

COMPREHENSIVE ANNUAL FINANCIAL REPORT

for the year ended June 30, 2010



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

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Letter of Transmittal

GFOA Award Certificate

Board of Directors

Organizational Staffing

Organization Chart

December 22, 2010
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, 2010.

The CAFR has been prepared by the Finance Department in compliance with the principles and standards for financial reporting set forth by the Governmental Accounting Standards Board (GASB). Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive internal control framework it established for this purpose. Because the cost of internal control should not surpass their benefits, the objective is to provide reasonable rather than absolute assurance that the financial statements are free of any material misstatements.

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, 2010. The purpose of the independent audit was to provide reasonable assurance that the financial statements of EBMUD for the year ended June 30, 2010, are free of material misstatements. 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. This transmittal is designed to complement the MD&A 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 East Bay Utility District is a publicly owned utility formed in 1923 under the Municipal Utility District Act of 1921 (MUD Act) to provide water services to part of Alameda and Contra Costa counties. The MUD Act was amended in 1941 to enable formation of special districts. In 1944, voters in six East Bay cities elected to form EBMUD's Special District No. 1 to treat wastewater released in the Bay. Wastewater treatment for those cities began in 1951 and was expanded 20 years later to include Kensington, El Cerrito and a part of Richmond.

The District's water system collects, transmits, treats, and distributes high-quality water to approximately 60 percent of the developed area within Alameda and Contra Costa counties of California. The water is supplied to approximately 1.35 million users of industrial, commercial, residential, and public authority in a 331-square-mile service area extending from Crockett in the north, southward to San Lorenzo (encompassing Oakland, Berkeley and Alameda), eastward from San Francisco Bay to Walnut Creek, and east through the San Ramon Valley.

The Wastewater system intercepts and treats wastewater from residences and industries. It serves 650,000 customers in an 88-square-mile area of Alameda and Contra Costa counties along the Bay's east shore, extending from Richmond in the north to San Leandro in the south.

EBMUD has continually pursued an array of solutions to provide a reliable water supply and protect the San Francisco Bay now and for the future. EBMUD employed approximately 1,804 full-time employees at the end of fiscal year 2010. All the staff at EBMUD continues to focus on water supply and planning, drought protection, water conservation, infrastructure maintenance and improvements, watershed protection, wastewater treatment, and fiscal integrity and stability.

EBMUD is dedicated to being a "green company" generating 90 percent of the electricity needed to power our main wastewater plant by creating renewable energy using waste from food, wineries, fats, oils and greases. This reduced green-house gas emissions and avoided the need to haul these wastes long distances for composting or to landfills where they release methane – a potent greenhouse gas. This resource recovery project also provides substantial revenue, helping keep wastewater rates low.

In the coming years, EBMUD will continue to invest in infrastructure while at the same time ensuring our services remain affordable. We will continue our efforts to earn the trust and satisfaction of our customers by providing high quality water and services at a reasonable price.

Mission

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.

Values

- 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

Goals

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

In FY10, EBMUD achieved many strategic goals in serving the East Bay communities. In California, where new water projects take years to develop, long-term planning ensures reliable water supplies for the future. EBMUD completed the Water Supply Management Program 2040 preparing EBMUD to meet the water needs for its customers over the next 30 years. The national financial crisis continued to impact EBMUD resulting in decreased revenues. EBMUD met this challenge by carefully managing costs throughout the year. The water supply outlook improved significantly as normal rainfall returned to the region and the 10 percent voluntary rationing plan was ended in April 2010. EBMUD once again demonstrated that through cooperative efforts with all our stakeholders, we were able to maneuver through the challenges with strength and stability.

Major Initiatives in Fiscal Year 2010

Continuing Water Conservation and Management

California experienced extremely dry weather from 2006 to 2008. Customer conservation efforts and ample rainfall in spring 2009 allowed EBMUD to replace the mandatory water rationing plan with a voluntary water conservation plan in summer 2009. Normal rainfall returned to Northern California during FY10 and EBMUD ended the voluntary 10 percent conservation in April 2010. Customers are urged to continue to use water wisely.

Water Supply Management Program 2040

EBMUD completed development of the Water Supply Management Program (WSMP) 2040. The District expects the number of customers to grow from 1.35 to 1.7 million by the year 2040 with increased and diverse water needs. The plan calls for maintaining a reliable, high quality water supply by aggressively conserving and recycling while setting limits to rationing and tapping into a variety of regional water supply sources. The planning document also stresses the District objectives to preserve and protect the environment, adjust to new regulations and water system changes, seek cost-effective collaborative solutions and be prepared to address uncertainties including climate change and Delta challenges.

EBMUD's long-term plan will meet future water supply needs through 2040 by:

- Maximizing conservation, saving an additional 39 million gallons a day;
- Aggressive recycling, stretching the supply by 11 million gallons a day;
- Limiting drought rationing to 15 percent; and
- Developing 43 million gallons a day of additional water supplies through a combination of water transfers, groundwater storage and regional supply projects.

Drought Relief Management

Working together with Sacramento County and the City of Sacramento, the Freeport Regional Water project is substantially completed. The Freeport Project will provide up to 85 million gallons of water a day to the Sacramento area to protect its fragile groundwater basin. For EBMUD, the project guarantees a dry-year supply of up to 100 million gallons a day to guard against a harsh drought. The Freeport facilities will also provide an opportunity for other communities, to move water more easily throughout the region. The project has been hailed as a model of regional collaboration and benefit.

Rebuilding San Pablo Dam

FY10 saw the completion of construction of new safeguards to protect San Pablo Dam from the damaging effect of earthquakes. The dam was built in 1921 and provides water to two water treatment plants. The project was completed ahead of schedule and the reservoir has returned to normal operating levels in FY11.

Bayside Groundwater Project

The Bayside Groundwater Project Phase 1 was completed in FY10 as a new supplemental water supply for dry years. Excess water in wet periods will be stored underground for later recovery during droughts. The initial phase of the project, including injection/extraction well, pump, and treatment facility, will produce up to one million gallons per day on average when other EBMUD supplies are limited.

New Phase in Bay Protection

The East Bay has separate systems for storm water runoff and sewage, but storm water can seep into cracks in aging sewer system during storms, resulting in excess flow and partially treated sewage being released into the Bay. Under a settlement agreement with the U.S. Environmental Protection Agency, the State Water Resources Control Board and the Regional Water Quality Control Board, EBMUD will assist cities in our wastewater service area with efforts to repair damaged sewer pipes as quickly as possible, provide an incentive program for the repair of leaking private sewers servicing business or residences, and seek improvements in our wastewater transmission system.

The Delta: Watershed of Common Concern

The Mokelumne River, EBMUD's primary water source, flows into the Sacramento-San Joaquin Delta. While EBMUD's supplies are not taken directly from the Delta, the entire Delta watershed is critical to our water supply reliability and fishery protection program. The Delta's environmental health has been a concern for decades, but in recent years concern has developed over its aging earthen levees. EBMUD continues to tirelessly advocate for a long-term sustainability plan that address both ecosystem and levee restoration. The impacts of far-reaching statewide legislation affecting the Delta will be taken into account as EBMUD implements WSMP 2040, our long-term water supply plan.

Financial Position and Highlights

During the past two fiscal years, EBMUD faced a bearish financial market, severe reduction in local growth and development, and rising costs including health care, retirement costs and energy. The slow housing market (fewer connection fees for new homes) and reduced water use by EBMUD customers – in response to the drought management program in place from May 2008 to June 2009 – have reduced revenues to the District by \$28.4 million. To keep the budget balanced, EBMUD has reduced more than \$85 million in anticipated capital spending over the two-year budget period. Cost-cutting programs in FY10 including a hiring freeze, delaying capital projects and reducing discretionary spending ensured that projected expenses matched revenues. As a result, EBMUD was able to maintain its strong and stable fiscal position and continue to meet its financial goals.

In FY10, the total assets of the District exceeded the total liabilities by \$1.6 billion (*net assets*). Net assets increased by \$13 million or 1% during the fiscal year. Capital assets increased by \$199 million or 5% to \$4.1 billion. There was an increase of \$369 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 (80%) or \$1.3 billion represents its investment in capital assets necessary to provide services. The increase of 1% in Total Net Assets is consistent with the District's implementation of a five-year capital improvement program.

In FY10, Operating Revenue decreased by \$12 million or 3% to \$349 million and operating expense decreased by \$18 million or 5% to \$347 million.

As of June 30th, 2010, EBMUD had \$289 million in cash and cash equivalent investments available to operating use. A portion of these reserves will be used to fund future capital improvements.

Audit of Financial Statements

The accounting firm of Maze and Associates, Accountancy Corporation, was selected by EBMUD to perform the audit for fiscal year 2009-2010. The independent auditor's report on the Financial Statements is included in the financial section of this report and states that EBMUD's Financial Statements present fairly, in all material respect, the financial position of EBMUD, as of June 30, 2010, and the changes in its financial position and the cash flows for the year ended, in conformity with accounting principles generally accepted in the United States of America.

Debt Administration

Prudent financial management policies have resulted in bond ratings of AAA (Water and Wastewater) from Standard & Poor's, Aa1 for Water and Aa2 for Wastewater from Moody's and AA+ Water and Wastewater from Fitch. In FY10, EBMUD issued \$400 million in bonds authorized under the Stimulus Act (American Recovery and Reinvestment Act of 2009). The Build America Bonds issuance resulted in a net interest rate of 3.82 percent, after credit from the US Treasury, 0.5 percent lower than a comparable tax-exempt issue. The result of the lower interest rate is a savings of \$2 million a year for 30 years.

Budget and Rates

The adopted budget for Fiscal Year 2010 and 2011 supports the District's mission and goals. The Board of Directors approved a water system rate increase of 7.5 percent for both FY10 and FY11, and a wastewater system rate increase of 5 percent for both FY10 and FY11.

This budget funds the highest priority projects and tasks necessary to achieve our goals while keeping our costs and projected rate increases as low as possible. This was more difficult to achieve compared to previous years. The nationwide economic crisis, the California drought, and some EBMUD-specific program elements created a perfect storm, driving down our expected revenue and escalating our anticipated costs for the FY10-FY11 two-year budget cycle. The District employed several different strategies to balance the budget given anticipated cost increases during FY10-FY11. These strategies included deferral of discretionary expenses, operational efficiencies, implementing a hiring freeze with limited exceptions for operational necessity and reductions in contract related services.

The total water system budget is \$526 million in FY10, and \$542 million in FY11. The District has committed to maintain and enhance infrastructure and acquire a much needed supplemental water supply. Over the next five years, the District anticipates spending \$34 million to complete the Freeport Regional Water Project to ensure adequate water supplies during times of drought; \$37 million to complete seismic modifications to San Pablo Dam; \$25 million on water treatment and transmission improvements to meet current and projected water needs in Lafayette, Orinda, Moraga, and western Walnut Creek; \$30 million on water recycling and water conservation programs; and hundreds of millions to maintain the District's pipelines, aqueducts, pumping plants and other infrastructure.

The total wastewater system budget is \$137 million in FY10, and \$102 million in FY11. Over the next five years, the District anticipates spending over \$20 million on a newly required infiltration/inflow control program for the District's wet weather facilities which requires extensive flow monitoring and modeling, inspection of the entire EBMUD interceptor system, and a regional private sewer lateral ordinance and incentive program. Other projects include \$43 million to upgrade the digesters and \$26 million to expand the power generation station to use digester gas as a renewable resource to generate power.

