUD continues to pursue an array of solutions to meet water needs now and for the future. EBMUD is committed to working collaboratively with neighboring agencies and stakeholders to develop constructive regional solutions for watershed issues that affect us all. Along with other Bay Area water partners, EBMUD is exploring construction of a regional desalination facility that could provide supplemental water for millions of Bay Area residents and businesses.

To stretch our water supply even further, EBMUD is constructing facilities to bring recycled water to the East Bayshore for the first time. Our water conservation programs, including education and cash incentives for water-saving devices, help communities use water in a sustainable way. Our most critical water supply initiative is the Freeport Regional Water Project. EBMUD and its partners, the Sacramento County Water Agency and the City of Sacramento, are currently designing this project after searching for 30 years for a practical, reliable drought solution for the East Bay.

This year's efforts to improve treated water delivery included unprecedented seismic upgrades for the Claremont Tunnel to protect supplies for more than 800,000 customers west of the Oakland-Berkeley Hills. Although the completion of this work, expected in early 2007, will bring the formal Seismic Improvement Program to a close, EBMUD will continue to be a leader in planning for earthquake safety. As further advances in earthquake engineering are made, we will develop new ways to improve our water and wastewater systems for the future.

Like maintaining a home, maintaining our complex water and wastewater systems always leaves us with more to do. We will continue our practice of sensible infrastructure investment and manage the public's investment to keep our services affordable. We will continue to search for new materials, methods and techniques that offer more dependable service and cost savings. We will continue our efforts to earn the trust and satisfaction of our customers and provide water quality and service that is second to none.



Mission Statement

East Bay Municipal Utility District



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 and Sustainability

EBMUD Key Initiatives for the Fiscal Year July 2006–June 2007

- **Long Term Water Supply**

Ensure a reliable high quality water supply for the future through:

- Preserving current entitlements and obtaining additional supplemental supplies sufficient to meet customer demands with minimal rationing.
- Conservation, reduce potable water demand by 35 million gallons per day (mgd) from the 2020 forecast of 277 mgd.
- Recycling, reduce potable water demand by 14 mgd from the 2020 forecast of 277 mgd.

- **Water Quality and Environmental Protection**

Meet or surpass environmental and public health standards and protect public trust values by:

- Managing the Mokelumne and East Bay watersheds in a way that ensures a high quality water supply and protects natural resources while providing appropriate public access.
- Operating and maintaining District facilities to surpass federal and state drinking water regulations with a margin of safety to meet customer expectations.

- Operating and maintaining District facilities to anticipate and meet all air, land and water discharge requirements.
 - Minimizing impacts to the environment by reducing, recycling, reusing and reclaiming waste and by conserving natural resources.
 - Ensuring protection and stewardship of San Francisco Bay.
 - Advocating for water quality and environmental regulations that are based on sound science, are protective of public health and beneficial uses and that are attainable.
- **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 by:
 - Maintaining coordinated master plans for all facilities based on condition and performance assessments and anticipated future needs.
 - Meeting operational needs and reliability goals by implementing effective maintenance practices.
 - Enhancing infrastructure planning and management and maintenance practices by evaluating and implementing changes in technology as appropriate.
 - Implementing the master plans and set priorities in the operating and capital budget process to reflect the needs identified in those plans.
- **Customer Service**
Understand and be responsive to customer expectations for service through:
 - Obtaining reliable information on customer expectations, opinions and satisfaction levels through regularly gathering, analyzing and reporting customer feedback.
 - Responding to and incorporating customer input in long range planning, setting project priorities, developing improvement initiatives and identifying new research needs.
 - Maintaining an active Emergency Preparedness Program to plan for and manage the District's functions during an emergency and allow for an efficient and effective recovery following an emergency.
- **Workforce Planning and Development**
Ensure ample talent to do the District's work today and tomorrow by:
 - Developing and implementing workforce plans that ensure critical work is performed, identify new ways to perform work and meet future workforce needs.
 - Enhancing the District's ability to recruit a highly qualified, diverse staff.
 - Developing employees to meet workforce demands.
 - Actively managing employee performance to ensure that District goals are met.
 - Creating an environment that encourages retention of employees.

Administrative Profile

East Bay Municipal Utility District



EBMUD has approximately 1,900 full-time employees under the administrative direction of an appointed General Manager and management staff at the end of the fiscal year. 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 2005-2006 budgeted full-time equivalent employee details by Function/Program, as opposed to the actual headcount listed above.

<u>Function/Program</u>	<u>Fiscal Year 2006</u>
System Operations and Maintenance	574.5
Water Operations and Maintenance	309.5
Water Resources	42.0
Natural Resources	68.0
Engineering and Construction	266.5
Office of the General Manager	34.5
Finance	67.0
Information Systems	92.0
Administration Department	100.5
Customer and Community Services	138.0
Human Resources	49.5
Office of General Counsel	16.5
Water Recycling Program	8.0
Wastewater	284.5
Total	2,051.0

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.

Meeting Our Goals

To better judge how we are achieving our goals, EBMUD defined 41 Key Performance Indicators that are measurable, comprehensive, and reflect our six Strategic goals – and go well beyond financial indicators. We assessed performance in relationship to the targets, and set new targets for fiscal year 2007. In fiscal year 2006, EBMUD met 81 percent of our targets. We did especially well in three areas: customer service (excellent customer survey ratings, telephone response goals); infrastructure/maintenance (minimizing unplanned service interruptions and pipeline breaks) and financial indicators (reasonable rates and expenditures within budget). Areas where we will work to improve include how quickly we are reducing our dependence on retail energy use. With successive years of reporting, we will be able to see emerging trends and make improvements as needed.

Financial Highlights

- The total assets of the District exceeded the total liabilities by \$1.5 billion (*net assets*).
- Net assets increased by \$51 million or 4% during the fiscal year.
- Capital assets increased by \$160 million or 5% to \$3.2 billion.
- During the year, operating revenue increased by \$14 million or 4% to \$325 million.
- Operating expense increased by \$12 million or 4% to \$296 million.
- Capital contributions, consisting of capital facility fees, increased by \$22 million or 66% from the prior fiscal year.

Financial Strength & Stability_(cont.) *East Bay Municipal Utility District*

Financial Position

The District's net assets increased by \$51 million or 4% during the year. There was an increase of \$119 million in the level of current and other assets that were used for investment in capital assets. By far the largest portion of the District's net assets (82%) or \$1.2 billion represents its investment in capital assets necessary to provide services. The increase of 4% 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 82-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 2005 and 2006) were at or near inflation for the sixth 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.

Tracking project schedules and budgets is part of responsible project management. EBMUD designed and built WebPM software to track projects using data from our financial databases and other sources. WebPM simplifies comparisons of budgets to completed work and schedules, and provides a warning if trends show future overruns, allowing managers to make needed changes early. The software promotes project completion within budget, potentially savings hundreds of thousands of dollars.

Strategic Purchasing



Using sophisticated purchasing strategies for long-term contracts, EBMUD concentrates on price management and consistent sources. Our approach has inspired other public agencies who are asking us how to utilize our strategy for dealing with their own long-term contracting. This is one factor leading the National Achievement of Excellence in Procurement award – for the seventh consecutive year.

EBMUD's purchase card program is a significant part of EBMUD's purchasing strategy. It allows us to complete high-volume, low-dollar transactions quickly, leaving us time to focus on cost control on high-

volume, high-dollar purchases. The program has helped us reduce outlay for high-cost materials by \$1.2 million annually since 1996. Despite price increases, program administrative costs rose only by 6.25 percent, resulting in annual avoided costs of about \$400,000. In fiscal year 2006, the bank sponsoring our purchase card program reimbursed us \$60,000 for the purchasing volume generated.

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.

CEP

EBMUD has consistently led in promoting diversity and equality in contracting since 1984. Our commitment results in equal opportunities for men and women, small businesses, and all ethnicities, to compete for and receive EBMUD contracts. We continue to identify new firms interested in working with us, and host and participate in training workshops, business development forums and community events to promote diversity in contracting. We added 1,000 new firms to our business database and held our first construction business roundtable to hear first-hand about ways to improve the construction contract process. This year, online registration makes it even easier for vendors to update their contract and work information, so they are less likely to miss a contract opportunity. Recognizing our outstanding commitment to hiring small and minority businesses, this year the Northern California Supplier Development Council inducted EBMUD into its Hall of Fame.

Creative Solutions



EBMUD's long-term plans emphasize diversity. By stretching existing resources and keeping a mix of water supply projects on track, we can provide high-quality water to customers every day, even in droughts or emergencies. EBMUD's projects provide benefits to many communities while minimizing environmental impacts.

The Freeport Regional Water Project, EBMUD's key to meeting dry-year needs, will provide up to 100 million gallons a day (mgd) for EBMUD customers and 85 mgd for future needs in Sacramento County. EBMUD is partnering with Sacramento County Water Agency to build this regional water project near Freeport on the Sacramento River. The Freeport Project will limit potential rationing for EBMUD customers to a maximum 25 percent and reduce economic losses during drought. The project includes a 185 mgd intake and pump station on the Sacramento River and 17 miles of large-diameter pipe extending to the Folsom South Canal. EBMUD's share will flow south down the canal to a 100 mgd pumping plant, then 19 more miles to a second pumping plant near Camanche Reservoir and into the Mokelumne Aqueducts. After environmental review and public comment, design is well underway on the project's nine different facilities. Construction will begin in 2007 – first the intake facility, followed by pipelines and other facilities. The project is scheduled for completion in 2009.

Water recycling is a growing part of EBMUD's water portfolio; EBMUD is committed to supplying recycled water to supplement its potable water supplies. EBMUD is partnering with the Dublin – San Ramon Services District (DSRSD) to develop a joint project to supply recycled water to San Ramon, Blackhawk and Danville.

The Phase I portion of the DSRSD/EBMUD Recycled Water Authority (DERWA) project consists of a maximum 9.7 mgd recycled water treatment facility, two storage reservoirs totaling 9.0 million gallons (mg), two transmission pump stations (3.1 mgd and 7.4 mgd, respectively), and 16 miles of transmission pipelines. The construction of Phase I was completed in January 2006 and the treatment plant started to deliver highly-treated recycled water in February 2006. EBMUD will provide up to 2.4 mgd of recycled water to its customers.

The Phase II portion of the DERWA project started in fall 2006, the project includes a new underground pump station and a 1 mile pipeline. Completion is scheduled in approximately one year.

In June 2005, EBMUD and 12 public agencies interested in Mokelumne River water resources signed a memorandum of understanding to cooperatively manage them by developing supply alternatives that improve water quality and reliability, protect watershed resources and the economic health of the region, and reduce conflicts. Mokelumne River Forum stakeholders envision two-years of outreach to engage other groups and develop solutions. Members are crafting an agreement to define communication rules and are addressing protections for existing water codes. More negotiations are expected, and EBMUD remains committed to the process.

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.

Teamwork helped extend EBMUD's contract for managing biosolids (organic byproducts of the wastewater process) for another five years. This will potentially save EBMUD ratepayers more than \$4.0 million in operating costs over the next several years and ensure use of biosolids in an environmentally beneficial manner – often for soil amendment for non-food crops.

EBMUD implemented a self-service module for employees to check benefits online, thus making benefits administration more efficient. This new system was much needed, but consultant costs of \$750,000 did not fit our budget, so in-house staff streamlined processes, built, tested, and refined the benefits system, and put the software into production. Today, employees, EBMUD, and insurance providers all benefit from full automation of health and

other insurance, deferred compensation and work leaves. Simplifying the benefits process saves money and provides better service.

Strategic Plan

In 2006, EBMUD continued to refine 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.

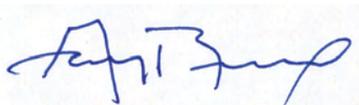
Awards and Acknowledgements

The Government Finance Officers' Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to EBMUD for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2005. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of a state and local government financial report. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. This is EBMUD's first year receiving the Certificate of Achievement. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA.

California Society of Municipal Finance Officers (CSMFO) awarded a Certificate of Award for Outstanding Financial Reporting to EBMUD for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2005. The Certificate of Award is issued in recognition of meeting professional standards and criteria in reporting which reflect a high level of quality in the annual financial statements and in the underlying accounting system from which the reports were prepared. EBMUD is dedicated to excellence in municipal financial management.