Internal Controls

The management of EBMUD is responsible for establishing and maintaining adequate internal controls to assure that EBMUD's operations are effective and efficient, applicable laws and regulations are followed, and financial reports are reliable. The internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and that cost-benefit analyses require estimates and judgments by management.

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, 2009. 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 CAFR that satisfied both generally accepted accounting principles and applicable legal requirements. This is the third consecutive year that EBMUD has received this award. We are submitting our current CAFR to determine its eligibility for another certificate.

In addition, the District also received the GFOA's Distinguished Budget Presentation Award for its biennial budget document dated June 9, 2009. In order to qualify for the Distinguished Budget Presentation Award, the District's budget document had to be judged proficient as a policy document, a financial plan, an operations guide and a communications device.

I would like to thank the staff of the Financial Reporting Section in the Accounting Division, the Controller, the entire Finance Department, and staff members of other departments for their efforts put into the preparation of this report. I would also like to thank the Board of Directors for their continued interest and support towards achieving excellence in financial management.

Respectfully submitted,



Gary M. 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, 2009

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.



A stylized handwritten signature in black ink.

President

A handwritten signature in black ink that reads "Jeffrey R. Emer".

Executive Director

EBMUD has a seven-member Board of Directors publicly elected from wards within the EBMUD service area.

[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.

[Andy Katz](#)

Director Katz 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.

[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.

[Lesla 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.

Organizational Staffing

East Bay Municipal Utility District

BOARD OF DIRECTORS

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

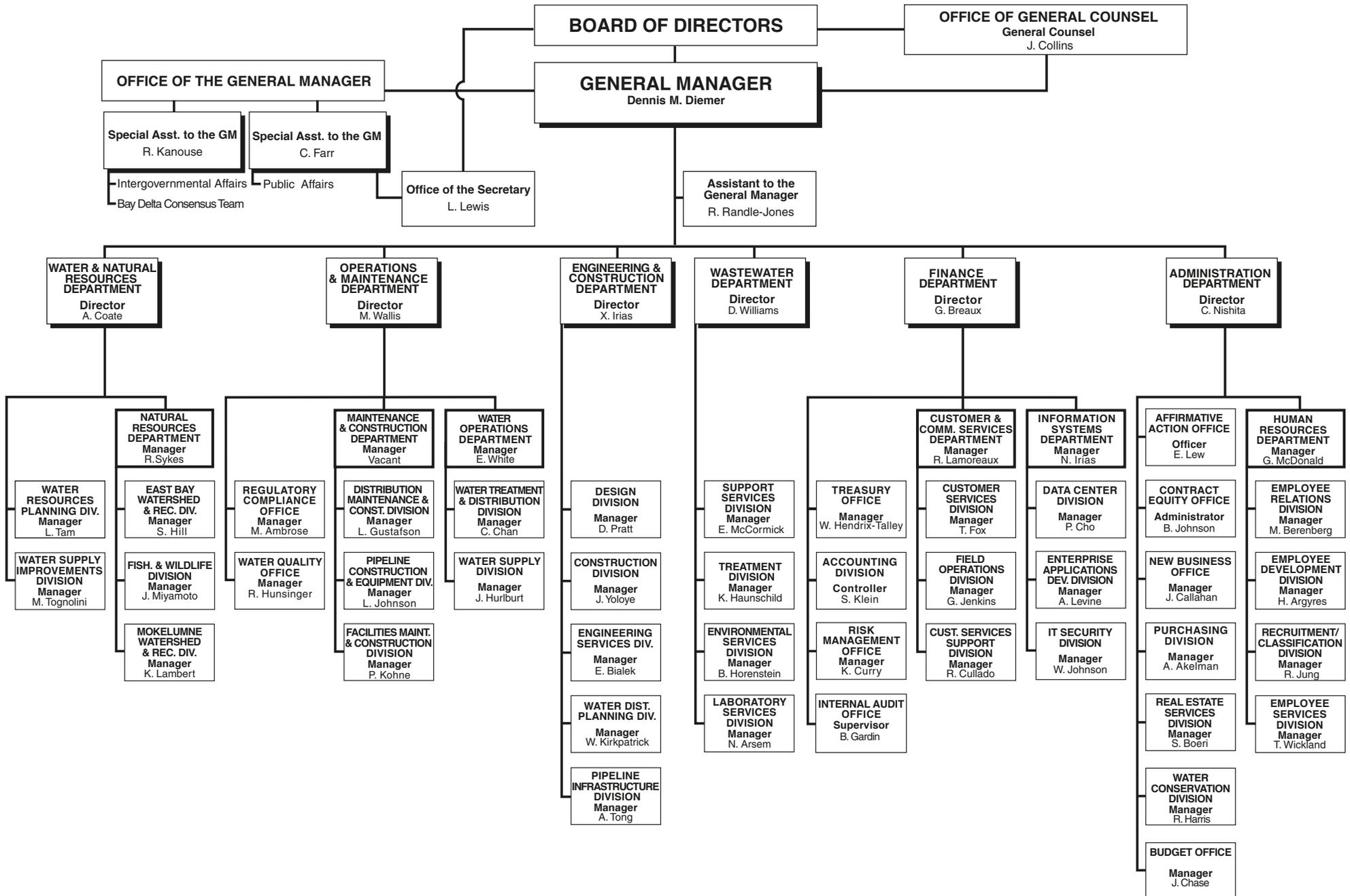
GENERAL MANAGER Dennis M. Diemer

FINANCE DIRECTOR Gary M. Breaux

CONTROLLER D. Scott Klein

PREPARED Accounting Division of the
Finance Department

P.O. Box 24055, Oakland, California 94623-1055
1-866-403-2683, FAX (510) 287-0315





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, 2010 AND 2009

PREPARED BY THE
FINANCE DEPARTMENT

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**EAST BAY MUNICIPAL UTILITY DISTRICT
 BASIC FINANCIAL STATEMENTS
 For the Years Ended June 30, 2010 and 2009**

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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, 2010 and 2009, 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 Standards*, 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, 2010 and 2009, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 20, 2010 on our consideration of the East Bay Municipal Utility District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

As described in Note 6, the District implemented the provisions of *Governmental Accounting Standards Board Statement No. 53, Accounting and Financial Reporting for Derivative Instruments*.

Management's Discussion and Analysis, Required Supplemental Information, and 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 introduction and statistical section listed in the table on contents was not audited by us, and we do not express an opinion on this information.

Maze & Associates

August 20, 2010

EAST BAY MUNICIPAL UTILITY DISTRICT

Management's Discussion and Analysis

June 30, 2010

This section presents management's analysis of the East Bay Municipal Utility District's (the District) financial condition and activities as of and for the year ended June 30, 2010. Management's Discussion and Analysis (MDA) is intended to serve as an introduction to the District's basic financial statements.

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

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

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

ORGANIZATION AND BUSINESS

The District provides water and wastewater services to industrial, commercial, residential and public authority users. The Water System collects, transmits, treats, and distributes high-quality water to approximately 60% (331 square miles) of the developed area within Alameda and Contra Costa counties of California and serves a population of about 1.3 million. 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 wastewater system serves a population of about 650,000 within an 88 square mile service area. The District recovers cost of service primarily through user fees.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

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

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

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

EAST BAY MUNICIPAL UTILITY DISTRICT

Management's Discussion and Analysis

June 30, 2010

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 23 to 58 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 61 to 66 of this report.

EAST BAY MUNICIPAL UTILITY DISTRICT

Management's Discussion and Analysis

June 30, 2010

FINANCIAL ANALYSIS

Financial Highlights

In fiscal year 2010, EBMUD continued to effectively manage its finances overcoming many fiscal challenges. EBMUD implemented cost saving programs to offset lower revenues and continues to look for ways to optimize operational efficiency. The following results of operations indicate a continuing strong and stable fiscal position.

- The total assets of the District exceeded the total liabilities by \$1.6 billion (*net assets*).
- Net assets increased by \$13 million or 1% during the fiscal year.
- Capital assets increased by \$199 million or 5% to \$4.1 billion.
- During the year, operating revenue decreased by \$12 million or 3% to \$349 million.
- Operating expense decreased by \$18 million or 5% to \$347 million.
- Capital contributions, consisting of capital facility fees, decreased by \$5 million or 10% from the prior fiscal year.

EAST BAY MUNICIPAL UTILITY DISTRICT

Management's Discussion and Analysis

June 30, 2010

Financial Position

In the current year, the District's total net assets increased by \$13 million or 1%. Current and other assets increased by \$369 million or 83%. Capital assets increased by \$199 million or 5%. By far the largest portion of the District's net assets, 80% or \$1.3 billion, represents its investment in capital assets necessary to provide services.

- The Water System's net assets increased by \$8 million or 1% during the year ended June 30, 2010. Current and other assets increased by \$391 million, partially due to the GASB 53 requirement to report \$106 million in the fair value of swaps effective in the current fiscal year and the remaining \$285 million primarily being used for investment in capital assets. A net increase in capital assets of \$166 million was achieved through the use of District reserves, results from current operating activities and funding from the issuance of bonds. An increase of total net assets of 1% is consistent with the District's implementation of a five-year capital improvement program.
- The Wastewater System's net assets increased by \$5 million or 2% during the year ended June 30, 2010. Current and other assets decreased by \$23 million, which includes the additional reporting in the current fiscal year of \$16 million in fair value of swaps in accordance with GASB 53, and were primarily being used for building new facilities and capital improvements. A net increase in capital assets of \$33 million was achieved through the use of Wastewater reserves and results from current operating activities. An increase of total net assets of 2% is consistent with the District's wastewater operational and facilities improvement plan.

In the previous fiscal year, the District net assets increased by \$15 million or 1%. There was a decrease of \$365 million in the level of current and other assets that were used for investment in capital assets. Capital assets increased by \$346 million. By far the largest portion of the District's net assets, 81% or \$1.3 billion, represents its investment in capital assets necessary to provide services. The increase of \$15 million or 1% 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, 2010

Table 1 shows the District's net assets for the fiscal years ended June 30, 2010, 2009 and 2008:

Table 1

Net Assets

Water and Wastewater

June 30, 2010 and 2009

(In thousands)

	<u>2010</u>	<u>2009</u>	<u>Variance</u>	<u>%</u>
Current and other assets	\$ 813,296	444,554	368,742	83%
Capital assets	4,129,285	3,929,880	199,405	5%
Total assets	<u>4,942,581</u>	<u>4,374,434</u>	<u>568,147</u>	13%
Current and other liabilities	316,227	186,977	129,250	69%
Long-term liabilities	<u>2,997,042</u>	<u>2,571,183</u>	<u>425,859</u>	17%
Total liabilities	<u>3,313,269</u>	<u>2,758,160</u>	<u>555,109</u>	20%
Net assets:				
Invested in capital assets, net of related debt	1,293,525	1,304,624	(11,099)	(1)%
Restricted	136,251	146,330	(10,079)	(7)%
Unrestricted	<u>199,536</u>	<u>165,320</u>	<u>34,216</u>	21%
Total net assets	<u>\$ 1,629,312</u>	<u>1,616,274</u>	<u>13,038</u>	1%

Net Assets

Water and Wastewater

June 30, 2009 and 2008

(In thousands)

	<u>2009</u>	<u>2008</u>	<u>Variance</u>	<u>%</u>
Current and other assets	\$ 444,554	809,873	(365,319)	(45)%
Capital assets	3,929,880	3,584,180	345,700	10%
Total assets	<u>4,374,434</u>	<u>4,394,053</u>	<u>(19,619)</u>	(0)%
Current and other liabilities	186,977	191,691	(4,714)	(2)%
Long-term liabilities	<u>2,571,183</u>	<u>2,600,899</u>	<u>(29,716)</u>	(1)%
Total liabilities	<u>2,758,160</u>	<u>2,792,590</u>	<u>(34,430)</u>	(1)%
Net assets:				
Invested in capital assets, net of related debt	1,304,624	1,182,822	121,802	10%
Restricted	146,330	143,489	2,841	2%
Unrestricted	<u>165,320</u>	<u>275,152</u>	<u>(109,832)</u>	(40)%
Total net assets	<u>\$ 1,616,274</u>	<u>1,601,463</u>	<u>14,811</u>	1%

EAST BAY MUNICIPAL UTILITY DISTRICT

Management's Discussion and Analysis

June 30, 2010

Results of Operations

In the current fiscal year, the District's total operating revenue of \$349 million for the year decreased by \$12 million and total operating expense of \$347 million for the year decreased by \$18 million. The District's change in net assets (including capital contributions) of \$13 million for the year decreased by \$2 million or 12%. The major components of the District's results of operations were:

- Water revenue decreased by \$16 million, mainly reflecting removal of the 10% special drought surcharge in current period rates as compared to the previous fiscal period and a more than 5.5% reduction in water usage due to continued customer conservation efforts in the current fiscal period.
- Sewer revenues increased by \$2 million, mainly reflecting a stable revenue base and an increase of property tax based wet weather facilities charges of \$1 million, as compared to the previous fiscal period.
- Power revenues increased by \$2 million over the previous period due to greater precipitation and run-off in the current fiscal period.
- Operating expense decreased by \$18 million, primarily reflecting decreases in water conservation programs due to the end of the drought, a decrease in risk management costs due to lower claim settlement costs, and a decrease in general administrative cost due to cost reduction strategies implemented in FY 2010.
- Nonoperating income (net of nonoperating expense) decreased by \$3 million, primarily reflecting a decrease in investment income, a decrease in interest and amortization of bond expenses (net), an increase in property tax revenue received, and an increase in other expenses.
- Capital contributions decreased by \$5 million primarily reflecting a reduction in fees received for system capacity charges due to the current economic downturn, offset by an increase in state grants.

In the previous fiscal year, the District's total operating revenue of \$361 million for the year increased by \$20 million and total operating expense increased by \$20 million. The District's change in net assets for the year, including capital contributions, decreased by \$32 million or 69%. The major components of this decrease were:

- Water revenue increased by \$17 million, mainly reflecting the 3.75% rate increase and the drought surcharge in fiscal year 2009.
- Sewer revenues increased by \$2 million mainly reflecting an increase in services.
- Power revenues increased by \$1 million over the previous period.
- Operating expense increased by \$20 million, primarily reflecting increases in raw water, water treatment and distribution, sewer treatment plant operations, financial risk management and depreciation expenses across both water and wastewater systems.
- Nonoperating income (net of nonoperating expense) decreased by \$27 million, primarily reflecting a decrease in investment income, a decrease in other income due to a receipt of a one-time settlement in the previous fiscal year, which was offset by a decrease in interest and amortization of bond expenses (net).
- Capital contributions decreased by \$6 million primarily reflecting a reduction in fees received for system capacity charges, mitigation, main, hydrant, service and miscellaneous installations due to the current economic downturn.

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

EAST BAY MUNICIPAL UTILITY DISTRICT

Management's Discussion and Analysis

June 30, 2010

Table 2

Changes in Net Assets

Water and Wastewater

June 30, 2010 and 2009

(In thousands)

	<u>2010</u>	<u>2009</u>	<u>Variance</u>	<u>%</u>
Operating Revenues:				
Water	\$ 271,022	287,313	(16,291)	(6)%
Sewer	56,354	54,749	1,605	3%
Power	6,233	4,318	1,915	44%
Wet weather facilities charges	15,311	14,343	968	7%
Total operating revenues	<u>348,920</u>	<u>360,723</u>	<u>(11,803)</u>	(3)%
Operating Expenses:				
Raw water	28,959	36,235	(7,276)	(20)%
Water treatment & distribution	85,970	83,490	2,480	3%
Recreation areas, net	8,400	9,043	(643)	(7)%
Sewer lines & pumps	12,859	13,204	(345)	(3)%
Sewer treatment plant operations	25,188	25,925	(737)	(3)%
Customer accounting & collecting	16,115	16,518	(403)	(2)%
Financial risk management	17,534	20,807	(3,273)	(16)%
Facilities management	11,284	8,665	2,619	30%
General administration	49,504	63,746	(14,242)	(22)%
Depreciation (excluding amounts reported within the Water and Wastewater operations)	90,786	86,820	3,966	5%
Total operating expenses	<u>346,599</u>	<u>364,453</u>	<u>(17,854)</u>	(5)%
Net operating income (expense)	2,321	(3,730)	6,051	(162)%
Nonoperating income (expense):				
Investment income	11,578	28,602	(17,024)	(60)%
Taxes & subventions	30,336	30,795	(459)	(1)%
Interest & amortization of bond expenses, net	(80,881)	(92,260)	11,379	(12)%
Other income (expense)	6,873	4,092	2,781	68%
Total other income (expense), net	<u>(32,094)</u>	<u>(28,771)</u>	<u>(3,323)</u>	12%
Income (Loss) before contributions	(29,773)	(32,501)	2,728	(8)%
Capital contributions	42,811	47,312	(4,501)	(10)%
Change in net assets	13,038	14,811	(1,773)	(12)%
Total net assets – beginning	<u>1,616,274</u>	<u>1,601,463</u>	<u>14,811</u>	1%
Total net assets – ending	<u>\$ 1,629,312</u>	<u>1,616,274</u>	<u>13,038</u>	1%

EAST BAY MUNICIPAL UTILITY DISTRICT

Management's Discussion and Analysis

June 30, 2010

Table 2 (Continued)
 Changes in Net Assets
 Water and Wastewater
 June 30, 2009 and 2008
 (In thousands)

	<u>2009</u>	<u>2008</u>	<u>Variance</u>	<u>%</u>
Operating Revenues:				
Water	\$ 287,313	270,564	16,749	6%
Sewer	54,749	53,119	1,630	3%
Power	4,318	3,091	1,227	40%
Wet weather facilities charges	14,343	13,669	674	5%
Total operating revenues	<u>360,723</u>	<u>340,443</u>	<u>20,280</u>	<u>6%</u>
Operating Expenses:				
Raw water	36,235	29,586	6,649	22%
Water treatment & distribution	83,490	80,822	2,668	3%
Recreation areas, net	9,043	8,633	410	5%
Sewer lines & pumps	13,204	12,031	1,173	10%
Sewer treatment plant operations	25,925	24,839	1,086	4%
Customer accounting & collecting	16,518	14,781	1,737	12%
Financial risk management	20,807	17,930	2,877	16%
Facilities management	8,665	10,018	(1,353)	(14)%
General administration	63,746	61,910	1,836	3%
Depreciation (excluding amounts reported within the Water and Wastewater operations)	86,820	84,004	2,816	3%
Total operating expenses	<u>364,453</u>	<u>344,554</u>	<u>19,899</u>	<u>6%</u>
Net operating income (expense)	(3,730)	(4,111)	381	(9)%
Nonoperating income (expense):				
Investment income	28,602	46,290	(17,688)	(38)%
Taxes & subventions	30,795	29,922	873	3%
Interest & amortization of bond expenses, net	(92,260)	(106,705)	14,445	(14)%
Other income (expense)	4,092	28,407	(24,315)	(86)%
Total other income (expense), net	<u>(28,771)</u>	<u>(2,086)</u>	<u>(26,685)</u>	<u>1,279%</u>
Income (Loss) before contributions	(32,501)	(6,197)	(26,304)	424%
Capital contributions	47,312	53,310	(5,998)	(11)%
Change in net assets	14,811	47,113	(32,302)	(69)%
Total net assets – beginning	<u>1,601,463</u>	<u>1,554,350</u>	<u>47,113</u>	<u>3%</u>
Total net assets – ending	<u>\$ 1,616,274</u>	<u>1,601,463</u>	<u>14,811</u>	<u>1%</u>

EAST BAY MUNICIPAL UTILITY DISTRICT

Management's Discussion and Analysis

June 30, 2010

Liquidity

The District had \$290 million in cash and cash equivalent investments available for operating use as of June 30, 2010. Cash and cash equivalent investments was \$82 million as of June 30, 2009. Components of cash and cash equivalents are:

- For the Water System, for the year ended June 30, 2010, cash and cash equivalents was \$269 million, an increase of \$203 million or 304%, from \$67 million in the previous fiscal year. This increase was due primarily to the reimbursement of capital expenditures from the issuance of bonds in the current year. Net cash provided by operating activities increased \$14 million or 16%, based on increased collections from customers, a reduction in outflows for goods and services, and a reduction in judgments and claims as compared to the previous fiscal period.
- For the Wastewater System, for the year ended June 30, 2010, cash and cash equivalents was \$19 million, an increase of \$4 million, or 28%, from \$15 million. This increase was due primarily to an increase in cash from reduction of operating expenses and increase in revenues from investing activities offset by the use of cash in the creation of capital assets and reduction of debt.

Table 3 shows the District's cash flow for the fiscal years 2010, 2009 and 2008:

Table 3
Cash Flows
Water and Wastewater System
June 30, 2010 and 2009
(In thousands)

	2010	2009	Variance	%
Net cash provided by operating activities	\$ 138,691	112,295	26,396	24%
Net cash provided by financing activities	30,336	30,795	(459)	(1)%
Net cash provided by (used in) capital and related financing activities	63,819	(539,933)	603,752	(112)%
Net cash provided by (used in) investing activities	(25,939)	437,852	(463,791)	(106)%
Net increase in cash and cash equivalents	206,907	41,009	165,898	405%
Cash and cash equivalents:				
Beginning of year	81,919	40,910	41,009	100%
End of period	\$ 288,826	81,919	206,907	253%

Cash Flows
Water and Wastewater System
June 30, 2009 and 2008
(In thousands)

	2009	2008	Variance	%
Net cash provided by operating activities	\$ 112,295	168,356	(56,061)	(33)%
Net cash provided by financing activities	30,795	29,922	873	3%
Net cash provided by (used in) capital and related financing activities	(539,933)	(377,839)	(162,094)	43%
Net cash provided by (used in) investing activities	437,852	66,549	371,303	558%
Net increase (decrease) in cash and cash equivalents	41,009	(113,012)	154,021	(136)%
Cash and cash equivalents:				
Beginning of year	40,910	153,922	(113,012)	(73)%
End of period	\$ 81,919	40,910	41,009	100%

EAST BAY MUNICIPAL UTILITY DISTRICT

Management's Discussion and Analysis

June 30, 2010

Capital Assets

Table 4 shows the District's capital assets for the fiscal years ended June 30, 2010, 2009 and 2008:

Table 4
Capital Assets, Net of Depreciation
Water and Wastewater
June 30, 2010 and 2009
(In thousands)

	<u>Water System</u>		<u>Wastewater System</u>		<u>Total</u>		<u>Increase/(decrease)</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>Amount</u>	<u>%</u>
Structures, buildings, and equipment	\$ 2,686,870	2,600,988	504,159	494,839	3,191,029	3,095,827	95,202	3.1%
Land and rights of way	53,477	50,851	19,744	19,688	73,221	70,539	2,682	3.8%
Construction work in progress	783,194	705,580	81,841	57,934	865,035	763,514	101,521	13.3%
Totals	<u>\$ 3,523,541</u>	<u>3,357,419</u>	<u>605,744</u>	<u>572,461</u>	<u>4,129,285</u>	<u>3,929,880</u>	<u>199,405</u>	<u>5.1%</u>

Capital Assets, Net of Depreciation
Water and Wastewater
June 30, 2009 and 2008
(In thousands)

	<u>Water System</u>		<u>Wastewater System</u>		<u>Total</u>		<u>Increase/(decrease)</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>Amount</u>	<u>%</u>
Structures, buildings, and equipment	\$ 2,600,988	2,556,570	494,839	489,162	3,095,827	3,045,732	50,095	1.6%
Land and rights of way	50,851	49,862	19,688	19,547	70,539	69,409	1,130	1.6%
Construction work in progress	705,580	422,726	57,934	46,313	763,514	469,039	294,475	62.8%
Totals	<u>\$ 3,357,419</u>	<u>3,029,158</u>	<u>572,461</u>	<u>555,022</u>	<u>3,929,880</u>	<u>3,584,180</u>	<u>345,700</u>	<u>9.6%</u>

The District had \$4.1 billion (net of accumulated depreciation) invested in a broad range of utility capital assets as of June 30, 2010. Total capital assets were \$3.9 billion as of June 30, 2009. 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 4 above).