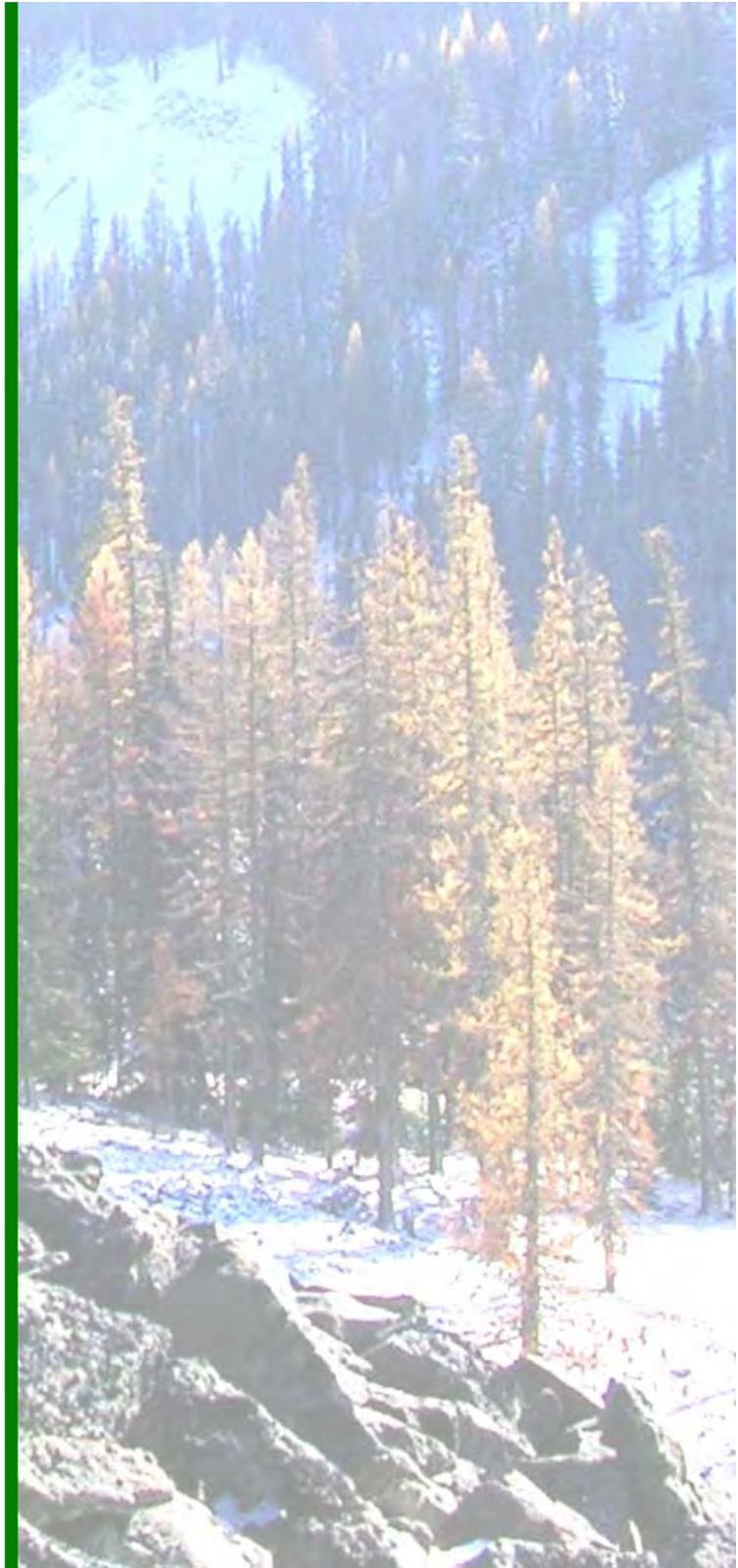
I want to thank the Financial Reporting Section of the Accounting Division and the District's external auditors for completing this report in a timely and comprehensive manner.

Respectfully submitted,



Gary Breaux
Director of Finance





Certificate of Achievement for Excellence in Financial Reporting

Presented to
East Bay Municipal
Utility District
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Carla E. Perry
President

Jeffrey L. Esser
Executive Director

*California Society of
Municipal Finance Officers*

Certificate of Award

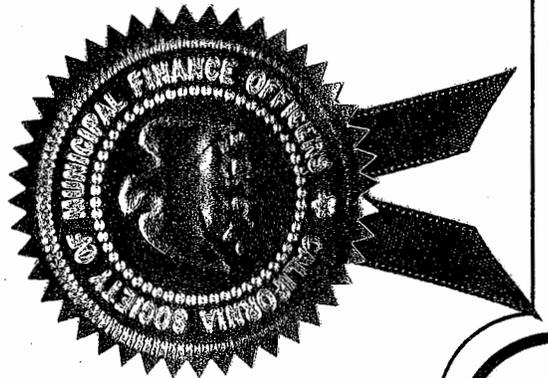
Outstanding Financial Reporting 2004-05

Presented to the

East Bay Municipal Utility District

*This certificate is issued in recognition of meeting professional standards and criteria in reporting
which reflect a high level of quality in the annual financial statements
and in the underlying accounting system from which the reports were prepared.*

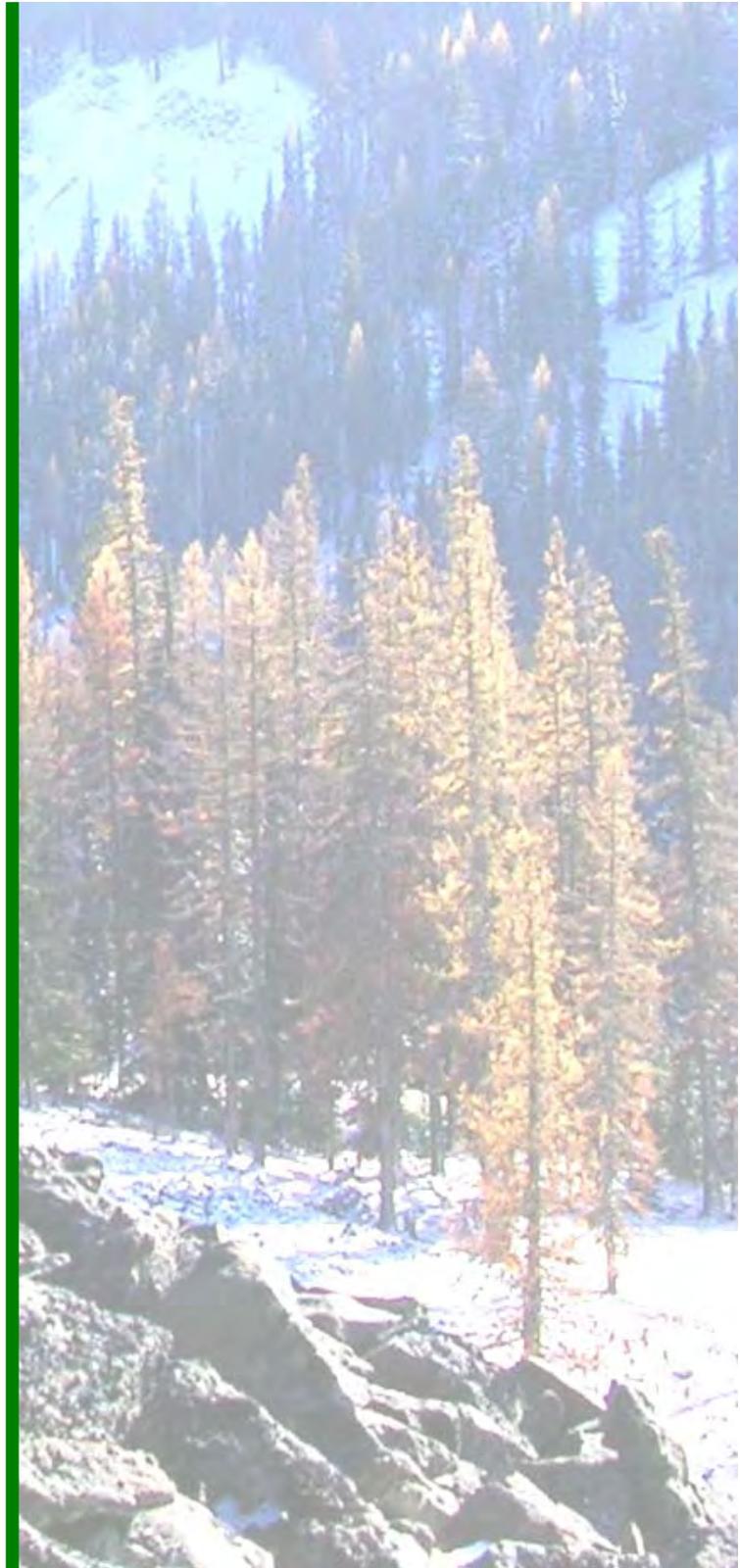
February 24, 2006



William A. Stumpf

Bill Thomas, Chair
Professional & Technical Standards Committee

Dedicated to Excellence in Municipal Financial Management



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 H. 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 A. Linney](#)

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

[Lesia 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 G. 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 W. 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.

Organizational Staffing

East Bay Municipal Utility District

BOARD OF DIRECTORS

William B. Patterson.....	President
Lesa R. McIntosh	Vice President
John A. Coleman.....	Director
Katie H. Foulkes.....	Director
Doug A. Linney.....	Director
Frank G. Mellon.....	Director
David W. Richardson	Director

GENERAL MANAGER..... Dennis M. Diemer

FINANCE DIRECTOR Gary M. Breaux

CONTROLLER D. Scott Klein

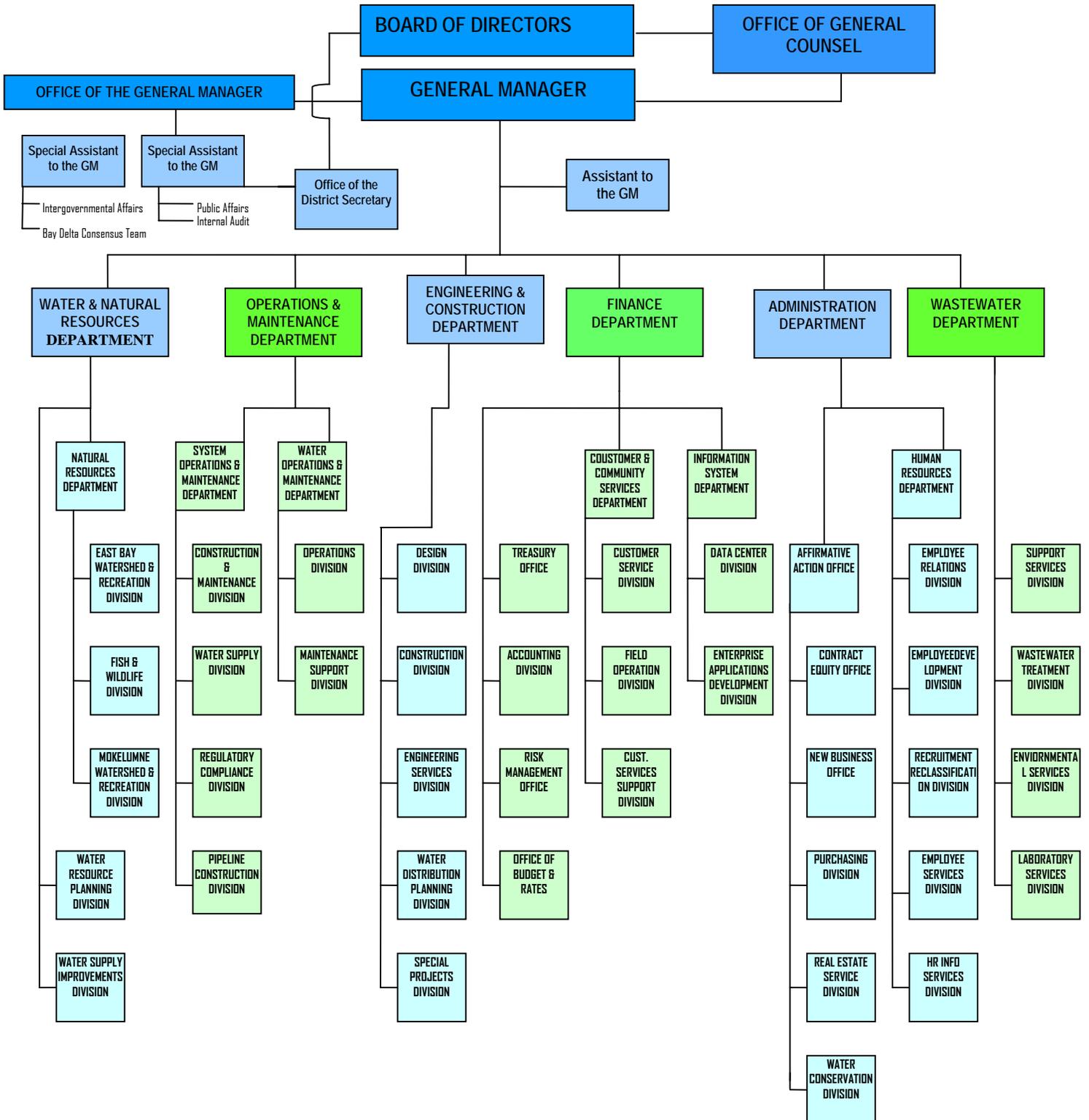
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Bernard Atendido.....	Accountant III
Queenie Chen	Accountant III
Rick Hu	Accountant III
Kirk E. Hutchins.....	Accountant III
Ye (Crystal) Zhang	Accountant II
Tiffany Tran	Accounting Technician
Virginia Wong	Accounting Technician
Patty Seu	Account Clerk II
Anne Y. Subercaseaux.....	Graphic Designer II
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Organization Chart

East Bay Municipal Utility District



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Independent Auditor's Report
Management's Discussion and Analysis
Basic Financial Statements
Required Supplemental Information

EAST BAY MUNICIPAL UTILITY DISTRICT
BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

PREPARED BY THE
FINANCE DEPARTMENT

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**EAST BAY MUNICIPAL UTILITY DISTRICT
BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2006 and 2005**

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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 years ended June 30, 2006 and 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 audits.

We conducted our audits 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 audits 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 audits provide 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, 2006 and 2005 and the respective changes in the financial position and cash flows, where applicable, thereof for the years 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 18, 2006.

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.

August 18, 2006



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EAST BAY MUNICIPAL UTILITY DISTRICT

Management's Discussion and Analysis

June 30, 2006

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 years ended June 30, 2006. 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, 2006

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 37 to 69 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents *certain required supplementary information* concerning the District's progress in funding its obligation to provide pension and other post-employment healthcare benefits to its employees. Such required supplementary information can be found on pages 71-72 of this report.

EAST BAY MUNICIPAL UTILITY DISTRICT

Management's Discussion and Analysis

June 30, 2006

FINANCIAL ANALYSIS

Financial Highlights

- The total assets of the District exceeded the total liabilities by \$1.5 billion (*net assets*).
- Net assets increased by \$51 million or 4% during the fiscal year.
- Capital assets increased by \$160 million or 5% to \$3.2 billion.
- During the year, operating revenue increased by \$14 million or 4% to \$325 million.
- Operating expense increased by \$12 million or 4% to \$296 million.
- Capital contributions, consisting of capital facility fees, increased by \$22 million or 66% from the prior fiscal year.

Financial Position

The District's net assets increased by \$51 million or 4% during the year (*see Table 1 below*). There was a decrease of \$119 million in the level of current and other assets that were used for investment in capital assets. By far the largest portion of the District's net assets (82%) or \$1.2 billion represents its investment in capital assets necessary to provide services. The increase of 4% 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, 2006

Table 1

Net Assets

Water and Wastewater

June 30, 2006 and 2005

(In thousands)

	<u>2006</u>	<u>2005</u>	<u>Variance</u>
Current and other assets	\$ 523,611	642,891	(119,280)
Capital assets	<u>3,181,030</u>	<u>3,021,404</u>	<u>159,626</u>
Total assets	<u>3,704,641</u>	<u>3,664,295</u>	<u>40,346</u>
Current and other liabilities	152,317	155,492	(3,175)
Long-term liabilities	<u>2,060,455</u>	<u>2,068,201</u>	<u>(7,746)</u>
Total liabilities	<u>2,212,772</u>	<u>2,223,693</u>	<u>(10,921)</u>
Net assets:			
Invested in capital assets, net of related debt	1,226,133	1,213,199	12,934
Restricted	119,236	92,119	27,117
Unrestricted	<u>146,500</u>	<u>135,284</u>	<u>11,216</u>
Total net assets	<u>\$ 1,491,869</u>	<u>1,440,602</u>	<u>51,267</u>

EAST BAY MUNICIPAL UTILITY DISTRICT

Management's Discussion and Analysis

June 30, 2006

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, 2006 and 2005
(In thousands)

	<u>2006</u>	<u>2005</u>	<u>Variance</u>	<u>%</u>
Operating Revenues:				
Water	\$ 244,280	235,790	8,490	4%
Sewer	42,581	42,244	337	1%
Power	11,006	7,031	3,975	57%
System capacity charges	13,730	12,840	890	7%
Wet weather facilities charges	13,839	13,900	(61)	(0)%
Total operating revenues	<u>325,436</u>	<u>311,805</u>	<u>13,631</u>	4%
Operating Expenses:				
Raw Water	24,239	23,152	1,087	5%
Water treatment & distribution	75,983	72,749	3,234	4%
Recreation areas, net	8,293	7,825	468	6%
Sewer lines & pumps	11,725	10,678	1,047	10%
Sewer treatment plant operations	22,062	20,853	1,209	6%
Customer accounting & collecting	13,267	12,954	313	2%
Financial risk management	17,491	15,218	2,273	15%
Facilities management	10,923	12,496	(1,573)	(13)%
General administration	34,712	28,904	5,808	20%
Depreciation (excluding amounts reported within the Water and Wastewater operations)	76,894	78,685	(1,791)	(2)%
Total operating expenses	<u>295,589</u>	<u>283,514</u>	<u>12,075</u>	4%
Net operating income	29,847	28,291	1,556	5%
Nonoperating income (expense):				
Investment income	20,482	9,600	10,882	113%
Taxes & subventions	24,466	22,937	1,529	7%
Interest & amortization or bond expenses, net	(88,863)	(84,070)	(4,793)	6%
Other income (expense)	9,343	9,385	(42)	(0)%
Total other expense, net	<u>(34,572)</u>	<u>(42,148)</u>	<u>7,576</u>	(18)%
Income (Loss) before contributions	(4,725)	(13,857)	9,132	(66)%
Capital contributions	55,992	33,693	22,299	66%
Change in net assets	51,267	19,836	31,431	158%
Total net assets – beginning	<u>1,440,602</u>	<u>1,420,766</u>	<u>19,836</u>	1%
Total net assets – ending	<u>\$ 1,491,869</u>	<u>1,440,602</u>	<u>51,267</u>	4%

EAST BAY MUNICIPAL UTILITY DISTRICT

Management's Discussion and Analysis

June 30, 2006

The District's total operating revenue of \$325 million for the year increased by \$14 million and total operating expense increased by \$12 million, providing a 5% increase in net operating income. The District's change in net assets for the year, including capital contributions, increased by \$51 million or 4%. The major components of this increase were:

- Water revenue increased by \$8 million, mainly reflecting the 3.75% rate increase in fiscal year 2006.
- Other revenue increased by \$5 million, primarily reflecting increase in revenue from power generation.
- Operating expense increased by \$12 million, primarily reflecting increases in water treatment, general administration and risk management expense across both water and wastewater systems.
- Nonoperating expense (net of nonoperating revenue) decreased by \$8 million, primarily reflecting an increase in investment income.
- Capital contributions increased by \$22 million primarily reflecting increases in system capacity fees and service installations.

Capital Assets

The District had \$3.2 billion (net of accumulated depreciation) invested in a broad range of utility capital assets as of June 30, 2006. 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 \$160 million or 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, 2006 and 2005

(In thousands)

	Water System		Wastewater System		Districtwide		Increase/(decrease)	
	2006	2005	2006	2005	2006	2005	Amount	%
Structures, buildings, and equipment	\$ 2,303,555	2,180,272	478,696	469,415	2,782,251	2,649,687	132,564	5.0%
Land and rights of way	49,020	48,993	5,587	5,587	54,607	54,580	27	0.0%
Construction work in progress	314,159	295,859	30,013	21,278	344,172	317,137	27,035	8.5%
Totals	<u>\$ 2,666,734</u>	<u>2,525,124</u>	<u>514,296</u>	<u>496,280</u>	<u>3,181,030</u>	<u>3,021,404</u>	<u>159,626</u>	5.3%

EAST BAY MUNICIPAL UTILITY DISTRICT

Management's Discussion and Analysis

June 30, 2006

This year's major capital additions included:

Water

East Bayshore Recycled Water Transmission System	\$	18,463
Pipeline Infrastructure Renewals		15,098
Freeport Regional Water Project		14,993
Claremont Corridor Seismic Improvement Project		14,019
Service Lateral Replacements Polybutylene		13,344
Pipeline System Extensions		12,542
New Service Installations		11,282
Folsom South Canal Connection		10,119
Walnut Creek - San Ramon Valley transmission improvements		8,896
Reservoir Upgrades Seismic Improvement Project		7,958

Wastewater

Digester Upgrade	13,742
Grit System Upgrade	5,963
Adeline Interceptor Relocation	2,965
Primary Sedimentation Tanks Rehabilitation	2,332

Long-Term Debt

As of June 30, 2006, the District had total long-term debt outstanding of \$2.1 billion (net of unamortized costs), decreasing by \$6 million or .3%, as shown in Table 4.

Table 4
Long -Term Debt
(Net of Unamortized Costs)
Water and Wastewater
June 30, 2006 and 2005
(In thousands)

	Water System		Wastewater System		Districtwide		Increase (decrease)	
	2006	2005	2006	2005	2006	2005	Amount	%
General obligation bonds	\$ —	—	36,338	38,252	36,338	38,252	(1,914)	(5.0)%
Revenue bonds	1,516,564	1,540,834	234,345	238,236	1,750,909	1,779,070	(28,161)	(1.6)%
Commercial paper	260,000	230,000	—	—	260,000	230,000	30,000	13.0%
Loans	18,855	20,475	38,540	42,668	57,395	63,143	(5,748)	(9.1)%
	\$ 1,795,419	1,791,309	309,223	319,156	2,104,642	2,110,465	(5,823)	(0.3)%

EAST BAY MUNICIPAL UTILITY DISTRICT

Management’s Discussion and Analysis

June 30, 2006

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.

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, 2006, the District had \$600 million in authorized but unissued revenue bonds (\$450 million Water and \$150 million Wastewater).

Table 5

Debt Ratings

Water and Wastewater

June 30, 2006

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

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, 2006

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.

EAST BAY MUNICIPAL UTILITY DISTRICT
BALANCE SHEETS
PROPRIETARY FUNDS - ENTERPRISE
JUNE 30, 2006 AND 2005
(DOLLARS IN THOUSANDS)

Assets	Water System		Wastewater System		Total	
	2006	2005	2006	2005	2006	2005
Current assets:						
Cash and investments (Note 2)	\$124,870	\$95,883	\$28,113	\$54,726	\$152,983	\$150,609
Receivables:						
Customer	19,390	17,134	3,244	3,231	22,634	20,365
Interest and other	8,226	12,524	1,539	1,761	9,765	14,285
Materials and supplies	9,978	9,506			9,978	9,506
Prepaid insurance	3,039	709	165		3,204	709
Total current assets	165,503	135,756	33,061	59,718	198,564	195,474
Noncurrent assets:						
Restricted cash and investments (Note 2):						
Bond construction fund	149,743	299,743		2,517	149,743	302,260
Bond interest and redemption fund		418	87	337	87	755
Debt service reserve fund	33,793	33,793	3,813	1,300	37,606	35,093
Funds received for construction	91,833	68,585			91,833	68,585
FERC partnership fund	2,280	2,286			2,280	2,286
Monetary reserve	665	619			665	619
Total restricted cash and investments	278,314	405,444	3,900	4,154	282,214	409,598
Unrestricted investments (Note 2):						
Reserve funded CIP	4,069	3,202	12,111	11,773	12,111	11,773
Vehicle/equipment replacement fund			5,815	4,314	9,884	7,516
Total unrestricted cash and investments	4,069	3,202	17,926	16,087	21,995	19,289
Other assets:						
Deferred bond issuance costs	11,560	12,039	2,517	2,607	14,077	14,646
Other	5,753	3,191	1,008	693	6,761	3,884
Total other assets	17,313	15,230	3,525	3,300	20,838	18,530
Capital assets (Note 3):						
Structures, buildings, and equipment	3,221,486	3,037,421	703,555	677,726	3,925,041	3,715,147
Less accumulated depreciation	(917,931)	(857,149)	(224,859)	(208,311)	(1,142,790)	(1,065,460)
Subtotal	2,303,555	2,180,272	478,696	469,415	2,782,251	2,649,687
Land and rights-of-way	49,020	48,993	5,587	5,587	54,607	54,580
Construction in progress	314,159	295,859	30,013	21,278	344,172	317,137
Total capital assets, net	2,666,734	2,525,124	514,296	496,280	3,181,030	3,021,404
Total noncurrent assets	2,966,430	2,949,000	539,647	519,821	3,506,077	3,468,821
Total assets	\$3,131,933	\$3,084,756	\$572,708	\$579,539	\$3,704,641	\$3,664,295

See accompanying notes to basic financial statements

(Continued)

EAST BAY MUNICIPAL UTILITY DISTRICT
BALANCE SHEETS
PROPRIETARY FUNDS - ENTERPRISE
JUNE 30, 2006 AND 2005
(DOLLARS IN THOUSANDS)

	Water System		Wastewater System		Totals	
	2006	2005	2006	2005	2006	2005
Liabilities and Net Assets						
Current liabilities:						
Current maturities of long-term debt and commercial paper (Note 5 and 6)	\$32,420	\$30,976	\$11,767	\$11,288	\$44,187	\$42,264
Accounts payable and accrued expenses (Note 4)	64,620	64,257	12,790	10,936	77,410	75,193
Accrued interest	7,871	6,651	2,031	2,106	9,902	8,757
Total current liabilities	104,911	101,884	26,588	24,330	131,499	126,214
Noncurrent liabilities:						
Advances for construction	13,234	15,219			13,234	15,219
Other liabilities	1,474	7,659	6,110	6,400	7,584	14,059
Total other liabilities	14,708	22,878	6,110	6,400	20,818	29,278
Long-term liabilities, net of current maturities (Note 6)	1,762,999	1,760,333	297,456	307,868	2,060,455	2,068,201
Total noncurrent liabilities	1,777,707	1,783,211	303,566	314,268	2,081,273	2,097,479
Total liabilities	1,882,618	1,885,095	330,154	338,598	2,212,772	2,223,693
Net assets (Note 7):						
Invested in capital assets, net of related debt	1,021,059	1,033,558	205,074	179,641	1,226,133	1,213,199
Restricted for construction	78,599	53,784		185	78,599	53,969
Restricted for debt service	33,793	33,793	3,900	1,452	37,693	35,245
Restricted - other	2,944	2,905			2,944	2,905
Unrestricted	112,920	75,621	33,580	59,663	146,500	135,284
Total net assets	1,249,315	1,199,661	242,554	240,941	1,491,869	1,440,602
Total liabilities and net assets	\$3,131,933	\$3,084,756	\$572,708	\$579,539	\$3,704,641	\$3,664,295

See accompanying notes to basic financial statements

EAST BAY MUNICIPAL UTILITY DISTRICT
 STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
 PROPRIETARY FUNDS - ENTERPRISE
 FOR THE YEARS ENDED JUNE 30, 2006 AND 2005
 (DOLLARS IN THOUSANDS)

	Water System		Wastewater System		Total	
	2006	2005	2006	2005	2006	2005
Operating revenue:						
Water	\$244,280	\$235,790			\$244,280	\$235,790
Sewer			\$42,581	\$42,244	42,581	42,244
Power	11,006	7,031			11,006	7,031
System capacity charges	13,730	12,840			13,730	12,840
Wet weather facilities charges			13,839	13,900	13,839	13,900
Total operating revenue	269,016	255,661	56,420	56,144	325,436	311,805
Operating expense:						
Raw water	24,239	23,152			24,239	23,152
Water treatment and distribution	75,983	72,749			75,983	72,749
Recreation areas, net	8,293	7,825			8,293	7,825
Sewer lines and pumping			11,725	10,678	11,725	10,678
Sewer treatment plant operations			22,062	20,853	22,062	20,853
Customer accounting and collecting	11,670	11,382	1,597	1,572	13,267	12,954
Financial risk management	16,690	14,423	801	795	17,491	15,218
Facilities management	10,923	12,496			10,923	12,496
General administration	30,871	24,402	3,841	4,502	34,712	28,904
Depreciation on utility plant	60,542	62,295	16,352	16,390	76,894	78,685
Total operating expense	239,211	228,724	56,378	54,790	295,589	283,514
Net operating income	29,805	26,937	42	1,354	29,847	28,291
Other income (expense):						
Investment income	18,404	7,657	2,078	1,943	20,482	9,600
Taxes and subventions	19,125	18,267	5,341	4,670	24,466	22,937
Interest and amortization of bond expenses, net of capitalized interest of \$8,111 and \$9,161 for the Water System and \$717 and \$836 for the Wastewater System in 2006 and 2005, respectively	(75,622)	(68,547)	(13,241)	(15,523)	(88,863)	(84,070)
Other income (expense)	4,425	5,437	4,918	3,948	9,343	9,385
Total other expense, net	(33,668)	(37,186)	(904)	(4,962)	(34,572)	(42,148)
Income (loss) before capital contributions	(3,863)	(10,249)	(862)	(3,608)	(4,725)	(13,857)
Capital contributions	53,517	32,022	2,475	1,671	55,992	33,693
Change in net assets	49,654	21,773	1,613	(1,937)	51,267	19,836
Total net assets - beginning	1,199,661	1,177,888	240,941	242,878	1,440,602	1,420,766
Total net assets - ending	\$1,249,315	\$1,199,661	\$242,554	\$240,941	\$1,491,869	\$1,440,602