In the current fiscal year 2010, capital assets increased by \$199 million or 5% over the prior fiscal year. In the previous fiscal year 2009, capital assets increased \$346 million or 10% over the fiscal year 2008 value. Both increases are consistent with the District's implementation of a five-year (FY 08 to FY 12) capital improvement program.

EAST BAY MUNICIPAL UTILITY DISTRICT

Management's Discussion and Analysis

June 30, 2010

The Water System had \$3.5 billion (net of accumulated depreciation) invested in a broad range of utility capital assets as of June 30, 2010. 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, machinery and equipment. Two projects have driven the increase in construction work in progress, the Folsom South Canal Project and the Freeport Regional Water Project, with balances of \$266 million and \$232 million respectively, at June 30, 2010. Both projects are nearing completion.

The Wastewater System had \$606 million (net of accumulated depreciation) invested in a broad range of utility capital assets as of June 30, 2010. The investment in capital assets includes land, buildings, improvements, wastewater and wet weather treatment facilities, machinery and equipment.

The District's net revenue, long-term debt, and contributions from customers are used to finance capital investments. More detailed information about the District's capital assets is presented in Note 3 to the basic financial statements.

This year's major capital additions included:

Water

Folsom South Canal Connection	\$	49,172
Freeport Regional Water Project		38,559
RARE Water Project		30,599
San Pablo Dam Seismic Modifications		29,913
Pipeline Infrastructure Renewals		19,767
Service Lateral Replacements Polybutylene		15,714
New Service Installations		9,756
Pipeline System Improvements		6,728
Pipeline Relocations		6,722
San Ramon Valley Recycled Water Program		5,628
Danville Pressure Zone Improvements		5,442
Bayside Groundwater Project		5,372
CIS Replacement Project		5,134
Water Conservation Projets		4,112
Pipeline System Extensions		3,487

Wastewater

Digester Upgrade		16,606
PGS Expansion		16,114
Infiltration/Inflow Control Project		4,378
Centrifuge Replacement		3,752
Priority Manhole Interceptor		2,653
Treatment Plant Infrastructure		2,358
Routine Capital Equipment Replacement		2,154

EAST BAY MUNICIPAL UTILITY DISTRICT

Management's Discussion and Analysis

June 30, 2010

Debt Administration

The District had total long-term debt outstanding of \$3.1 billion (net of unamortized costs) or 16% increase as of June 30, 2010. Total long-term debt outstanding was \$2.6 billion (net of unamortized costs) or 1% decrease as of June 30, 2009. Components of the District's long-term debt portfolio as of June 30, 2010 are:

- The Water System had total long-term debt outstanding of \$2.7 billion (net of unamortized costs). During the second quarter of the fiscal year 2010, the District issued \$75 million in Commercial Paper. In the third quarter, the District issued \$593 million in Water System Revenue Bonds and refunded \$100 million of previously issued bonds and \$100 million of commercial paper.
- The Wastewater System had total long-term debt outstanding of \$360 million (net of unamortized costs).

Table 5 shows the District's long-term debt outstanding for the fiscal years ended June 30, 2010, 2009 and 2008:

Table 5
Long-Term Debt
(Net of Unamortized Costs)
Water and Wastewater
June 30, 2010 and 2009
(In thousands)

	Water System		Wastewater System		Total		Increase (decrease)	
	2010	2009	2010	2009	2010	2009	Amount	%
General obligation bonds	\$ —	—	27,330	29,800	27,330	29,800	(2,470)	(8.3)%
Revenue bonds	2,373,062	1,903,475	296,903	303,574	2,669,965	2,207,049	462,916	21.0%
Commercial paper	290,300	315,300	15,000	15,000	305,300	330,300	(25,000)	(7.6)%
Loans	29,028	32,769	20,651	25,338	49,679	58,107	(8,428)	(14.5)%
Totals	<u>\$ 2,692,390</u>	<u>2,251,544</u>	<u>359,884</u>	<u>373,712</u>	<u>3,052,274</u>	<u>2,625,256</u>	<u>427,018</u>	<u>16.3%</u>

Long-Term Debt
(Net of Unamortized Costs)
Water and Wastewater
June 30, 2009 and 2008
(In thousands)

	Water System		Wastewater System		Total		Increase (decrease)	
	2009	2008	2009	2008	2009	2008	Amount	%
General obligation bonds	\$ —	—	29,800	32,120	29,800	32,120	(2,320)	(7.2)%
Revenue bonds	1,903,475	1,935,464	303,574	309,163	2,207,049	2,244,627	(37,578)	(1.7)%
Commercial paper	315,300	315,000	15,000	15,000	330,300	330,000	300	0.1%
Loans	32,769	15,478	25,338	29,878	58,107	45,356	12,751	28.1%
Totals	<u>\$ 2,251,544</u>	<u>2,265,942</u>	<u>373,712</u>	<u>386,161</u>	<u>2,625,256</u>	<u>2,652,103</u>	<u>(26,847)</u>	<u>(1.0)%</u>

EAST BAY MUNICIPAL UTILITY DISTRICT

Management's Discussion and Analysis

June 30, 2010

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/Variable Rate Debt: Limit to 25% of outstanding long-term debt.

The District's debt ratings are outlined in Table 6.

Table 6
Debt Ratings
Water and Wastewater
June 30, 2010

District debt by type	Standard & Poor's	Rating by	
		Moody's Investors Service	Fitch
Water system:			
Extendable Commercial Paper	A1+	P1	F1+
Subordinated Revenue Bonds	AAA	Aa1	AA+
Wastewater system:			
Extendable Commercial Paper	A1+	P1	F1+
Subordinated Revenue Bonds	AAA	Aa2	AA+
General Obligation Bonds	AAA	Aa2	-

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, 2010, the Wastewater System had \$169 million in authorized but unissued revenue bonds.

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

REQUEST FOR INFORMATION

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

EAST BAY MUNICIPAL UTILITY DISTRICT
BALANCE SHEETS
PROPRIETARY FUNDS - ENTERPRISE
JUNE 30, 2010 AND 2009
(DOLLARS IN THOUSANDS)

Assets	Water System		Wastewater System		Totals	
	2010	2009	2010	2009	2010	2009
Current assets:						
Cash and investments (Note 2)	\$229,625	\$150,119	\$18,847	\$46,443	\$248,472	\$196,562
Receivables:						
Customer	24,046	27,222	3,914	3,831	27,960	31,053
Interest and other	6,882	7,698	2,621	8,715	9,503	16,413
Materials and supplies	5,634	6,729			5,634	6,729
Prepaid insurance	1,025	1,407			1,025	1,407
Total current assets	<u>267,212</u>	<u>193,175</u>	<u>25,382</u>	<u>58,989</u>	<u>292,594</u>	<u>252,164</u>
Noncurrent assets:						
Restricted cash and investments (Note 2):						
Bond construction fund	216,514				216,514	
Capitalized interest fund	6,337				6,337	
Bond interest and redemption fund	184	129			184	129
Debt service reserve fund	60,636	53,093	5,711	5,595	66,347	58,688
Funds received for construction	65,159	88,619			65,159	88,619
FERC partnership fund	2,240	2,323			2,240	2,323
Monetary reserve	718	714			718	714
Total restricted cash and investments	<u>351,788</u>	<u>144,878</u>	<u>5,711</u>	<u>5,595</u>	<u>357,499</u>	<u>150,473</u>
Unrestricted investments (Note 2):						
Reserve funded CIP			13,966	13,777	13,966	13,777
Vehicle/equipment replacement fund	5,598	4,232	6,338	7,836	11,936	12,068
Total unrestricted cash and investments	<u>5,598</u>	<u>4,232</u>	<u>20,304</u>	<u>21,613</u>	<u>25,902</u>	<u>25,845</u>
Other assets:						
Deferred bond issuance costs	13,024	10,080	1,802	1,973	14,826	12,053
Deferred outflows of resources (Note 6.F)	106,027		15,512		121,539	
Other	116	122	820	3,897	936	4,019
Total other assets	<u>119,167</u>	<u>10,202</u>	<u>18,134</u>	<u>5,870</u>	<u>137,301</u>	<u>16,072</u>
Capital assets (Note 3):						
Structures, buildings, and equipment	3,864,414	3,705,150	797,244	768,513	4,661,658	4,473,663
Less accumulated depreciation	(1,177,544)	(1,104,162)	(293,085)	(273,674)	(1,470,629)	(1,377,836)
Subtotal	<u>2,686,870</u>	<u>2,600,988</u>	<u>504,159</u>	<u>494,839</u>	<u>3,191,029</u>	<u>3,095,827</u>
Land and rights-of-way	53,477	50,851	19,744	19,688	73,221	70,539
Construction in progress	783,194	705,580	81,841	57,934	865,035	763,514
Total capital assets, net	<u>3,523,541</u>	<u>3,357,419</u>	<u>605,744</u>	<u>572,461</u>	<u>4,129,285</u>	<u>3,929,880</u>
Total noncurrent assets	<u>4,000,094</u>	<u>3,516,731</u>	<u>649,893</u>	<u>605,539</u>	<u>4,649,987</u>	<u>4,122,270</u>
Total assets	<u>\$4,267,306</u>	<u>\$3,709,906</u>	<u>\$675,275</u>	<u>\$664,528</u>	<u>\$4,942,581</u>	<u>\$4,374,434</u>

(Continued)

See accompanying notes to basic financial statements

EAST BAY MUNICIPAL UTILITY DISTRICT
BALANCE SHEETS
PROPRIETARY FUNDS - ENTERPRISE
JUNE 30, 2010 AND 2009
(DOLLARS IN THOUSANDS)

Liabilities and Net Assets	Water System		Wastewater System		Totals	
	2010	2009	2010	2009	2010	2009
Current liabilities:						
Current maturities of long-term debt (Note 6)	\$42,197	\$40,697	\$13,035	\$13,376	\$55,232	\$54,073
Accounts payable and accrued expenses (Note 4)	86,055	89,160	21,681	17,948	107,736	107,108
Accrued interest	9,406	7,369	1,698	2,116	11,104	9,485
Total current liabilities	137,658	137,226	36,414	33,440	174,072	170,666
Noncurrent liabilities:						
Other liabilities:						
Advances for construction	4,734	4,143			4,734	4,143
Derivative instrument (Note 6.F)	106,027		15,512		121,539	
Other liabilities	9,478	6,086	6,404	6,082	15,882	12,168
Total other liabilities	120,239	10,229	21,916	6,082	142,155	16,311
Long-term liabilities and commercial paper, net of current maturities (Notes 5 & 6)	2,650,193	2,210,846	346,849	360,337	2,997,042	2,571,183
Total noncurrent liabilities	2,770,432	2,221,075	368,765	366,419	3,139,197	2,587,494
Total liabilities	2,908,090	2,358,301	405,179	399,859	3,313,269	2,758,160
Net assets (Note 7):						
Invested in capital assets, net of related debt	1,047,665	1,105,876	245,860	198,748	1,293,525	1,304,624
Restricted for construction	66,762	84,476			66,762	84,476
Restricted for debt service	60,820	53,222	5,711	5,595	66,531	58,817
Restricted - other	2,958	3,037			2,958	3,037
Unrestricted	181,011	104,994	18,525	60,326	199,536	165,320
Total net assets	1,359,216	1,351,605	270,096	264,669	1,629,312	1,616,274
Total liabilities and net assets	\$4,267,306	\$3,709,906	\$675,275	\$664,528	\$4,942,581	\$4,374,434