See accompanying notes to basic financial statements

EAST BAY MUNICIPAL UTILITY DISTRICT
STATEMENTS OF CASH FLOWS
PROPRIETARY FUNDS - ENTERPRISE
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005
(DOLLARS IN THOUSANDS)

	Water System		Wastewater System		Total	
	2006	2005	2006	2005	2006	2005
Cash flows from operating activities						
Cash received from customers	\$266,760	\$258,126	\$56,407	\$56,017	\$323,167	\$314,143
Cash payments for judgments and claims	(1,678)	(4,613)	128	476	(1,550)	(4,137)
Cash payments to suppliers for goods and services	(3,266)	(29,495)	(6,055)	(6,382)	(9,321)	(35,877)
Cash payments to employees for services	(184,911)	(127,736)	(33,015)	(31,470)	(217,926)	(159,206)
Net cash provided by operating activities	76,905	96,282	17,465	18,641	94,370	114,923
Cash flows from noncapital financing activities:						
Tax receipts	19,125	18,267	5,341	4,670	24,466	22,937
Other income	4,425	5,437	4,918	8,072	9,343	13,509
Net cash provided by financing activities	23,550	23,704	10,259	12,742	33,809	36,446
Capital and related financing activities:						
Capital contributions	53,517	32,022	2,475	1,671	55,992	33,693
Proceeds from advances for construction	(1,985)	2,211			(1,985)	2,211
Proceeds from sale of capital assets	1,837	1,256			1,837	1,256
Net proceeds and premiums from sale of bonds		748,936		70,000		818,936
Acquisition and construction of capital assets	(199,879)	(205,601)	(33,013)	(16,533)	(232,892)	(222,134)
Principal retirement on long-term debt and commercial paper		(132,363)	(11,288)	(10,480)	(11,288)	(142,843)
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	(73,923)	(56,146)	(13,226)	(15,394)	(87,149)	(71,540)
Net cash used in capital and related financing activities	(220,433)	62,571	(55,052)	(40,234)	(275,485)	22,337
Cash flows from investing activities:						
Proceeds from (purchases of) restricted securities	127,130	(303,363)	254	(1,483)	127,384	(304,846)
Interest received on investments	22,702	4,654	2,300	2,345	25,002	6,999
Net cash provided by (used in) investing activities	149,832	(298,709)	2,554	862	152,386	(297,847)
Net decrease in cash and cash equivalents	29,854	(116,152)	(24,774)	(7,989)	5,080	(124,141)
Cash and cash equivalents:						
Beginning of year	99,085	215,237	70,813	78,802	169,898	294,039
End of year	\$128,939	\$99,085	\$46,039	\$70,813	\$174,978	\$169,898

(Continued)

See accompanying notes to basic financial statements

EAST BAY MUNICIPAL UTILITY DISTRICT
STATEMENTS OF CASH FLOWS
PROPRIETARY FUNDS - ENTERPRISE
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005
(DOLLARS IN THOUSANDS)

	Water System		Wastewater System		Total	
	2006	2005	2006	2005	2006	2005
Net operating income	\$29,805	\$26,937	\$42	\$1,354	\$29,847	28,291
Adjustments to reconcile net operating income to net cash provided by operating activities:						
Depreciation	46,105	51,530	16,005	16,464	62,110	67,994
Amortization	14,437	12,697	347	(74)	14,784	12,623
Changes in assets/liabilities:						
Materials and supplies	(472)	15			(472)	15
Prepaid insurance	(2,330)	2,327	(165)	191	(2,495)	2,518
Customer receivables	(2,256)	2,465	(13)	(127)	(2,269)	2,338
Other receivables	(2,562)	(518)	(315)	166	(2,877)	(352)
Accounts payable and accrued expenses	(5,822)	829	1,564	667	(4,258)	1,496
Net cash provided by operating activities	\$76,905	\$96,282	\$17,465	\$18,641	\$94,370	\$114,923

Reconciliation of net operating income to net cash provided by operating activities:
Net operating income
Adjustments to reconcile net operating income to net cash provided by operating activities:
 Depreciation
 Amortization
 Changes in assets/liabilities:
 Materials and supplies
 Prepaid insurance
 Customer receivables
 Other receivables
 Accounts payable and accrued expenses

Net cash provided by operating activities

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, 2006 AND 2005
 (DOLLARS IN THOUSANDS)

	2006	2005
Assets:		
Cash and investments (Note 2)	\$12,009	\$8,697
Invested securities lending collateral (Note 1.L.)	78,422	86,367
Receivables:		
Contributions	942	2,398
Interest and other	17,058	8,431
Prepaid insurance	317	274
Retirement system investments, at fair value (Note 2):		
U.S. government obligations	61,784	142,080
Domestic corporate bonds	148,300	59,602
International bonds	4,075	5,049
Domestic stocks	374,007	342,880
International stocks	189,674	153,380
Total assets	886,588	809,158
Liabilities:		
Accounts payable and accrued expenses	339	736
Retirement system liabilities	44,372	27,466
Securities lending collateral (Note 1.L.)	78,422	86,367
Total liabilities	123,133	114,569
Net assets:		
Held in trust for pension benefits	759,754	691,189
Held in trust for post-employment healthcare benefits	3,701	3,400
Total net assets	\$763,455	\$694,589

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)
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005
(DOLLARS IN THOUSANDS)

	2006	2005
Additions:		
Contributions		
Employer	\$35,635	\$32,806
Plan members	9,426	8,509
	45,061	41,315
Investment income (loss):		
Net appreciation in fair value of investments		
Traded securities	55,507	42,695
Interest	8,349	3,188
Dividends	8,370	10,108
Real estate operating (loss), net		(3)
	72,226	55,988
Less:		
Investment expense	(2,092)	(2,406)
Borrowers' rebates and other agent fees on securities lending transactions	(2,907)	(1,730)
	67,227	51,852
Net investment income		
Total additions, net	112,288	93,167
Deductions:		
Benefits paid	42,298	38,066
Refund of contributions	336	307
Administrative expenses	788	843
	43,422	39,216
Total deductions		
Change in net assets (post-employment healthcare benefits of \$785 and \$819, respectively)	68,866	53,951
Net assets:		
Beginning of year	694,589	640,638
End of year	\$763,455	\$694,589

See accompanying notes to basic financial statements

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2006 AND 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 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, 2005.

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

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

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

Additionally, the District reports the following fiduciary fund:

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

EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2006 AND 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 YEARS ENDED JUNE 30, 2006 AND 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 YEARS ENDED JUNE 30, 2006 AND 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 100 years). The aggregate provision for depreciation was 2.13% and 2.18% of the average net book value of capital assets for the years ended June 30, 2006 and 2005, 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 (excluding 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 YEARS ENDED JUNE 30, 2006 AND 2005
(Dollars in Thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)
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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, 2006, 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, 2006, 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 YEARS ENDED JUNE 30, 2006 AND 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, 2006, 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, 2006, the fair value of securities on loan was \$78,422. The total cash and non-cash collateral held by the System's custodian to secure these securities on loan was valued at \$79,703, consisting of \$77,016 cash collateral and \$2,687 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 current liability in the period earned. Amounts payable as of June 30 are included on the balance sheet in accounts payable and accrued expenses.

The changes in compensated absences were as follows:

Beginning Balance	\$22,082
Additions	26,936
Payments	<u>(26,001)</u>
Ending Balance	<u><u>\$23,017</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 YEARS ENDED JUNE 30, 2006 AND 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. Classification Changes

For the year ended June 30, 2006, certain account classifications have been changed to improve financial statement presentation. For comparative purposes, prior year balances have been reclassified to conform with the June 30, 2006 presentation.

NOTE 2 - CASH AND INVESTMENTS

A. Classification

Reconciliations of cash and investments reported on the financial statements as of June 30, 2006 and 2005 are as follows:

	2006	2005
District Enterprise Funds:		
Cash and investments included in current assets	\$152,983	\$150,609
Cash and investments included in restricted assets	282,214	409,598
Cash and investments included in unrestricted assets	21,995	19,289
Total District cash and investments	457,192	579,496
Less investments with original maturities in excess of three months	(282,214)	(409,598)
District cash and cash equivalents	\$174,978	\$169,898
 System Pension Trust Funds:		
Cash and investments	\$12,009	\$8,697
Invested securities lending collateral	78,422	86,367
Retirement system investments	777,840	702,991
Total System cash and investments	\$868,271	\$798,055

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2006 AND 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.

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum in Portfolio	Maximum Investment In One Issuer
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 YEARS ENDED JUNE 30, 2006 AND 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 YEARS ENDED JUNE 30, 2006 AND 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. Allocations 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	25%
Domestic Equity	50%
International Equity	20%
Real Estate	5%
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 45% in large cap market related growth and value (average risk) securities, (5%) in small capitalization securities, and (20%) 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 YEARS ENDED JUNE 30, 2006 AND 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
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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	\$120,707	\$7,366	\$128,073
Callable	66,603		66,603
Corporate Securities	12,624	28,874	41,498
Guaranteed Investment Contracts	184,836		184,836
Demand Deposits and Certificate of Deposit	795		795
Mutual Funds (U.S. Securities)	23,700		23,700
California Local Agency Investment Fund	3,351		3,351
Total Investments	\$412,616	\$36,240	448,856
<i>Cash in banks</i>			8,336
Total District Cash and Investments			\$457,192

EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
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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	Less than 12 Months	12 to 72 Months	72 to 120 Months	More than 120 Months	Maturity not Determined	Total
Asset Backed Securities		\$648	\$81	\$6,636		\$7,365
Equity Securities	\$557,953					\$557,953
Commercial Mortgage - Backed			66	2,090		\$2,156
Commercial Paper	\$128					\$128
Corporate Bonds	1,609	11,145	6,023	10,122	\$10,610	39,509
Corporate Convertible Bonds				11		11
Government Agencies	227	4,104	1,596	1,100		7,027
Government Bonds	199	3,096	919	3,367		7,581
Government Mortgage Backed Securities			160	16,743	26,982	43,885
Index Linked Government Bonds			2,192	2,450		4,642
Treasury Security Derivative Futures	647					647
Short Term Bills and Notes	227					227
Short Term Investment Funds					5,161	5,161
Mutual Funds				19,536	82,012	101,548
Total Investments	<u>\$560,990</u>	<u>\$18,993</u>	<u>\$11,037</u>	<u>\$62,055</u>	<u>\$124,765</u>	<u>\$777,840</u>

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, 2006, these investments matured in an average of 152 days.

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

Highly Sensitive Investments	Fair Value at Year End
Commercial Mortgage - Backed Securities	\$2,156
Government Mortgage - Backed Securities	43,885

EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
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(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, 2006, for each investment type as provided by Moody's.

District Enterprise Funds:

Investment Type	Aaa	Aa2	A1	A3	Total
U.S. Government-Sponsored					
Enterprise Agencies					
Non-Callable	\$128,073				\$128,073
Callable	66,603				66,603
Corporate Securities	6,889	\$2,007	\$28,874	\$3,728	41,498
Demand Deposits and Certificate of Deposit	795				795
Mutual Funds (U.S. Securities)	23,700				23,700
Totals	<u>\$226,060</u>	<u>\$2,007</u>	<u>\$28,874</u>	<u>\$3,728</u>	260,669
<i>Not rated:</i>					
Guaranteed Investment Contracts					184,836
California Local Agency Investment Fund					3,351
Cash in Banks					<u>8,336</u>
 Total District Cash and Investments					 <u>\$457,192</u>

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

System Pension Trust Fund:

Investment Type	Aaa	Aa	A	Baa	Ba	B	Caa	Ca	U.S. Government Guaranteed	Not Rated	Total
Asset Backed Securities	\$4,758	\$402		\$495	\$142	\$201	\$117	\$150		\$1,101	\$7,366
Equity Securities										557,953	557,953
Commercial Mortgage - Backed	2,028									128	2,156
Commercial Paper										128	128
Corporate Bonds	919	3,340	\$3,114	7,931	6,796	2,870	732	11		13,797	39,510
Corporate Convertible Bonds											
Government Agencies	6,346	97				11			\$583		7,037
Government Bonds	6,107			1,274						199	7,580
Government Mortgage Backed Securities									43,885		43,885
Index Linked Government Bonds	4,642										4,642
Treasury Security Derivative Futures										647	647
Short Term Bills and Notes									227		227
Short Term Investment Funds										5,161	5,161
Mutual Funds	17,395									84,153	101,548
Total Investments	\$42,195	\$3,839	\$3,114	\$9,700	\$6,949	\$3,071	\$849	\$161	\$44,695	\$663,267	\$777,840

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
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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	\$34,795
	FHLMC	Federal Agency Securities	29,614
	FHLB	Federal Agency Securities	130,267
	FSA	Guaranteed Investment Contracts	172,318
Major Funds:			
Water System			
	FHLB	Federal Agency Securities	107,549
	FNMA	Federal Agency Securities	24,874
	FHLMC	Federal Agency Securities	21,724
	FSA	Guaranteed Investment Contracts	171,018
Wastewater System			
	FHLB	Federal Agency Securities	22,718
	FHLMC	Federal Agency Securities	7,890
	FNMA	Federal Agency Securities	9,921

Significant System Pension Trust Fund investments are:

<u>Nature of investment</u>	<u>2006</u>
Northern Trust Collective Daily Aggregate Bond Index Fund	\$82,012
Northern Trust Collective Daily Russell 1000 Equity Index Fund	121,157
Northern Trust Collective Daily Standard & Poor's Midcap 400 Equity Index Fund	
Templeton Institutional Funds, Inc. Foreign Equity Series	95,502

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
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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, 2006:

<u>Foreign Currency</u>	<u>Equity Securities Investment Type</u>
Japanese Yen	\$29,616
Euro	18,509
British Pound Sterling	9,516
Australian Dollar	5,557
Swiss Franc	4,074
Norwegian Krone	3,626
Canadian Dollar	2,631
Swedish Krona	2,231
Hong Kong Dollar	1,418
Danish Krone	981
South African Rand	694
Mexican Peso	<u>294</u>
Total	<u><u>\$79,147</u></u>

The Fund's investment policy permits it to invest up to 17% of total investment on foreign currency-denominated investments. The Fund's current position is 10%

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.

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

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, 2006 and 2005, the System's brokers/dealers held \$281 and \$709, respectively, in cash and US government bonds exposed to custodial credit risk.

NOTE 3 – CAPITAL ASSETS

A. Summary

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

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

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

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

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

EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
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(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, 2006, was as follows:

	Balance at June 30, 2005	Additions and Transfers, net	Retirements and Transfers, net	Balance at June 30, 2006
Water System:				
Capital assets, not being depreciated:				
Land and rights-of-way	\$48,993	\$27		\$49,020
Construction in progress	295,859	221,825	(\$203,525)	314,159
Total capital assets, not being depreciated	344,852	221,852	(203,525)	363,179
Capital assets, being depreciated:				
Buildings and improvements	170,979	2,139		173,118
System and improvements	2,780,679	196,485	(16,489)	2,960,675
Machinery and equipment	85,763	5,118	(3,188)	87,693
Total capital assets, being depreciated:	3,037,421	203,742	(19,677)	3,221,486
Less accumulated depreciation for:				
Buildings and improvements	(49,497)	(4,288)		(53,785)
System and improvements	(745,184)	(56,785)	1,683	(800,286)
Machinery and equipment	(62,468)	(4,090)	2,698	(63,860)
Total accumulated depreciation	(857,149)	(65,163)	4,381	(917,931)
Total capital assets, being depreciated, net	2,180,272	138,579	(15,296)	2,303,555
Water System capital assets, net	<u>\$2,525,124</u>	<u>\$360,431</u>	<u>(\$218,821)</u>	<u>\$2,666,734</u>
Wastewater System:				
Capital assets, not being depreciated:				
Land and rights-of-way	\$5,587			\$5,587
Construction in progress	21,278	\$35,384	(\$26,649)	30,013
Total capital assets, not being depreciated	26,865	35,384	(26,649)	35,600
Capital assets, being depreciated:				
Buildings and improvements	67,688	1,087		68,775
System and improvements	602,644	25,406	(674)	627,376
Machinery and equipment	7,394	10		7,404
Total capital assets, being depreciated	677,726	26,503	(674)	703,555
Less accumulated depreciation for:				
Buildings and improvements	(18,478)	(1,695)		(20,173)
System and improvements	(183,310)	(14,610)		(197,920)
Machinery and equipment	(6,523)	(243)		(6,766)
Total accumulated depreciation	(208,311)	(16,548)		(224,859)
Total capital assets, being depreciated, net	469,415	9,955	(674)	478,696
Wastewater System capital assets, net	<u>\$496,280</u>	<u>\$45,339</u>	<u>(\$27,323)</u>	<u>\$514,296</u>
Business-type activities capital assets, net	<u>\$3,021,404</u>	<u>\$405,770</u>	<u>(\$246,144)</u>	<u>\$3,181,030</u>

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005
(Dollars in Thousands)**

NOTE 3 – CAPITAL ASSETS (Continued)

C. Construction in Progress

Construction in Progress in fiscal 2005-2006 comprises:

	Expended to Date
<i>Water System:</i>	
Walnut Creek and San Ramon Valley Transmission Improvements	\$50,657
Service Lateral Replacement Polybutylene	50,028
Claremont Corridor Seismic Improvement Project	38,717
East Bayshore	20,857
Freeport Regional Water Project	20,477
Pipeline Infrastructure Renewals	11,851
Folsom South Canal Connection	11,578
EBMUD Hayward SF Intertie Project	10,513
WCWTP Long Term Capacity Upgrade	9,315
Raw Water Aqueduct Improvement	8,199
Bayside Groundwater Projects	7,582
Treatment Plant Upgrades	6,728
Upcountry Waste Water Treatment Improvements	6,640
Reservoir Rehab/Maintenance	5,503
Lamorinda Water System Improvement	5,101
Southern Loop Enhancement	5,100
Other Construction Projects	45,313
Total	\$314,159
<i>Wastewater System:</i>	
Digester Upgrade	\$13,836
Main Wastewater Treatment Plant Master Plan	1,743
Treatment Plant Infrastructure Upgrades	1,728
Centrifuge Replacement	1,610
Routine Capital Equipment Replacement	1,446
NPDES Compliance	1,250
Grit System Upgrade	1,163
Adeline Interceptor Relocation	971
Wet Weather Master Plan Update	899
Primary Sedimentation Tanks Rehabilitation	874
Secondary Process Enhancement	750
Order Control Improvements	714
Other Construction Projects	3,029
Total	30,013
Total Construction in Progress	\$344,172

At June 30, 2006, the District's remaining current major project commitments are estimated to be \$397,554 for the Water System and \$44,068 for the Wastewater System.

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005
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NOTE 4 – ACCOUNTS PAYABLE & ACCRUED EXPENSES

Accounts payable and accrued expenses at June 30, 2006 and 2005 consist of:

	Water System		Wastewater System		Total	
	2006	2005	2006	2005	2006	2005
Accounts payable	\$13,611	\$5,780	\$5,135	\$3,059	\$18,746	\$8,839
Accrued salaries	2,020	4,579	361	752	2,381	5,331
Workers' compensation reserves	13,336	13,494	2,509	2,381	15,845	15,875
General liability reserves	4,714	6,234			4,714	6,234
Accrued compensated absences	19,615	18,983	3,403	3,100	23,018	22,083
Other	11,324	15,187	1,382	1,644	12,706	16,831
Total	<u>\$64,620</u>	<u>\$64,257</u>	<u>\$12,790</u>	<u>\$10,936</u>	<u>\$77,410</u>	<u>\$75,193</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, 2006 and 2005, \$260,000 and \$230,000 in commercial paper notes were outstanding under this program, with terms of 20 to 154 days and interest rates ranging from 3.30% to 3.72% as of June 30, 2006, and terms of 8 to 50 days and interest rates ranging from 2.37% to 2.67% as of June 30, 2005. There were no unused proceeds as of June 30, 2006. 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, 2006 and 2005. Effective August 1, 2003, the agreement was extended to August 1, 2008, in the amount of \$330,000.

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

A. Composition and Changes

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

	Original Issue Amount	Balance June 30, 2005	Retirements	Balance June 30, 2006	Amount due within one year
Water System Revenue Bonds:					
Subordinated Series 1993					
5.00%, due 6/1/06	\$222,530	\$19,135	\$19,135		
Subordinated Series 1996					
3.75 - 6.00%, due 6/1/26	290,475	154,090	2,440	\$151,650	\$2,590
Subordinated Series 1998					
4.00 - 5.25%, due 6/1/38	300,000	73,365	3,865	69,500	4,030
Subordinated Series 2001					
3.60-5.25%, due 6/1/26	250,000	250,000	2,280	247,720	2,365
Subordinated Series 2002					
3.875% variable rate, due 6/1/25	241,850	231,650	330	231,320	440
Subordinated Series 2003					
2.00 - 5.00%, due 6/1/21	115,730	114,800	80	114,720	20,080
Subordinated Series 2005 A					
5.00%, due 6/1/35	300,000	300,000		300,000	
Subordinated Series 2005 B					
3.887% variable rate, due 6/1/38	325,000	325,000	1,225	323,775	1,250
Subordinated Series 2005 C					
3.710% auction rate, due 6/1/35	100,000	100,000		100,000	
Wastewater System General Obligation Bonds:					
Series F					
2.5 % - 5.00%, due 4/1/18	41,730	38,475	1,970	36,505	2,100
Wastewater System Revenue Bonds					
Subordinated Series 1996					
3.75 % - 6.00%, due 6/1/26	91,410	46,210	1,650	44,560	1,745
Subordinated Series 1998					
4.00-5.25%, due 6/1/38	50,000	12,170	640	11,530	670
Subordinated Series 2003A					
3.650% auction rate, due 6/1/33	50,000	50,000		50,000	
Subordinated Series 2003B					
3.900% variable rate, due 6/1/27	75,050	70,490	2,550	67,940	2,640
Subordinated Series 2005					
3.880%, variable rate, due 6/1/38	70,000	70,000	350	69,650	350
Total long-term bonds		<u>1,855,385</u>	<u>36,515</u>	<u>1,818,870</u>	<u>38,260</u>

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005
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NOTE 6 - LONG TERM DEBT (Continued)

	Original Issue Amount	Balance June 30, 2005	Retirements	Balance June 30, 2006	Amount due within one year
<i>Water Loans:</i>					
1977 Federal Drought Loan					
5.00%, due 9/1/17	\$5,973	\$1,851	\$142	\$1,709	\$142
2003 California Energy Commission					
3.00%, due 6/22/13	1,992	1,648	185	1,463	191
2004 Upper San Leandro Reservoir Project					
2.51%, due 1/1/24	2,188	2,060	89	1,971	91
<i>State Water Resources Control Board</i>					
1989 Galbraith Golf Course Project					
4.01%, due 2/28/09	122	34	8	26	8
1992 Alameda Reclamation Project					
3.20%, due 4/30/11	1,359	542	78	464	80
1993 Chevron Water Reclamation Project					
3.00%, due 8/8/15	22,292	14,342	1,120	13,222	1,153
<i>Wastewater Loans:</i>					
<i>State Water Resources Control Board</i>					
1989 Oakport Project					
4.01%, due 12/14/10	2,495	874	142	732	147
1991 Adeline Street Project					
3.50%, due 10/1/10	8,141	3,018	461	2,557	477
1991 South Foothill Project					
3.50%, due 10/1/10	14,293	5,295	808	4,487	837
1992 Point Isabel Wet Weather Project					
3.10%, due 10/2/13	21,515	11,693	1,146	10,547	1,182
1994 North Interceptor Project					
2.90%, due 12/31/14	10,091	5,873	515	5,358	530
1995 San Antonio Creek Project					
3.40%, due 11/30/16	15,331	10,693	737	9,956	762
1997 Pump Station C Project					
2.80%, due 1/31/17	3,849	2,782	180	2,602	185
2000 Pump Station B Project					
2.20%, due 2/1/09	3,088	2,440	139	2,301	142
Total long-term loans		<u>63,145</u>	<u>5,750</u>	<u>57,395</u>	<u>5,927</u>
Amount due within one year		(42,264)	(1,923)	(44,187)	
Less: Unamortized discount and issuance costs		<u>(38,065)</u>	<u>6,442</u>	<u>(31,623)</u>	
Total long-term liabilities, net		<u>\$1,838,201</u>	<u>\$46,784</u>	<u>\$1,800,455</u>	<u>\$44,187</u>

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

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

General obligation and revenue bonds are generally callable at future dates. The general obligation bonds are 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.

At June 30, 2006, the District had \$600,000 in authorized but unissued revenue bonds (\$450,000 Water and \$150,000 Wastewater).

C. Debt Service Requirements

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

For the Year Ending June 30	Water System		Wastewater System		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$32,420	\$69,254	\$11,767	\$12,595	\$44,187	\$81,849
2008	33,661	67,948	12,277	12,163	45,938	80,111
2009	36,193	65,854	12,835	11,740	49,028	77,594
2010	37,719	64,358	14,596	11,212	52,315	75,570
2011	39,327	62,779	15,151	10,688	54,478	73,467
2012-2016	224,584	288,592	73,303	45,361	297,887	333,953
2017-2021	282,866	226,965	58,285	31,284	341,151	258,249
2022-2026	322,570	155,555	39,630	18,312	362,200	173,867
2027-2031	256,935	95,538	46,830	11,189	303,765	106,727
2032-2036	262,266	32,107	27,975	2,988	290,241	35,095
2037-2040	29,000	573	6,075	145	35,075	718
Totals	<u>\$1,557,541</u>	<u>\$1,129,523</u>	<u>\$318,724</u>	<u>\$167,677</u>	<u>\$1,876,265</u>	<u>\$1,297,200</u>

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005
(Dollars in Thousands)**

NOTE 6 – LONG-TERM DEBT (Continued)

Interest payments on auction rate debt were calculated using the rate in effect at June 30, 2006. Interest payments on debt subject to swap agreements were calculated using the variable rates at June 30, 2006.

D. Prior-Year Defeasances

In prior years, the District defeased certain debt issues by placing proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the defeased debt are not included in the District's financial statements. On June 30, 2006, \$258,000 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.

<u>Issue</u>	<u>Standby Purchase Agreement Terms</u>		
	<u>Expiration Date</u>	<u>Interest Rate</u>	<u>Interest Rate Swap</u>
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 YEARS ENDED JUNE 30, 2006 AND 2005
(Dollars in Thousands)**

NOTE 6 – LONG-TERM DEBT (Continued)

F. Interest Rate Swap Agreements

The District has entered into a number of matched interest rate swap contracts with providers in which the District contracted to pay a fixed rate on the nominal amount of outstanding Bonds, in exchange for a floating rate payment, set monthly, two business days prior to the end of each month. The combination of variable rate bonds and a floating swap creates synthetic fixed-rate debt for the District. The transactions allow the District to create a synthetic fixed rate on the Bonds, protecting the District against increases in short-term interest rates. The terms, fair value, and credit risk of each of the swap agreements are disclosed below.

Term and credit risks. The terms and credit ratings of the outstanding swaps, as of June 30, 2006, are included below. The District's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to follow scheduled reductions in the associated bonds.