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, 2010 AND 2009
(DOLLARS IN THOUSANDS)

	Water System		Wastewater System		Totals	
	2010	2009	2010	2009	2010	2009
Operating revenue:						
Water	\$271,022	\$287,313			\$271,022	\$287,313
Sewer			\$56,354	\$54,749	56,354	54,749
Power	6,233	4,318			6,233	4,318
Wet weather facilities charges			15,311	14,343	15,311	14,343
Total operating revenue	277,255	291,631	71,665	69,092	348,920	360,723
Operating expense:						
Raw water	28,959	36,235			28,959	36,235
Water treatment and distribution	85,970	83,490			85,970	83,490
Recreation areas, net	8,400	9,043			8,400	9,043
Sewer lines and pumping			12,859	13,204	12,859	13,204
Sewer treatment plant operations			25,188	25,925	25,188	25,925
Customer accounting and collecting	14,367	14,118	1,748	2,400	16,115	16,518
Financial risk management	16,922	20,066	612	741	17,534	20,807
Facilities management	11,284	8,665			11,284	8,665
General administration	43,829	55,876	5,675	7,870	49,504	63,746
Depreciation on utility plant	71,349	68,518	19,437	18,302	90,786	86,820
Total operating expense	281,080	296,011	65,519	68,442	346,599	364,453
Net operating income (loss)	(3,825)	(4,380)	6,146	650	2,321	(3,730)
Other income (expense):						
Investment income	10,748	25,548	830	3,054	11,578	28,602
Taxes and subventions	22,889	23,418	7,447	7,377	30,336	30,795
Interest and amortization of bond expenses, net of capitalized interest of \$27,836 and \$17,683 for Water System and \$918 and \$2,031 for the Wastewater System in 2010 and 2009, respectively	(68,010)	(78,751)	(12,871)	(13,509)	(80,881)	(92,260)
Other income	5,885	3,075	988	1,017	6,873	4,092
Total other income (expense), net	(28,488)	(26,710)	(3,606)	(2,061)	(32,094)	(28,771)
Income before capital contributions	(32,313)	(31,090)	2,540	(1,411)	(29,773)	(32,501)
Capital contributions	39,924	38,352	2,887	8,960	42,811	47,312
Change in net assets	7,611	7,262	5,427	7,549	13,038	14,811
Total net assets - beginning	1,351,605	1,344,343	264,669	257,120	1,616,274	1,601,463
Total net assets - ending	\$1,359,216	\$1,351,605	\$270,096	\$264,669	\$1,629,312	\$1,616,274

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, 2010 AND 2009
(DOLLARS IN THOUSANDS)

	Water System		Wastewater System		Totals	
	2010	2009	2010	2009	2010	2009
Cash flows from operating activities						
Cash received from customers	\$280,431	\$293,004	\$71,582	\$68,322	\$352,013	\$361,326
Cash received from other income	5,885	3,075	988	1,017	6,873	4,092
Cash payments for judgments and claims	(5,667)	(10,158)	(204)	(884)	(5,871)	(11,042)
Cash payments to suppliers for goods and services	(33,221)	(49,428)	(13,336)	(21,094)	(46,557)	(70,522)
Cash payments to employees for services	(143,226)	(146,482)	(24,541)	(25,077)	(167,767)	(171,559)
Net cash provided by operating activities	104,202	90,011	34,489	22,284	138,691	112,295
Cash flows from noncapital financing activities:						
Tax receipts	22,889	23,418	7,447	7,377	30,336	30,795
Net cash provided by financing activities	22,889	23,418	7,447	7,377	30,336	30,795
Capital and related financing activities:						
Capital contributions	39,924	38,352	2,887	8,960	42,811	47,312
Proceeds from (usage of) advances for construction	591	(3,689)			591	(3,689)
Proceeds from sale of capital assets	3,442	1,317	100	30	3,542	1,347
Net proceeds and premiums from sale of bonds	596,569	326,737	(116)	(101)	596,453	326,636
Acquisition and construction of capital assets	(266,760)	(424,047)	(53,689)	(36,544)	(320,449)	(460,591)
Principal retirement on long-term debt and commercial paper	(59,153)	(14,399)	(13,829)	(12,448)	(72,982)	(26,847)
Amount paid to refunding bond escrow agent	(100,000)	(330,425)			(100,000)	(330,425)
Costs and discounts from issuance on long-term debt	(4,112)	(730)			(4,112)	(730)
Interest paid on long-term debt	(68,917)	(79,299)	(13,118)	(13,647)	(82,035)	(92,946)
Net cash provided by (used in) capital and related financing activities	141,584	(486,183)	(77,765)	(53,750)	63,819	(539,933)
Cash flows from investing activities:						
Proceeds from sale of securities	11,444,902	679,862	72,822	88,688	11,517,724	768,550
Expenditures from purchases of securities	(11,522,474)	(292,250)	(39,677)	(59,158)	(11,562,151)	(351,408)
Interest received on investments	11,564	24,378	6,924	(3,668)	18,488	20,710
Net cash provided (used) by investing activities	(66,008)	411,990	40,069	25,862	(25,939)	437,852
Net increase in cash and cash equivalents	202,667	39,236	4,240	1,773	206,907	41,009
Cash and cash equivalents:						
Beginning of year	66,604	27,368	15,315	13,542	81,919	40,910
End of year	\$269,271	\$66,604	\$19,555	\$15,315	\$288,826	\$81,919

(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, 2010 AND 2009
 (DOLLARS IN THOUSANDS)

	Water System		Wastewater System		Totals	
	2010	2009	2010	2009	2010	2009
Reconciliation of net operating (loss) income to net cash provided by operating activities:						
Net operating income (loss)	(\$3,825)	(\$4,380)	\$6,146	\$650	\$2,321	(\$3,730)
Adjustments to reconcile net operating income to net cash provided by operating activities:						
Depreciation	75,722	72,973	19,437	18,302	95,159	91,275
Amortization	21,474	21,496	869	773	22,343	22,269
Other income	5,885	3,075	988	1,017	6,873	4,092
Changes in assets/liabilities:						
Materials and supplies	1,095	3,439			1,095	3,439
Prepaid insurance	382	(32)			382	(32)
Customer receivables	3,176	(6,583)	(83)	(770)	3,093	(7,353)
Other assets	6	7,956	3,077	(2,496)	3,083	5,460
Accounts payable and accrued expenses	287	(7,933)	4,055	4,808	4,342	(3,125)
Net cash provided by operating activities	<u>\$104,202</u>	<u>\$90,011</u>	<u>\$34,489</u>	<u>\$22,284</u>	<u>\$138,691</u>	<u>\$112,295</u>
Cash as presented on the Statement of Net Assets as follows:						
Cash and investments included in current assets	\$229,625	\$150,119	\$18,847	\$46,443	\$248,472	\$196,562
Cash and investments included in restricted assets	351,788	144,878	5,711	5,595	357,499	150,473
Cash and investments included in unrestricted assets	5,598	4,232	20,304	21,613	25,902	25,845
Total District cash and investments	587,011	299,229	44,862	73,651	631,873	372,880
Less non-current investments	(317,740)	(232,625)	(25,307)	(58,336)	(343,047)	(290,961)
District cash and cash equivalents	<u>\$269,271</u>	<u>\$66,604</u>	<u>\$19,555</u>	<u>\$15,315</u>	<u>\$288,826</u>	<u>\$81,919</u>
Schedule of Non-Cash Activities:						
Change in Fair Market Value	<u>\$2,294</u>	<u>\$1,239</u>	<u>\$19</u>	<u>\$387</u>	<u>\$2,313</u>	<u>\$1,626</u>

See accompanying notes to basic financial statements

EAST BAY MUNICIPAL UTILITY DISTRICT
STATEMENTS OF FIDUCIARY NET ASSETS
FIDUCIARY FUND - PENSION AND OTHER EMPLOYEE BENEFIT TRUST
(COMPONENT UNIT)
JUNE 30, 2010 AND 2009
(DOLLARS IN THOUSANDS)

	2010	2009
Assets:		
Cash and investments (Note 2)	\$27,604	\$50,005
Invested securities lending collateral (Notes 1.L and 2)	84,132	46,654
Receivables:		
Contributions	1,930	1,537
Interest and other	17,325	8,334
Prepaid insurance	403	382
Retirement system investments, at fair value (Note 2):		
U.S. government obligations	41,922	44,264
Domestic corporate bonds	52,773	54,169
International bonds	9,099	6,823
Domestic stocks	476,371	411,622
International stocks	152,470	125,356
Real estate	14,478	16,936
Total investments	747,113	659,170
Total assets	878,507	766,082
Liabilities:		
Accounts payable and accrued expenses	655	1,300
Retirement system liabilities	24,668	49,378
Securities lending collateral (Note 1.L.)	84,132	46,654
Total liabilities	109,455	97,332
Net assets:		
Held in trust for pension benefits	760,695	663,093
Held in trust for post-employment healthcare benefits	8,357	5,657
Total net assets	\$769,052	\$668,750

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, 2010 AND 2009
(DOLLARS IN THOUSANDS)

	<u>2010</u>	<u>2009</u>
Additions:		
Contributions (Note 8)		
Employer	\$51,756	\$45,803
Plan members	<u>10,918</u>	<u>10,740</u>
Total contributions	<u>62,674</u>	<u>56,543</u>
Investment income:		
Net appreciation (depreciation) in fair value of investments		
Traded securities	80,999	(180,070)
Real estate	(3,087)	(7,859)
Interest	6,173	7,668
Dividends	14,580	11,359
Real estate operating income, net	<u>629</u>	<u>713</u>
Total investment income (loss)	<u>99,294</u>	<u>(168,189)</u>
Less:		
Investment expense	(2,418)	(2,210)
Borrowers' rebates and other agent fees on securities lending transactions	<u>(89)</u>	<u>(534)</u>
Net investment income (loss)	<u>96,787</u>	<u>(170,933)</u>
Total additions, net	<u>159,461</u>	<u>(114,390)</u>
Deductions:		
Benefits paid	57,731	54,145
Refund of contributions	378	357
Administrative expenses	<u>1,050</u>	<u>972</u>
Total deductions	<u>59,159</u>	<u>55,474</u>
Change in net assets	100,302	(169,864)
Net assets:		
Beginning of year	<u>668,750</u>	<u>838,614</u>
End of year	<u><u>\$769,052</u></u>	<u><u>\$668,750</u></u>

See accompanying notes to basic financial statements

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009
(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, 2009.