Related Bond Issue	Notional Amount (thousands)	Effective Date	Counterparty	Credit Ratings	Issuer Pays	Issuer Receives	Maturity/ Termination Date
2002 Water System Refunding Bonds	\$154,215	3/6/2002	Salomon Brothers Holding Company	Aa1	3.835%	65% of 30-day LIBOR	6/1/2025
2002 Water System Refunding Bonds	77,105	3/6/2002	Bear Stearns Capital Markets	A1	3.835%	65% of 30-day LIBOR	6/1/2025
2005 B Water System Refunding Bonds	49,815	6/2/2005	SBS Financial Products Company	Aaa (A)	3.115%	62.3% of 30-day LIBOR	6/1/2038
2005 B Water System Refunding Bonds	114,565	6/2/2005	Merrill Lynch Capital Services	Aaa (A)	3.115%	62.3% of 30-day LIBOR	6/1/2038
2005 B Water System Refunding Bonds	44,830	6/2/2005	Lehman Brothers Special Financing	Aaa (A)	3.115%	62.3% of 30-day LIBOR	6/1/2038
2005 B Water System Refunding Bonds	114,565	6/2/2005	Bear Stearns Capital Markets	Aaa (A)	3.115%	62.3% of 30-day LIBOR	6/1/2038
2003B Wastewater System Refunding Bonds	33,970	3/5/2003	Salomon Brothers Holding Company	Aa1	3.468%	65% of 30-day LIBOR	6/1/2027
2003B Wastewater System Refunding Bonds	33,970	3/5/2003	Bear Stearns Capital Markets	A1	3.468%	65% of 30-day LIBOR	6/1/2027
2005 Wastewater System Refunding Bonds	<u>69,650</u>	6/2/2005	Lehman Brothers Special Financing	Aaa (A)	3.0975%	62.3% of 30-day LIBOR	6/1/2038
	<u><u>\$692,685</u></u>						

(A) The swap agreements on the 2005B Water System Refunding and 2005 Wastewater Revenue Bonds are secured by insurance purchased; thus, they are rated Aaa.

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005
(Dollars in Thousands)**

NOTE 6 – LONG-TERM DEBT (Continued)

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

Fair value. The fair value of the swaps takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction and any upfront payments that may have been received. The fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the LIBOR swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps. The fair values of each swap at June 30, 2006, are included below:

Related Bond Issue	Fair Value (thousands)
2002 Water System Refunding Bonds	(\$3,466)
2005B Water System Refunding Bonds	17,037
2003B Wastewater System Refunding Bonds	1,058
2005 Wastewater System Refunding Bonds	3,467
	\$18,096

Credit risk. As of June 30, 2006, the District was exposed to credit risk on its outstanding swaps because the swaps had a positive fair value of \$18,096. The District faced a maximum possible loss equivalent to the swaps' fair value. This amount may increase if interest rates increase in the future. However, if interest rates decline and the fair value of the swaps were to become negative, the District would no longer be exposed to credit risk.

The District will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated. The swap agreements contain provisions determining if and when the District or the counterparty must provide collateral. The agreements require full collateralization of the fair value of the swap should the counterparty's credit rating fall below a certain threshold. At June 30, 2006, neither the District or the counterparty were required to provide collateral.

Basis risk. Basis risk is the risk that the interest rate paid by the District on underlying variable rate bonds to bondholders temporarily differs from the variable swap rate received from the applicable counterparty. The District bears basis risk on its swaps. The swaps have basis risk since the District receives a percentage of LIBOR to offset the actual variable bond rate the District pays on its bonds. The District is exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate the District pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost of the basis risk may vary.

EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005
(Dollars in Thousands)

NOTE 6 – LONG-TERM DEBT (Continued)

Termination risk. The District or the counterparty may terminate if the other party fails to perform under the terms of the respective 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. If at the time of termination the swap has a negative fair value, the District would be liable to the counterparty for a payment equal to the swap's fair value.

Swap payments and associated debt. Using rates as of June 30, 2006, debt service requirements of the District's outstanding variable-rate debt and net swap payments are as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary. These payments below are included in the Debt Service Requirements at C. above:

For the Year Ending June 30	Variable-Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest	Interest	
2007	\$4,680	\$26,718	\$909	\$27,627
2008	4,850	26,530	904	27,434
2009	22,880	25,642	805	26,447
2010	25,085	24,670	703	25,373
2011	26,130	23,656	598	24,254
2012-2016	58,435	110,289	2,419	112,708
2017-2021	141,920	91,789	1,864	93,653
2022-2026	229,625	51,147	(37)	51,110
2027-2031	68,805	26,537	(623)	25,914
2032-2036	75,200	12,855	(306)	12,549
2037-2040	35,075	718	(18)	700
Totals	<u>\$692,685</u>	<u>\$420,551</u>	<u>\$7,218</u>	<u>\$427,769</u>

EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2006 AND 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 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.

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2006 AND 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, 2006, there were 1,105 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 \$5,026 in the year ended June 30, 2006. 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 23.53% of covered payroll, increasing to 25.38% effective July 1, 2005, inclusive of post-employment health care benefits.

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005
(Dollars in Thousands)**

NOTE 8 – EMPLOYEES’ RETIREMENT PLAN (Continued)

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

Valuation date	June 30, 2005
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%

Contributions for the year ended June 30, 2006, 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	\$30,377	\$5,258	\$35,635
Member contributions	7,942	1,373	9,315
	38,319	6,631	44,950
Other contributions:			
Member buybacks	94	17	111
	\$38,413	\$6,648	\$45,061

Regular District and member contributions in fiscal 2006 represent an aggregate of 25.38% and 6.64% of covered payroll, respectively. The payroll for the District employees covered by the Plan for the year ended June 30, 2006, was \$140,371, which was 89.94% of the total District payroll of \$156,077. The total District contribution of \$35,635 consisted of \$16,499 for normal cost and \$19,136 for amortization of the unfunded actuarial accrued liability. 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.

**EAST BAY MUNICIPAL UTILITY DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEARS ENDED JUNE 30, 2006 AND 2005
 (Dollars in Thousands)**

NOTE 8 – EMPLOYEES’ RETIREMENT PLAN (Continued)

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:		
2004	\$27,831	100%
2005	32,806	100%
2006	35,635	100%

The annual required contributions for fiscal years ended June 30, 2006 and 2005, include amounts for the pay-as-you-go amounts for post-employment healthcare benefits.

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, 2006, the District paid \$1,770 for current year coverage.

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

Selected other coverages are:

Coverage	Policy limit	Self-insured retention
Workers' compensation	Statutory Limit	\$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

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005
(Dollars in Thousands)**

NOTE 9 – RISK MANAGEMENT (Continued)

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, 2006, the amount of these liabilities was \$20,559 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:

	2006	2005
Liability at beginning of year	\$22,109	\$20,233
Current year claims and changes in estimates	7,408	7,886
Payments of claims	<u>(8,958)</u>	<u>(6,010)</u>
Liability at end of year	<u><u>\$20,559</u></u>	<u><u>\$22,109</u></u>

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.

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EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2006
(Dollars in thousands)

(1) Pension Plan

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

Actuarial valuation date	Actuarial value of assets (a)	Accrued liability (AAL) – entry age (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	Percentage of covered payroll ((b-a)/c)
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%
06/30/05	692,945	945,616	253,671	73.3%	139,514	181.8%

Unaudited

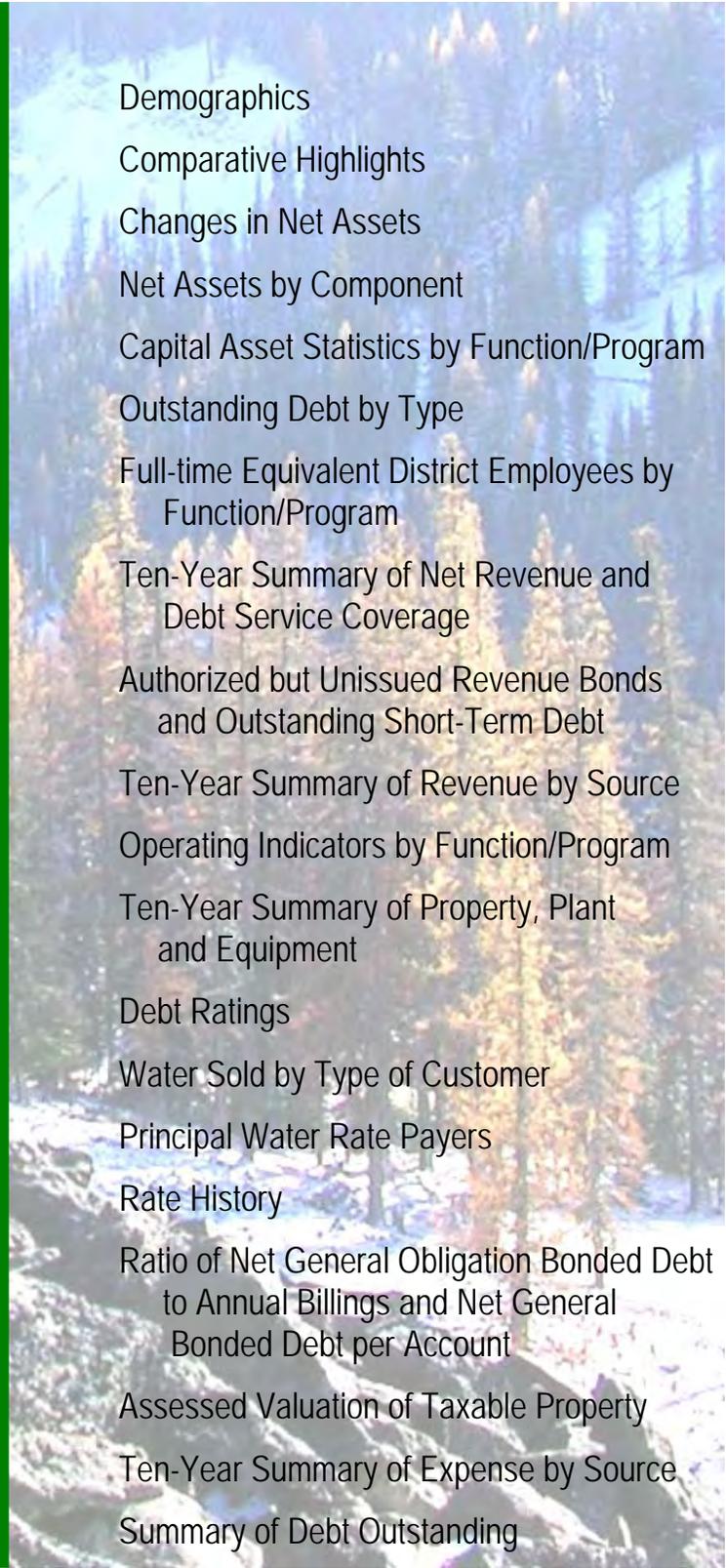
EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2006
(Dollars in thousands)

(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%
6/30/2005	3,409	71,892	68,483	4.7%	139,514	49.1%

Unaudited.



Demographics

Comparative Highlights

Changes in Net Assets

Net Assets by Component

Capital Asset Statistics by Function/Program

Outstanding Debt by Type

Full-time Equivalent District Employees by Function/Program

Ten-Year Summary of Net Revenue and Debt Service Coverage

Authorized but Unissued Revenue Bonds and Outstanding Short-Term Debt

Ten-Year Summary of Revenue by Source

Operating Indicators by Function/Program

Ten-Year Summary of Property, Plant and Equipment

Debt Ratings

Water Sold by Type of Customer

Principal Water Rate Payers

Rate History

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

Assessed Valuation of Taxable Property

Ten-Year Summary of Expense by Source

Summary of Debt Outstanding

Table 1
Demographics

Fiscal Year 2006

		<u>Water System</u>	<u>Wastewater System</u>
Established		1928	1944
Service Area	(square miles)	325	83
Population Served	(in thousands)	1,300	642
Unemployment Rate	(Alameda County - %)	4.8	4.8
Facilities:			
Miles of aqueducts		91.5	
Miles of pipeline		4,085	
Miles of tunnels		23.6	
Miles of interceptors			29
Number of treatment plants		13	
Number of pumping stations		142	24
Number of treated water reservoirs		175	
Number of reservoirs		187	
Total District reservoir capacity	(acre feet)	769,270	
Water demand per fiscal year			
District-provided water	(acre feet)	236,850	
Water recycling per day	(in million gallons)		8
Wastewater treatment capacity			
Primary treatment			320
Secondary treatment			168
Energy Recovery	(%)		92
Number of employees		1,646	262
Average years of service of employees		12.9	14.1

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

Table 2
Comparative Highlights

Fiscal Years 2006 and 2005

Water System	2006	2005
During the Year:		
Total Water Consumption, millions of gallons	77,178	74,666
Average Daily Water Consumption, MGD*	211	205
Maximum Daily Water Consumption, MGD	311	310
Minimum Daily Water Consumption, MGD	131	139
At Year End:		
Number of Accounts	379,827	378,547
Number of Employees	1,646	1,622
Miles of Water Distribution Pipe	4,085	4,065
Operating Distribution Storage Capacity, millions of gallons	833	832
Wastewater System		
During the Year:		
Average Daily Wastewater Flow, MGD	82	76
At Year End:		
Number of Accounts	177,366	177,087
Number of Employees	262	278

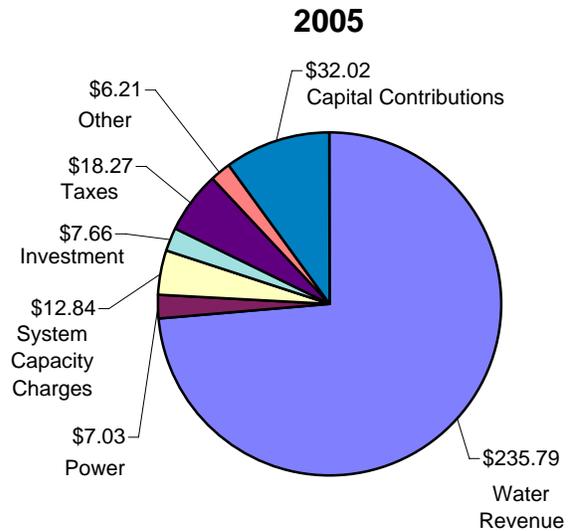
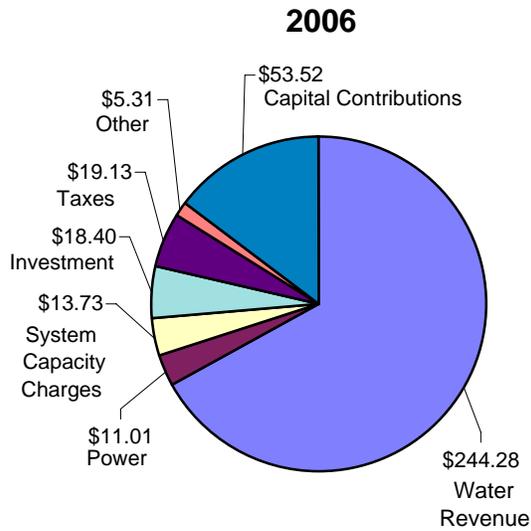
*=millions of gallons per day