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, 2010 AND 2009
(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 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, 2010 AND 2009
(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. Use of Estimates and Assumptions

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

F. Capital Assets

Utility Plant – at Original Cost

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

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

Water Supply Management Program

Costs incurred in this program are debt funded and capitalized in construction in progress. These costs are transferred to utility plant upon completion of the project and depreciated over their useful life. Debt service costs on the debt used to finance the program are recovered in future 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, 2010 AND 2009
(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 2.08% and 2.07% average net book value of capital assets for the years ended June 30, 2010 and 2009.

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 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, 2010 AND 2009
(Dollars in Thousands)**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Retirement System Investments

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

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

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

Retirement Board policies permit the Employees' Retirement System to use investments of the pension plan to enter into securities lending transactions, which are loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return collateral for the same securities in the future. The System's securities custodian is an agent in lending the Plan's securities for cash collateral, U.S. government securities, and irrevocable letters of credit of 102% for domestic securities lent and 105% for international securities lent. As of June 30, 2010, 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, 2010, 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
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(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, 2010, had a weighted average maturity of 25 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 97 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, 2010, the fair value of securities on loan was \$84,132. The total cash and non-cash collateral held by the System’s custodian to secure these securities on loan was valued at \$81,660, consisting of \$81,636 cash collateral and \$24 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 as of June 30, 2010, are included on the balance sheet in accounts payable and accrued expenses. In previous years, trends have shown that the District employees utilize the accruals annually, therefore, amounts payable are accrued and reported as a current liability on the financial statements.

The changes in compensated absences were as follows:

Beginning Balance	\$25,713
Additions	30,453
Payments	(28,808)
Ending Balance	\$27,358

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 and capital costs related to wet weather sewage flows.

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
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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. Reclassification

For the year ended June 30, 2010, certain classifications have been changed to improve financial statement presentation. For comparative purposes, prior year balances have been reclassified to conform with the fiscal year 2010 presentation.

NOTE 2 - CASH AND INVESTMENTS

A. Classification

Reconciliations of cash and investments reported on the financial statements as of June 30, 2010, are as follows:

<i>District Enterprise Funds:</i>	Water System	Wastewater System	Total
Cash and investments included in current assets	\$229,625	\$18,847	\$248,472
Cash and investments included in restricted assets	351,788	5,711	357,499
Cash and investments included in unrestricted assets	5,598	20,304	25,902
Total District cash and investments	587,011	44,862	631,873
Less non-current investments	(317,740)	(25,307)	(343,047)
	\$269,271	\$19,555	\$288,826
 <i>System Pension Trust Funds:</i>			
Cash and investments			\$27,604
Invested securities lending collateral			84,132
Retirement system investments			747,113
Total System cash and investments			\$858,849

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009
(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%	10%
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%	10%
Commercial Paper	270 Days	A1, P1, F1	25%	10%
Negotiable Certificates of Deposit	5 Years	AA	30%	10%
Time Certificates of Deposit – Banks or Savings and Loans	5 Years	N/A	30%	10%
Medium Term Corporate Notes	5 Years	AA	30%	10%
Municipal Bonds	N/A	AA	40%	10%

The District does not enter into reverse repurchase agreements.

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
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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 Obligation	N/A
State Obligations	Not lower than District's bond rating
Commercial Paper	Top Rating Category
Negotiable Certificates of Deposit	N/A
Time Certificates of Deposits - Banks or Savings and Loans	N/A
Corporate Notes and Bonds	Not lower than District's bond rating
Variable Rate Obligations	Not lower than District's bond rating
Cash Swap Agreements	Top Rating Category
Guaranteed Investment Contract	Not lower than District's bond rating
Shares of Beneficial Interest	Top Rating Category

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. 6713*.

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

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

Fixed Income	25%
Domestic Equity	50%
International Equity	20%
Real Estate	5%
Allocation to Cash	0%

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

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

The equity and fixed income asset allocations may range \pm 5% from the long-range asset allocation goals.

The fixed income target allocation (25% of the total portfolio) will primarily consist of U.S. denominated fixed income securities. Individual managers may invest up to 20% of their assets in international fixed income securities.

The domestic equity target allocation (50% of the total portfolio) will consist of approximately 45% in large cap strategies and 5% in small cap strategies. It is expected this allocation will allow for exposure to mid cap securities based on tactical decisions by the Retirement Fund's large cap and small cap domestic equity managers.

The international equity target allocation (20% of the total portfolio) will consist of approximately 17% in international equities and 3% in emerging markets equities.

The real estate target allocation (5% of the total portfolio) will consist of either equity (ownership) and/or fixed income participation in commercial, industrial, or residential properties. Investments may include interests in mortgage pools secured by loans of underlying properties.

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

**EAST BAY MUNICIPAL UTILITY DISTRICT
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NOTE 2 - CASH AND INVESTMENTS (Continued)

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

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

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

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

Structured notes with significant short options positions or increasing leverage will not be purchased, and in no case will structured notes exceed 5% of portfolio value, with the exception of structured notes issued by the U.S. Government (Treasuries and Agencies) which may not exceed 25% of the 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 holdings.

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

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

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

**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 and System's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity or earliest call date.

District Enterprise Funds:

Investment Type	12 Months or less	13 to 24 Months	25 to 60 Months	More than 60 Months	Total
U.S. Government-Sponsored Enterprise Agencies:					
Non-callable	\$55,398	\$61,218	\$9,374		\$125,990
Callable	141,614	1,171			142,785
Corporate Securities:					
Non-callable	18,498	13,310	14,208		46,016
Municipal Bonds	1,621			\$15,925	17,546
Guaranteed Investment Contracts	13,300				13,300
Demand Deposits and Certificate of Deposit	1,945				1,945
Mutual Funds (U.S. Securities)	229,172				229,172
California Local Agency Investment Fund	44,280				44,280
Total Investments	<u>\$505,828</u>	<u>\$75,699</u>	<u>\$23,582</u>	<u>\$15,925</u>	621,034
Cash in banks					10,839
Total District Cash and Investments					<u>\$631,873</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	Less than 12 Months	12 to 72 Months	72 to 120 Months	More than 120 Months	Maturity not Determined	Total
Asset Backed Securities		\$352	\$388	\$4,795		\$5,535
Equity Securities	\$505,328					505,328
Commercial Mortgage - Backed Securities				4,184		4,184
Corporate Bonds	717	11,828	23,231	12,373	\$4,502	52,651
Government Agencies	99	2,244	19,349	30,700		52,392
Government Bonds		112	10,131	6,803		17,046
Government Mortgage Backed Securities		40	275	21,212	1,043	22,570
Index Linked Government Bonds		17,872	4,988	8,288		31,148
Short Term Investment Funds					20,715	20,715
Municipal Bonds				964		964
Mutual Funds				9,625	10,478	20,103
Real Estate					14,477	14,477
Total System Investments	<u>\$506,144</u>	<u>\$32,448</u>	<u>\$58,362</u>	<u>\$98,944</u>	<u>\$51,215</u>	<u>\$747,113</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, 2010, these investments matured in an average of 203 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	Year End
Commercial Mortgage - Backed Securities	\$4,184
Government Mortgage - Backed Securities	22,570

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009
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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, 2010, for each investment type as provided by Moody's.

Investment Type	Aaa	Aa1	Aa2	Aa3	A	A1	A2	Total
U.S. Government -Sponsored								
Enterprise Agencies:								
Non-callable	\$125,900							\$125,900
Callable	142,785							142,785
Corporate Securities:								
Non-Callable		\$8,683	\$26,669	\$6,047		\$2,110	\$2,507	46,016
Municipal Bonds			15,925	1,621				17,546
Guaranteed Investment Contracts	13,300							13,300
Mutual Funds (U.S. Securities)	168,872				\$59,300			228,172
Totals	<u>\$450,857</u>	<u>\$8,683</u>	<u>\$42,594</u>	<u>\$7,668</u>	<u>\$59,300</u>	<u>\$2,110</u>	<u>\$2,507</u>	573,719
<i>Not rated:</i>								
Demand Deposits and Certificate of Deposit								1,945
Mutual Funds (U.S. Securities)								1,000
California Local Agency Investment Fund								44,280
Cash in Banks								<u>10,839</u>
Total District Cash and Investments								<u>\$631,783</u>

System Pension Trust Fund:

Investment Type	Aaa	Aa	A	Baa	Ba	B	Caa	Ca	C	U.S. Government Guaranteed	Not Rated	Total
Asset Backed Securities	\$1,047	\$681		\$215		\$1,173	\$1,882	\$241	\$296			\$5,535
Equity Securities											\$505,328	505,328
Commercial Mortgage - Backed	3,563										621	4,184
Corporate Bonds	3,339	11,157	\$18,126	10,456	\$2,851						6,722	52,651
Government Agencies	48,227	1,678	74	89						\$2,324		52,392
Government Bonds	12,950			204						3,892		17,046
Government Mortgage Backed Securities				454						22,116		22,570
Index Linked Government Bonds	31,148											31,148
Short Term Investment Funds											20,715	20,715
Municipal Bonds			864								100	964
Mutual Funds	923	274	509	1,773	100	2,316	1,766	233			12,209	20,103
Real Estate											14,477	14,477
Total System Investments	<u>\$101,197</u>	<u>\$13,790</u>	<u>\$19,573</u>	<u>\$13,191</u>	<u>\$2,951</u>	<u>\$3,489</u>	<u>\$3,648</u>	<u>\$474</u>	<u>\$296</u>	<u>\$28,332</u>	<u>\$560,172</u>	<u>\$747,113</u>

**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:

Reporting Unit	Issuer	Investment Type	Reported Amount
District-Wide	FNMA	Federal Agency Securities	\$90,606
	FHLMC	Federal Agency Securities	131,151
	FHLB	Federal Agency Securities	47,018
Major Funds:			
Water System	FNMA	Federal Agency Securities	79,585
	FHLMC	Federal Agency Securities	126,137
	FHLB	Federal Agency Securities	44,894
Wastewater System	FNMA	Federal Agency Securities	11,021
	FHLMC	Federal Agency Securities	5,014
	GECC	Corporate Securities	5,558

Significant System Pension Trust Fund investments are:

Nature of Investment	Fair Value at June 30, 2010
Northern Trust Collective Daily Russell 1000 Equity Index Fund	\$175,866
Templeton Institutional Funds, Inc. Foreign Equity Series	66,549

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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, 2010:

<u>Foreign Currency</u>	<u>Equity Securities Investment Type</u>
Euro	\$21,111
Japanese Yen	10,843
British Pound Sterling	5,736
Swiss Franc	5,169
South Korean Won	3,493
Australian Dollar	2,859
Hong Kong Dollar	2,823
Canadian Dollar	2,587
Swedish Krona	1,977
Mexican Peso	1,610
Indonesian Rupiah	1,077
Brazilian Real	890
Norwegian Krone	881
Malaysia Ringgit	833
Singapore Dollar	793
Polish Zloty	532
Danish Krone	432
South African Rand	169
Czech Republic Koruna	74
Total	<u><u>\$63,889</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 9%.

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.