Table 2
Comparative Highlights (Continued)

Fiscal Year 2006 and 2005

Water System

What We Received:
(In Millions)



How It Was Used:
(In Millions)

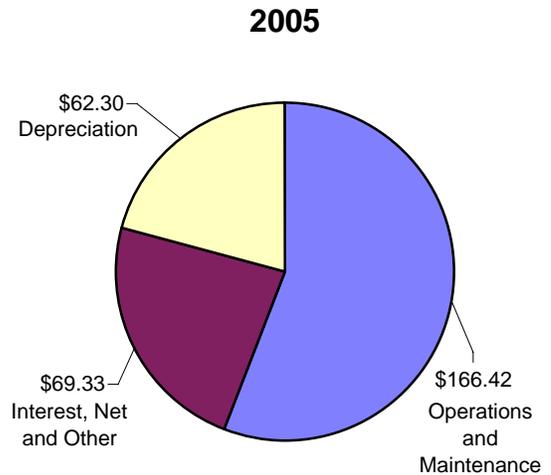
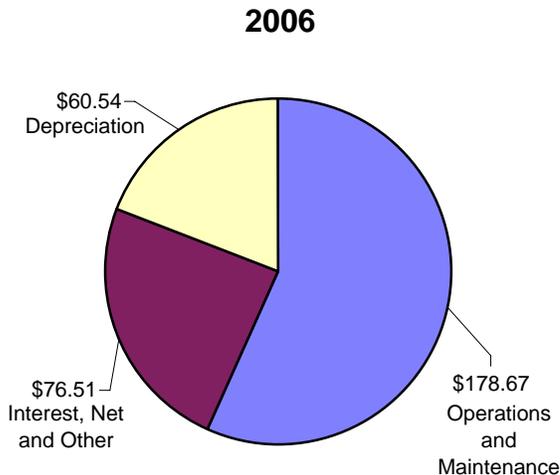
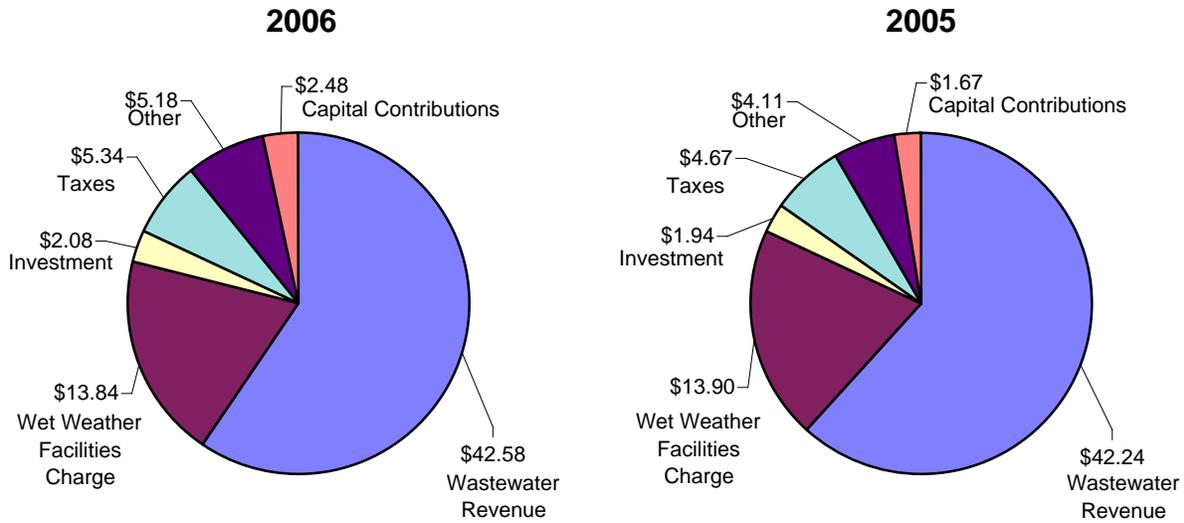


Table 2
Comparative Highlights (Continued)

Fiscal Year 2006 and 2005

Wastewater System

What We Received:
(In Millions)



How It Was Used:
(In Millions)

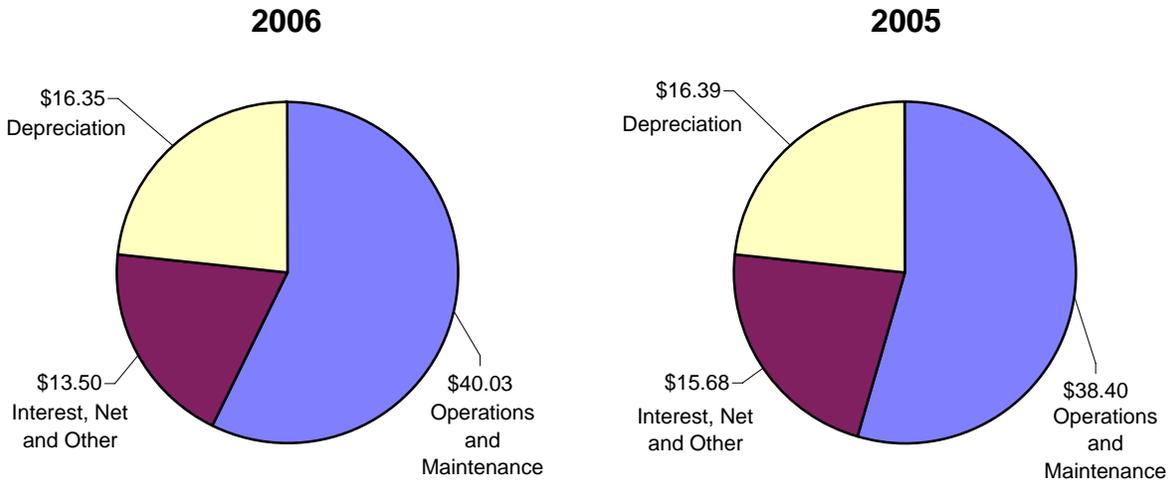


Table 3
Changes in Net Assets

Fiscal Years 2004 to 2006
(In Thousands)

	Fiscal Year Ended June 30		
	2006	2005	2004
Expenses			
Business-type activities:			
Water	\$ 239,211	\$ 228,724	\$ 210,970
Wastewater	56,378	54,790	52,687
Total business-type activities expenses	295,589	283,514	263,657
Program Revenues			
Business-type activities			
Charges for services:			
Water	258,010	248,630	254,792
Wastewater	56,420	56,144	56,683
Power	11,006	7,031	2,833
Capital grants and contributions	55,992	33,693	28,579
Total business-type activities program revenues	381,428	345,498	342,887
Net (Expense)/Revenue			
Business-type activities	85,839	61,984	79,230
General Revenues and Other Changes in Net Assets			
Business-type activities			
Investment income	20,482	9,600	13,738
Taxes and subventions	24,466	22,937	23,691
Interest and amortization of bond expenses	(88,863)	(84,070)	(72,225)
Other income (expense)	9,343	9,385	(4,202)
Total business-type activities	(34,572)	(42,148)	(38,998)
Changes in Net Assets			
Business-type activities	\$ 51,267	\$ 19,836	\$ 40,232

Table 4
Net Assets by Component

Fiscal Years 2004 to 2006
(In Thousands)

	Fiscal Year Ended June 30		
	2006	2005	2004
<u>Business-type activities</u>			
Invested in capital assets, net of related debt	\$ 1,226,133	\$ 1,213,199	\$ 1,090,005
Restricted for construction	78,599	53,969	64,367
Restricted for debt service	37,693	35,245	78
Restricted-other	2,944	2,905	2,914
Unrestricted	<u>146,500</u>	<u>135,284</u>	<u>263,402</u>
 Total business-type activities net assets	 \$ 1,491,869	 \$ 1,440,602	 \$ 1,420,766

Table 5
Capital Asset Statistics by Function/Program

Fiscal Years 2004 to 2006

<u>Function/Program</u>	Fiscal Year Ended June 30		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Water System			
Water mains (miles)	4,085	4,065	4,033
Fire hydrants	29,532	28,817	28,499
Storage capacity (thousands of gallons)	833,000	785,000	848,000
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

Table 6
Outstanding Debt by Type

Fiscal Years 1997 to 2006

Water System

(In thousands)

Fiscal Year	General Obligation Bonds	Revenue Bonds	Loans Payable	Total
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
2006	0	1,516,562	18,855	1,535,417

Wastewater System

(In thousands)

Fiscal Year	General Obligation Bonds	Revenue Bonds	Loans Payable	Total
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
2006	36,338	234,345	38,539	309,222

Table 7

Full Time Equivalent District Employees by Function/Program

Fiscal Years 2004 to 2006

Function/Program	Fiscal Year Ended June 30		
	2006	2005	2004
System Operations and Maintenance	574.5	578.5	567.5
Water Operations and Maintenance	309.5	311.5	312.5
Water Resources	42.0	43.0	45.0
Natural Resources	68.0	63.0	63.0
Engineering and Construction	266.5	275.5	274.5
Office of the General Manager	34.5	37.5	40.0
Finance	67.0	68.0	112.5
Information Systems	92.0	79.0	75.0
Administration Department	100.5	103.5	40.5
Customer and Community Services	138.0	130.0	149.0
Human Resources	49.5	50.5	50.5
Office of General Counsel	16.5	16.5	16.5
Water Recycling Program	8.0	9.0	9.0
Wastewater	284.5	281.0	278.0
Total	2,051.0	2,046.5	2,033.5

Note: Budgeted full-time equivalent positions available by Function/Program, actual headcount at year end for Water System and Wastewater System listed in Table 2.

Table 8

Ten-Year Summary of Net Revenue and Debt Service Coverage

Fiscal Years 1997 to 2006

Water System

(In Millions)

Fiscal Year	Total Revenue (1)	Operations & Maintenance Expense (2)	Net Revenue Available for Debt Service	Debt Service	Coverage Ratio
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
2006	298.2	143.9	154.3	88.2	1.75

(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 1997 to 2006

Wastewater System

(In Millions)

Fiscal Year	Total Revenue (1)	Operations & Maintenance Expense (2)	Net Revenue Available for Debt Service	Debt Service	Coverage Ratio
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
2006	63.6	34.2	29.4	15.8	1.86

(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, 2006
(In Thousands)

Water System

Authorized but unissued revenue bonds	\$	450,000
Outstanding short-term debt (due within one year)	\$	32,420

Wastewater System

Authorized but unissued revenue bonds	\$	150,000
Outstanding short-term debt (due within one year)	\$	11,767

Table 10
Ten-Year Summary of Revenue by Source

Fiscal Years 1997 to 2006

Water System
(In Millions)

	Fiscal Year Ended June 30									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Water	\$244.3	\$235.8	\$241.9	\$223.1	\$214.0	\$206.8	\$197.8	\$184.0	\$174.9	\$175.1
Taxes	19.1	18.3	17.5	16.5	15.6	14.3	13.5	12.6	11.8	11.5
Construction from SCC	13.7	12.8	12.9	12.3	11.6	11.8	12.0	11.4	10.9	10.6
Interest	16.5	7.6	11.1	13.3	25.4	20.8	17.5	21.3	11.9	13.1
Power	11.0	7.0	2.8	4.0	3.1	7.3	5.6	5.5	3.9	4.9
Rental & Other	6.3	5.5	2.1	7.2	4.4	4.3	7.8	7.7	4.2	3.4
Total	<u>\$310.9</u>	<u>\$287.0</u>	<u>\$288.3</u>	<u>\$276.4</u>	<u>\$274.1</u>	<u>\$265.3</u>	<u>\$254.2</u>	<u>\$242.5</u>	<u>\$217.6</u>	<u>\$218.6</u>

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

Table 10A
Ten-Year Summary of Revenue by Source

Fiscal Years 1997 to 2006

Wastewater System

(In Millions)

	Fiscal Year Ended June 30									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Wastewater	\$ 42.6	\$ 42.2	\$ 42.8	\$ 41.6	\$ 39.8	\$ 38.7	\$ 37.5	\$ 37.4	\$ 37.8	\$ 37.2
Wet Weather Facilities	13.8	13.9	13.9	13.9	13.5	13.2	13.8	13.3	13.3	13.2
Taxes	5.3	4.7	6.2	5.8	5.9	5.2	5.1	5.3	4.9	4.9
Interest	1.8	2.1	2.6	2.9	4.3	4.9	4.0	4.9	3.4	3.5
Other	5.2	4.0	(0.9)	0.3	0.2	1.0	(1.0)	0.1	0.1	0.1
Total	\$ 68.7	\$ 66.9	\$ 64.6	\$ 64.5	\$ 63.7	\$ 63.0	\$ 59.4	\$ 61.0	\$ 59.5	\$ 58.9

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

Table 11
Operating Indicators by Function/Program

Fiscal Years 2004 to 2006

<u>Function/Program</u>	Fiscal Year Ended June 30		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Water System			
New connections	2,228	2,234	2,075
Water main breaks	839	866	864
Average daily consumption (thousands of gallons)	211,000	205,000	224,000
Peak daily consumption (thousands of gallons)	311,000	310,000	373,000
Wastewater System			
Average daily sewage treatment (thousands of gallons)	82,000	76,000	72,000

Table 12
Ten-Year Summary of Property, Plant and Equipment

Fiscal Years 1997 to 2006

Water System
(In Millions)