**EAST BAY MUNICIPAL UTILITY DISTRICT
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NOTE 2 - CASH AND INVESTMENTS (Continued)

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

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

As of June 30, 2010 and 2009, the System's brokers/dealers held \$1 and \$268, 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:	Years
Source of supply	25-100
Raw water transmission and storage	20-100
Interception and outfall	60-75
Pumping	25-75
Treatment	20-75
Distribution	25-75
Power Generation	25-75
Equipment	5-20
Plant Structures	25-75
Other	5-40

EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 3 – CAPITAL ASSETS (Continued)

B. Additions and Retirements

Capital assets activity for all business-type activities for the year ended June 30, 2010, was as follows:

	Balance at June 30, 2009	Additions and Transfers, net	Retirements and Transfers, net	Balance at June 30, 2010
Water System:				
Capital assets, not being depreciated:				
Land and rights-of-way	\$50,851	\$2,626		\$53,477
Construction in progress - Land	679	3,000	(\$2,626)	1,053
Construction in progress	704,901	261,627	(184,387)	782,141
Total capital assets, not being depreciated	756,431	267,253	(187,013)	836,671
Capital assets, being depreciated:				
Buildings and improvements	187,761	8,859		196,620
System and improvements	3,441,444	172,491	(21,836)	3,592,099
Machinery and equipment	75,945	3,038	(3,288)	75,695
Total capital assets, being depreciated:	3,705,150	184,388	(25,124)	3,864,414
Less accumulated depreciation for:				
Buildings and improvements	(67,483)	(4,772)		(72,255)
System and improvements	(985,165)	(67,468)	362	(1,052,271)
Machinery and equipment	(51,514)	(3,864)	2,360	(53,018)
Total accumulated depreciation	(1,104,162)	(76,104)	2,722	(1,177,544)
Total capital assets, being depreciated, net	2,600,988	108,284	(22,402)	2,686,870
Water System capital assets, net	\$3,357,419	\$375,537	(\$209,415)	\$3,523,541
Wastewater System:				
Capital assets, not being depreciated:				
Land and rights-of-way	\$19,688	\$56		\$19,744
Construction in progress - Land	1	60	(\$56)	5
Construction in progress	57,933	53,786	(29,883)	81,836
Total capital assets, not being depreciated	77,622	53,902	(29,939)	101,585
Capital assets, being depreciated:				
Buildings and improvements	72,944	519		73,463
System and improvements	690,471	28,743	(1,126)	718,088
Machinery and equipment	5,098	621	(26)	5,693
Total capital assets, being depreciated	768,513	29,883	(1,152)	797,244
Less accumulated depreciation for:				
Buildings and improvements	(25,101)	(1,669)		(26,770)
System and improvements	(243,934)	(17,591)		(261,525)
Machinery and equipment	(4,639)	(177)	26	(4,790)
Total accumulated depreciation	(273,674)	(19,437)	26	(293,085)
Total capital assets, being depreciated, net	494,839	10,446	(1,126)	504,159
Wastewater System capital assets, net	\$572,461	\$64,348	(\$31,065)	\$605,744
Business-type activities capital assets, net	\$3,929,880	\$439,885	(\$240,480)	\$4,129,285

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 3 – CAPITAL ASSETS (Continued)

C. Construction in Progress

Construction in Progress in fiscal 2009-2010 comprises:

	<u>Expended to Date</u>
<i>Water System:</i>	
Folsom South Canal Connection	\$266,026
Freeport Regional Water Project	232,185
San Pablo Dam Seismic Modifications	81,553
RARE Water Project	53,474
Pipeline Infrastructure Renewals	26,424
Customer Information System Replacement Project	15,741
Meter Replacements	7,803
East Area Service Center	7,110
San Ramon Valley Recycled Water Program	6,010
Pipeline System Improvements	5,783
Reservoir Rehabilitaion/Maintenance	5,336
Treatment Plant Upgrades	5,135
Southern Loop Enhancement	5,100
Additional Supplemental Supply Projects	4,689
Water Conservation Project	4,633
Water Treatment & Transmission Improvement Program	4,492
Summit Pressure Zone Improvement Study	4,288
Pipeline Relocations	4,254
Vulnerability Assessment Security System Improvements	3,990
Baseline/Laguna Pressure Zone Improvement	3,959
Other Construction Projects	35,209
Total Water System	\$783,194
<i>Wastewater System:</i>	
Power Generation Station Expansion	\$23,525
Digester Upgrade	23,188
Infiltration/Inflow Contrl Project	9,289
Centrifuge Replacement	5,130
Treatment Plant Infrastructure	3,803
Priority Manhole Interceptor	3,181
Power Generation Station Engine Overhaul	2,800
Resource Recovery Project	2,789
Routine Capital Equipment Replacement	1,614
Pump Station H Improvements	1,134
Interceptor Corrosion Prevention	1,114
Main WastewaterTreatment Plant Master Plan	933
Concrete Rehabilitaion at SD1	891
Procure Emergency Response Equipmt	636
Main WastewaterTreatment Plant Power Distribution System Upgrade	349
Other Construction Projects	1,465
Total Wastewater System	\$81,841
Total District Construction in Progress	\$865,035

At June 30, 2010, the District's remaining current major project commitments are estimated to be \$32,108 for the Water System and \$49,844 for the Wastewater System.

**EAST BAY MUNICIPAL UTILITY DISTRICT
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NOTE 4 – ACCOUNTS PAYABLE & ACCRUED EXPENSES

Accounts payable and accrued expenses at June 30, 2010 and 2009 consist of:

	Water System		Wastewater System		Total	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Accounts payable	\$13,930	\$23,898	\$8,638	\$5,873	\$22,568	\$29,771
Accrued salaries	4,183	3,734	737	643	4,920	4,377
Workers' compensation reserves	27,571	25,257	5,252	5,173	32,823	30,430
General liability reserves	5,940	4,774	-	-	5,940	4,774
Accrued compensated absences	23,287	21,948	4,071	3,765	27,358	25,713
Other	11,144	9,549	2,983	2,494	14,127	12,043
Total	<u>\$86,055</u>	<u>\$89,160</u>	<u>\$21,681</u>	<u>\$17,948</u>	<u>\$107,736</u>	<u>\$107,108</u>

NOTE 5 – EXTENDABLE COMMERCIAL PAPER NOTES

The District's Board of Directors has authorized a short-term commercial paper borrowing program of up to the lesser of either (1) the average of the total annual revenue for the three preceding years or (2) 25% of the District's total outstanding bonds. 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 March 10, 2009.

As of June 30, 2010, \$290.3 million in Water Series and \$15.0 million in Wastewater Series commercial paper notes were outstanding under this program. The Water Series included terms of 49 to 120 days and interest rates ranging from 0.32% to 0.50% as of June 30, 2010, and terms of 33 to 119 days and interest rates ranging from 0.20% to 0.65% as of June 30, 2009. The Wastewater Series included terms of 94 to 120 days and interest rates ranging from 0.41% to 0.43% as of June 30, 2010, and terms of 94 to 120 days and interest rates ranging from 0.50% to 0.70% as of June 30, 2009. The District paid off a portion of the commercial paper in FY 2007 and reissued in FY 2008. There were no unused proceeds as of June 30, 2010. It is the District's policy to use commercial paper as a portion of the District's long-term variable rate debt exposure.

The District replaced the commercial paper program with an extendible commercial paper program in March 2009. Under the extendible commercial paper program, no liquidity support agreement (line of credit) with a commercial bank is needed. Instead, the District limits the term of the commercial paper to 120 days, and the investor agrees to extend the maturity of their investment by 150 days in the event of a failed remarketing which gives the District sufficient time to find a replacement investor or issue debt to repay the investor. Prior to March 2009, the District maintained a liquidity support agreement (line of credit) with a commercial bank, and there were no borrowings under the line of credit during the years ended June 30, 2010 and 2009.

**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, 2009	Additions	Retirements	Balance June 30, 2010	Amount due within one year
Water System Revenue Bonds:						
Subordinated Series 2001						
3.60-5.25%, due 6/1/26	\$250,000	\$8,295		\$2,650	\$5,645	\$2,765
Subordinated Series 2002						
.30% variable rate, due 6/1/25	241,850	211,200		20,020	191,180	20,860
Subordinated Series 2003						
2.00 - 5.00%, due 6/1/21	115,730	69,665		4,320	65,345	4,525
Subordinated Series 2005 A						
5.00%, due 6/1/35	300,000	300,000			300,000	
Subordinated Series 2007 A						
5.00%, due 6/1/37	450,000	450,000			450,000	
Subordinated Series 2007 B						
3.75 - 5.00%, due 6/1/19	54,790	54,790		4,510	50,280	4,675
Subordinated Series 2008 A						
.33% variable rate, due 6/1/38	322,525	319,925		1,375	318,550	1,425
Subordinated Series 2008 B						
.27% variable rate, due 6/1/35	160,000	159,425		100,300	59,125	325
Subordinated Series 2009 A						
.25% variable rate, due 6/1/26	331,155	326,060		4,920	321,140	5,095
Subordinated Series 2010 A						
3.00 - 5.00%, due 6/1/36	192,830		\$192,830		192,830	
Subordinated Series 2010 B						
5.87%, due 6/1/36	400,000		400,000		400,000	
Total water long-term bonds		<u>1,899,360</u>	<u>592,830</u>	<u>138,095</u>	<u>2,354,095</u>	<u>39,670</u>

(Continued)

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009
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NOTE 6 - LONG TERM DEBT (Continued)

	Original Issue Amount	Balance June 30, 2009	Additions	Retirements	Balance June 30, 2010	Amount due within one year
<i>Wastewater System General</i>						
<i>Obligation Bonds:</i>						
Series F						
2.5 % - 5.00%, due 4/1/18	\$41,730	\$29,785		\$2,530	\$27,255	\$2,710
<i>Wastewater System Revenue Bonds:</i>						
Subordinated Series 1998						
4.00-5.25%, due 6/1/38	50,000	1,550		1,550		
Subordinated Series 2007 A						
5.00%, due 6/1/37	80,630	80,630			80,630	
Subordinated Series 2007 B						
3.75 - 5.00%, due 6/1/26	46,670	43,835		1,710	42,125	1,700
Subordinated Series 2008 A						
.17% variable rate, due 6/1/33	50,000	50,000			50,000	
Subordinated Series 2008 B						
.3% variable rate, due 6/1/38	69,300	68,500		1,650	66,850	1,675
Subordinated Series 2008 C						
.3% variable rate, due 6/1/27	65,300	60,650		2,040	58,610	2,170
Total wastewater long-term bonds		334,950		9,480	325,470	8,255
Total long-term bonds		2,234,310	592,830	147,575	2,679,565	47,925

(Continued)

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009
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NOTE 6 - LONG TERM DEBT (Continued)

	Original Issue Amount	Balance June 30, 2009	Additions	Retirements	Balance June 30, 2010	Amount due within one year
Water Loans:						
1977 Federal Drought Loan						
5.00%, due 9/1/17	\$5,973	\$1,282		\$1,282		
2003 California Energy Commission						
3.00%, due 6/22/13	1,992	874		209	\$665	\$215
State Water Resources Control Board						
2004 Upper San Leandro Reservoir Project						
2.51%, due 1/1/24	2,188	1,691		98	1,593	100
1989 Galbraith Golf Course Project						
4.01%, due 2/28/09	122	2		2		
1992 Alameda Reclamation Project						
3.20%, due 11/20/11	1,359	216		88	128	91
1993 Chevron Water Reclamation Project						
3.00%, due 8/8/15	22,292	9,657		1,260	8,397	1,298
2008 East Bayshore, Recycled Water Project						
2.40%, due 4/1/28	20,100	19,049		803	18,246	822
Total water loans		32,771		3,742	29,029	2,526
Wastewater Loans:						
State Water Resources Control Board						
1989 Oakport Project						
4.01%, due 12/14/10	2,495	275		163	112	112
1991 Adeline Street Project						
3.50%, due 10/1/10	8,141	1,075		529	546	546
1991 South Foothill Project						
3.50%, due 10/1/10	14,293	1,888		928	960	960
1992 Point Isabel Wet Weather Project						
3.10%, due 10/2/13	21,515	6,890		1,295	5,595	1,335
1994 North Interceptor Project						
2.90%, due 12/31/14	10,091	3,721		575	3,146	594
1995 San Antonio Creek Project						
3.40%, due 11/30/16	15,331	7,593		842	6,751	871
1997 Pump Station C Project						
2.80%, due 1/31/17	3,849	2,030		201	1,829	207
2000 Pump Station B Project						
2.20%, due 2/1/09	3,088	1,865		151	1,714	155
Total wastewater loans		25,337		4,684	20,653	4,780
Total long-term loans		58,108		8,426	49,682	7,306
Commercial Paper (see Note 5)		330,300		25,000	305,300	
Amount due within one year		(54,073)		1,159	(55,232)	
Less: Unamortized discount, net		2,538	\$1,058	(14,130)	17,726	
Total long-term liabilities, net		<u>\$2,571,183</u>	<u>\$592,830</u>	<u>\$166,972</u>	<u>\$2,997,042</u>	<u>\$55,232</u>

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009
(Dollars in Thousands)**

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.