	Fiscal Year Ended June 30									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Structures, Buildings and Equipment	\$ 3,221.5	\$ 3,037.4	\$ 2,824.3	\$ 2,533.9	\$ 2,338.0	\$ 2,211.6	\$ 2,039.7	\$ 1,891.2	\$ 1,730.4	\$ 1,638.2
Less Accumulated Depreciation	<u>(917.9)</u>	<u>(857.1)</u>	<u>(801.3)</u>	<u>(744.9)</u>	<u>(695.4)</u>	<u>(645.6)</u>	<u>(600.5)</u>	<u>(563.1)</u>	<u>(526.4)</u>	<u>(495.8)</u>
Subtotal	<u>2,303.6</u>	<u>2,180.3</u>	<u>2,023.0</u>	<u>1,789.0</u>	<u>1,642.6</u>	<u>1,566.0</u>	<u>1,439.2</u>	<u>1,328.1</u>	<u>1,204.0</u>	<u>1,142.4</u>
Land and Rights-of-Way	49.0	49.0	48.9	48.9	48.8	46.1	39.0	38.4	38.2	38.2
Construction in Progress	<u>314.1</u>	<u>295.8</u>	<u>322.2</u>	<u>421.0</u>	<u>419.8</u>	<u>341.6</u>	<u>354.8</u>	<u>373.4</u>	<u>386.0</u>	<u>317.2</u>
Total Capital Assets, Net	<u>\$ 2,666.7</u>	<u>\$ 2,525.1</u>	<u>\$ 2,394.1</u>	<u>\$ 2,258.9</u>	<u>\$ 2,111.2</u>	<u>\$ 1,953.7</u>	<u>\$ 1,833.0</u>	<u>\$ 1,739.9</u>	<u>\$ 1,628.2</u>	<u>\$ 1,497.8</u>

Table 12A
Ten-Year Summary of Property, Plant and Equipment

Fiscal Years 1997 to 2006

Wastewater System
(In Millions)

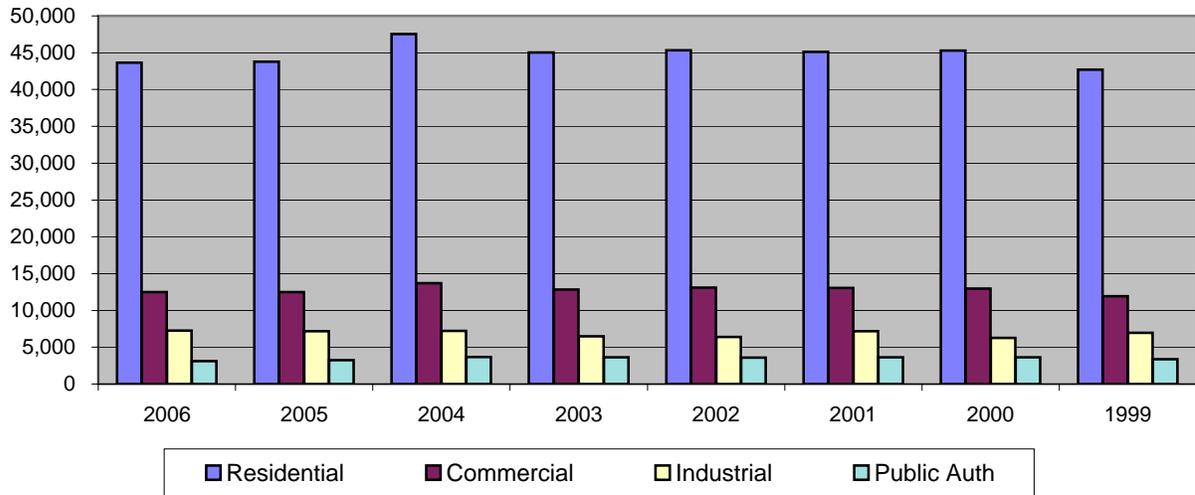
	Fiscal Year Ended June 30									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Structures, Buildings and Equipment	\$ 703.6	\$ 677.7	\$ 662.7	\$ 653.4	\$ 633.7	\$ 603.1	\$ 529.7	\$ 485.6	\$ 481.5	\$ 444.8
Less Accumulated Depreciation	<u>(224.9)</u>	<u>(208.3)</u>	<u>(192.4)</u>	<u>(176.5)</u>	<u>(160.7)</u>	<u>(144.9)</u>	<u>(130.8)</u>	<u>(116.5)</u>	<u>(105.8)</u>	<u>(93.4)</u>
Subtotal	<u>478.7</u>	<u>469.4</u>	<u>470.3</u>	<u>476.9</u>	<u>473.0</u>	<u>458.2</u>	<u>398.9</u>	<u>369.1</u>	<u>375.7</u>	<u>351.4</u>
Land and Rights-of-Way	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.3	5.3
Construction in Progress	<u>30.0</u>	<u>21.3</u>	<u>20.3</u>	<u>14.1</u>	<u>23.9</u>	<u>38.1</u>	<u>89.2</u>	<u>106.5</u>	<u>92.1</u>	<u>101.3</u>
Total Capital Assets, Net	<u>\$ 514.3</u>	<u>\$ 496.3</u>	<u>\$ 496.2</u>	<u>\$ 496.6</u>	<u>\$ 502.5</u>	<u>\$ 501.9</u>	<u>\$ 493.7</u>	<u>\$ 481.2</u>	<u>\$ 473.1</u>	<u>\$ 458.0</u>

Table 13
Debt Ratings

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

Table 14
Water Sold by Type of Customer

Fiscal Years 1999 to 2006
(In millions of gallons)



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
2006	43,660	12,495	7,270	3,102	66,527

Source data not available for Fiscal Years 1997-98.

Table 15
Principal Water Rate Payers

Fiscal Year 2006
(In Thousands)

Rate Payer	Total Annual Billing	Rank	Percentage of Total Annual Billings
	\$		
REDACTED JUNE 18, 2019, PER CALIFORNIA GOVERNMENT CODE SECTION 6254.16.			
Total annual billings	\$ 244,280		

Table 16
Rate History

Fiscal Years 1997 to 2006

Fiscal Year	Water		Wastewater	
	Monthly Base Rate	Rate per 1,000 Gallons	Monthly Base Rate	Rate per 1,000 Gallons
1997	\$ 5.79	\$ 1.14	\$ 5.98	\$ 0.38
1998	6.21	1.19	6.63	0.39
1999	6.44	1.23	6.86	0.41
2000	6.67	1.27	6.86	0.41
2001	6.92	1.32	7.45	0.39
2002	7.20	1.37	7.45	0.39
2003	7.47	1.42	7.45	0.39
2004	7.75	1.47	8.23	0.44
2005	8.04	1.53	8.56	0.46
2006	8.34	1.59	8.93	0.47

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 17

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

Fiscal Years 1997 to 2006
(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
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%
2006	379,000	0	0	244,280	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
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%
2006	177,000	36,338	205	42,581	85.34%

Source: (1) CIS

(2) Financial and Statistical Reports

Table 18
Assessed Valuation of Taxble Property

Fiscal Year 2006

EAST BAY MUNICIPAL UTILITY DISTRICT, SPECIAL DISTRICT NO. 1

2005-06 Assessed Valuation:	\$ 60,563,045,136
Redeveloped Incremental Valuation:	10,317,754,150
Adjusted Assessed Valuation:	50,245,290,986

<u>Direct and Overlapping Tax and Assessment Debt:</u>	<u>% Applicable</u>	<u>Debt 6/30/06</u>
Bay Area Rapid Transit District	13.890 %	\$ 13,890,000
Peralta Community College District	100.000	199,220,000
Alameda Unified School District	100.000	90,680,326
Albany Unified School District	100.000	33,780,000
Berkeley Unified School District	100.000	204,985,733
Oakland Unified School District	100.000	447,034,209
Piedmont Unified School District	100.000	33,130,000
West Contra Costa Unified School District	18.463	100,443,795
Other School Districts	Various	17,018,154
City of Alameda	100.000	10,300,000
City of Albany	100.000	7,715,000
City of Berkeley	100.000	67,915,000
City of Oakland	99.973	241,094,076
East Bay Municipal Utility District	39.385	827,025
East Bay Municipal Utility District, Special District No. 1	100.000	36,505,000
East Bay Regional Park District	20.318	22,587,521
West Contra Costa Healthcare District Parcel Tax Obligations	17.010	4,422,600
City of El Cerrito Lease Tax Obligations	99.743	4,029,617
City of Alameda Community Facilities District Nos. 1 and 2	100.000	16,125,000
City of Berkeley Community Facilities District No. 1	100.000	8,690,000
1915 Act bonds	100.000	<u>67,820,000</u>
Total Gross Direct and Overlapping Tax and Assessment Debt		\$ 1,628,213,056
Less: East Bay Municipal Utility District (100% Self Supporting)		<u>827,085</u>
Total Net Direct and Overlapping Tax and Assessment Debt		\$ 1,627,385,971

(continued)

Table 18 (Continued)
Assessed Valuation of Taxble Property

Fiscal Year 2006

<u>Overlapping General Fund Debt:</u>	<u>% Applicable</u>	<u>Debt 6/30/06</u>
Alameda County General Fund Obligations	32.587 %	\$ 199,206,286
Alameda County Pension Obligations	32.587	91,920,734
Alameda County Board of Education Certificates of Participation	32.587	418,743
Contra Costa County General Fund Obligations	2.749	8,295,657
Contra Costa County Pension Obligations	2.749	14,762,267
Contra Costa County Board of Education	2.749	36,012
Alameda-Contra Costa Transit District Certificates of Participation	41.587	8,257,099
Peralta Community College District Certificates of Participation	100.000	153,749,832
Oakland Unified School District Certificates of Participation	100.000	84,380,000
Other School District Certificates of Participation	Various	7,326,134
City of Alameda Cetificates of Participation	100.000	16,438,530
City of Berkeley General Fund Obligations and Pension Obligations	100.000	41,370,000
City of Oakland General Fund Obligations	99.973	543,666,837
City of Oakland Pension Obligations	99.973	341,382,644
Other City General Fund Obligations	Various	<u>11,526,582</u>
Total Overlapping General Fund Debt		\$ 1,522,737,357
Gross Combined Total Debt		(1) \$ 3,150,950,413
Net Combined Total Debt		\$ 3,150,123,328

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

Ratios to 2005-06 Assessed Valuation:

Direct Debt (\$36,505,000)	0.06 %
Total Gross Direct and Overlapping Tax and Assessment Debt	2.69 %
Total Net Direct and Overlapping Tax and Assessment Debt	2.69 %

Ratios to Adjusted Assessed Valuation:

Gross Combined Total Debt	6.27 %
Net Combined Total Debt	6.27 %

State School Building Aid Repayable as of 6/30/06: \$ 83,673

Table 19
Assessed Valuation of Taxable Property

Fiscal Years 1997 to 2006
(In Millions)

	Fiscal Year Ended June 30									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Water System										
Alameda County	\$ 62,405	\$ 58,190	\$ 55,508	\$ 51,866	\$ 49,437	\$ 46,919	\$ 44,199	\$ 41,861	\$ 40,753	\$ 39,042
Contra Costa County	64,099	60,592	55,475	51,916	48,479	43,849	41,091	38,926	38,212	36,243
Total	\$ 126,504	\$ 118,782	\$ 110,983	\$ 103,782	\$ 97,916	\$ 90,768	\$ 85,290	\$ 80,787	\$ 78,965	\$ 75,285
Wastewater System										
Alameda County	\$ 43,534	\$ 41,216	\$ 38,517	\$ 36,135	\$ 33,389	\$ 31,115	\$ 29,651	\$ 29,000	\$ 28,422	\$ 27,403
Contra Costa County	2,898	2,677	2,469	2,314	2,119	1,982	1,842	1,768	1,738	1,683
Total	\$ 46,432	\$ 43,893	\$ 40,986	\$ 38,449	\$ 35,508	\$ 33,097	\$ 31,493	\$ 30,768	\$ 30,160	\$ 29,086

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 20
Ten-Year Summary of Expense by Source

Fiscal Years 1997 to 2006
(In Millions)

	Fiscal Year Ended June 30									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Interest and Amortization of Bonds	\$ 88.9	\$ 84.1	\$ 72.2	\$ 74.9	\$ 75.6	\$ 66.3	\$ 65.0	\$ 62.9	\$ 54.7	\$ 56.6
Depreciation on Utility Plant	76.9	78.7	70.4	67.7	64.5	60.9	58.4	48.8	46.2	45.8
Water Treatment and Distribution	76.0	72.7	72.5	62.3	61.2	58.8	61.0	59.7	54.7	53.4
General Administration	34.7	28.9	21.2	26.2	19.1	21.7	18.2	15.2	21.0	11.2
Raw Water	24.2	23.1	22.8	22.9	21.7	24.2	24.0	22.0	21.0	21.9
Sewer Treatment Plant Operations	22.1	20.9	19.8	19.3	20.0	18.9	19.7	18.8	18.2	17.9
Financial and Risk Management	17.5	15.2	15.5	13.1	11.2	11.2	11.4	11.4	11.3	10.6
Customer Accounting and Collecting	13.3	13.0	12.6	11.7	11.4	10.7	10.9	9.2	9.5	10.0
Facilities Management	10.9	12.5	10.2	9.0	7.8	8.0	8.5	7.4	7.2	6.3
Sewer Lines and Pumping	11.7	10.7	10.9	9.4	8.8	8.7	9.3	8.9	11.2	8.9
Recreation Areas, Net	8.3	7.8	7.8	7.0	6.9	6.4	6.2	6.8	7.3	6.4
Total:	\$ 384.5	\$ 367.6	\$ 335.9	\$ 323.5	\$ 308.2	\$ 295.8	\$ 292.6	\$ 271.1	\$ 262.3	\$ 249.0

Table 21
Summary of Debt Outstanding*

As of June 30, 2006
(Thousands of Dollars)

Water System

	General Obligation Bonds	None Outstanding
	Revenue Bonds	
	Series 1996	\$ 151,650
	Series 1998	69,500
	Series 2001	247,720
	Series 2002	231,320
	Series 2003	114,720
	Series 2005A	300,000
	Series 2005B	323,775
	Series 2005C	100,000
	Senior Lien Revenue Bonds	<u>None Outstanding</u>
	Total Water System Debt Outstanding	<u><u>\$ 1,538,685</u></u>

Wastewater System

	General Obligation Bonds	
	Series F	\$ 36,505
	Revenue Bonds	
	Series 1996	44,560
	Series 1998	11,530
	Series 2003	117,940
	Series 2005	69,650
	Senior Lien Revenue Bonds	<u>None Outstanding</u>
	Total Wastewater System Debt Outstanding	<u><u>\$ 280,185</u></u>

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