Water System

Water System Subordinated Revenue Refunding Bonds, Series 2010A – The District issued Series 2010A on February 3, 2010, to refund \$100 million principal amount of the District's Water System Subordinated Revenue Refunding Bonds, Series 2008B, \$100 million principal amount of the District's Water System commercial paper notes, fund a reserve fund for the Series 2010A Bonds and pay costs of issuance in connection with the Series 2010A Bonds. The Series 2010A Bonds are special obligations of the District and are payable solely from and secured by a pledge of Subordinated Water Revenues. Principal payments commence on June 1, 2013 and are payable annually on June 1 thereafter. Interest payments are payable semiannually on June 1 and December 1 of each year, commencing June 1, 2010.

Water System Subordinated Revenue Bonds, Series 2010B – The District issued \$400 million of Series 2010B on February 23, 2010, to provide moneys to finance improvements to the District's Water System, fund a portion of the interest accrued with respect to the Series 2010B Bonds during the respective periods of acquisition and construction of such improvement, and pay costs of issuance in connection with the Series 2010B Bonds. The Series 2010B Bonds are special obligations of the District and are payable solely from and secured by a pledge of Subordinated Water Revenues. Interest payments are payable semiannually on June 1 and December 1 of each year, commencing June 1, 2010. Principal payments commence on June 1, 2036 and are payable annually on June 1 thereafter.

The Series 2010B Bonds were issued as "Build America Bonds" under the provisions of the American Recovery and Reinvestment Act of 2009 (the "Stimulus Act"), the interest on which is not excluded from gross income for federal income tax purposes but is exempt from State of California personal income tax. The District will receive a cash subsidy from the United States Treasury equal to 35% of the interest payable on the Series 2010B Bonds.

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

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
2011	\$42,197	\$79,509	\$13,035	\$7,911	\$55,232	\$87,420
2012	43,871	78,950	12,689	7,638	56,560	86,588
2013	47,984	78,189	13,255	7,658	61,239	85,847
2014	49,635	77,753	13,828	6,957	63,463	84,710
2015	51,506	76,923	12,949	6,858	64,455	83,781
2016 - 2020	289,015	371,065	56,888	28,522	345,903	399,587
2021 - 2025	347,305	354,482	50,635	23,420	397,940	377,902
2026 - 2030	421,297	312,293	60,550	19,320	481,847	331,613
2031 - 2035	533,105	209,005	74,015	13,055	607,120	222,060
2036 - 2038	557,209	75,654	38,280	796	595,489	76,450
Totals	<u>\$2,383,124</u>	<u>\$1,713,823</u>	<u>\$346,124</u>	<u>\$122,135</u>	<u>\$2,729,248</u>	<u>\$1,835,958</u>

Interest payments on debt subject to swap agreements were calculated using the variable rates at June 30, 2010.

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, 2010, \$232 million of bonds outstanding are considered defeased.

**EAST BAY MUNICIPAL UTILITY DISTRICT
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NOTE 6 - LONG TERM DEBT (Continued)

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 four to six basis points of the outstanding principal amount of the bonds. Terms of these arrangements are presented below by debt issue.

Issue	Standby Purchase Agreement Terms		
	Expiration Date	Interest Rate	Rate Swap Swap Rate
Water System Revenue			
Subordinated Bonds:			
Series 2002	3/17/2017	Variable Bank Rate	See below
Series 2008A	3/18/2011	Variable Bank Rate	See below
Series 2008B/2009A	4/22/2011	Variable Bank Rate	See below
Wastewater System Revenue			
Subordinated Bonds:			
Series 2008A	3/24/2011	Variable Bank Rate	None
Series 2008B	3/18/2011	Variable Bank Rate	See below
Series 2008C	3/18/2011	Variable Bank Rate	See below

**EAST BAY MUNICIPAL UTILITY DISTRICT
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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, 2010, 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	Effective Date	Counterparty	Counterparty Credit Ratings	Issuer Pays	Issuer Receives	Maturity/ Termination Date
2002 Water System Refunding Bonds	\$127,450	3/6/2002	Citigroup Financial Products, Inc.	A3	3.835%	65% of 30-day LIBOR	6/1/2025
2002 Water System Refunding Bonds	63,730	3/6/2002	JP Morgan Chase & Co.	Aa1	3.835%	65% of 30-day LIBOR	6/1/2025
2008A Water System Refunding Bonds	112,720	6/2/2005	JP Morgan Chase & Co.	Aa1	3.115%	62.3% of 30-day LIBOR	6/1/2038
2008A Water System Refunding Bonds	112,720	6/2/2005	Merrill Lynch Capital Services	A2	3.115%	62.3% of 30-day LIBOR	6/1/2038
2008A Water System Refunding Bonds	49,005	6/2/2005	SBS Financial Products Company	A2	3.115%	62.3% of 30-day LIBOR	6/1/2038
2008A Water System Refunding Bonds	44,105	9/25/2008	The Bank of New York Mellon	Aaa	3.115%	62.3% of 30-day LIBOR	6/1/2038
2008B/2009A Water System Refunding Bonds	227,955	5/23/2007	SBS Financial Products Company	Aa3	3.407%	91.0% of USD-SIFMA Municipal Swap Index	6/1/2026
2008B/2009A Water System Refunding Bonds	75,985	5/23/2007	Citi Bank, N.A. New York	A1	3.407%	91.0% of USD-SIFMA Municipal Swap Index	6/1/2026
2008B/2009A Water System Refunding Bonds	75,985	5/23/2007	Merrill Lynch Capital Services	A2	3.407%	91.0% of USD-SIFMA Municipal Swap Index	6/1/2026
2008B Wastewater System Refunding Bonds	66,850	12/16/2008	Dexia Credit Local	A1	3.098%	62.3% of 3-month LIBOR	6/1/2038
2008C Wastewater System Refunding Bonds	29,305	3/5/2003	Citigroup Financial Products, Inc.	A3	3.468%	65% of 30-day LIBOR	6/1/2027
2008C Wastewater System Refunding Bonds	29,305	3/5/2003	JP Morgan Chase & Co.	Aa1	3.468%	65% of 30-day LIBOR	6/1/2027

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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 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, 2010, are included below:

Related Bond Issuance	Fair Value	
	2010	2009
Water		
2002 Water System Refunding Bonds	(\$30,148)	(\$24,087)
2008A Water System Refunding Bonds	(41,476)	(25,800)
2008B-3/2009 Water System Refunding Bonds	(20,642)	(18,013)
2009 Water System Refunding Bonds	(13,761)	
Total Water	(106,027)	(67,900)
Wastewater		
2008B Wastewater System Refunding Bonds	(7,599)	(4,779)
2008C Wastewater System Refunding Bonds	(7,913)	(5,754)
Total Wastewater	(15,512)	(10,533)
Totals	(\$121,539)	(\$78,433)

Credit risk. As of June 30, 2010, the District was not exposed to credit risk on its outstanding swaps because the swaps had a negative fair value of \$122 million. The District faces a maximum possible loss equivalent to the swaps' fair value. However, if interest rates increase and the fair value of the swaps were to become positive, the District would be exposed to credit risk.

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, 2010, neither the District nor the counterparty was 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 and/or SIFMA Municipal Swap Index 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
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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, 2010, 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	
2011	\$31,550	\$3,455	\$30,539	\$33,994
2012	32,860	3,355	29,416	32,771
2013	37,305	3,224	28,267	31,491
2014	38,635	3,090	27,075	30,165
2015	40,095	2,951	25,838	28,789
2016 - 2020	239,480	12,283	107,977	120,260
2021 - 2025	365,285	6,660	58,517	65,177
2026 - 2030	106,370	2,461	21,648	24,109
2031 - 2035	72,725	1,328	11,680	13,008
2036 - 2038	51,150	175	1,538	1,713
Totals	<u>\$1,015,455</u>	<u>\$38,982</u>	<u>\$342,495</u>	<u>\$381,477</u>

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. 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.

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009
(Dollars in Thousands)**

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.

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, 2010, there were 1,187 participants receiving these health care benefits.

Effective July 1, 1996, a 20-year vesting schedule for full benefits was implemented for all new participants. Effective January 1, 1999, retired members who had separated from the District prior to their retirement and who had at least 10 years of service also became eligible for the post-employment health benefits based on the same sliding scale. The scale provides for 25% of healthcare benefits for service from 5 through 10 years, 50% of healthcare benefits for service from 10 through 15 years, 75% of healthcare benefits for service from 15 through 20 years, and 100% of healthcare benefits for service of 20 years or more. Effective July 1, 2003, the District reimbursed up to \$450 per month (\$550 per month effective July 1, 2004, for membership of a spouse or registered domestic partner) for any health, dental, or long-term care insurance premiums paid by the retiree for themselves, current spouse, or domestic partner, or any health, dental, or long-term care insurance premiums paid by the eligible surviving spouse of a retiree. These benefits are paid from a separate post-employment healthcare benefits fund which up until June 17, 2002, was advance funded entirely by the District on an actuarially determined basis. Cash reimbursement of these benefits totaled \$5,961 in the year ended June 30, 2010. Effective June 18, 2002, a portion of the post-employment healthcare benefit costs is recovered through employee contributions.

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009
(Dollars in Thousands)**

NOTE 8 – EMPLOYEES’ RETIREMENT PLAN (Continued)

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

C. Actuarial Assumptions and Funding Policy

The Plan’s funding policy provides for periodic District contributions at actuarially determined amounts sufficient to accumulate the necessary assets to pay benefits when due as specified by ordinance. The individual-entry-age-normal method is used to determine the normal cost, and the unfunded actuarial accrued liability (past service liability) is amortized as a level percentage of future covered payroll on a closed basis over 30 years for the pension plan and 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 28.85% of covered payroll inclusive of post-employment health care benefits.

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

Valuation date	June 30, 2009
Actuarial cost method	Entry Age Normal Cost Method
Amortization method	Level percent of payroll
Remaining amortization period	30 years
Assets valuation method	5-year smoothing of market value
Actuarial assumptions:	
Investment rate of return	8.25%
Average projected salary increases	0.25%
Inflation rate	3.75%
Cost-of-living adjustments	3.50%

All assumptions are the same for the post-employment health care benefits except for the discount rate, assumed at a rate of 7.25% for the funded and unfunded portions.

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009
(Dollars in Thousands)**

NOTE 8 – EMPLOYEES’ RETIREMENT PLAN (Continued)

D. Contributions Required and Contributions Made

Contributions for the years ended June 30, based on the actuarial valuation, were as follows:

	2010		2009	
	Pension	Healthcare Benefit Plan	Totals	
Regular contributions:				
District contributions	\$44,031	\$7,725	\$51,756	\$45,803
Member contributions	10,704	144	10,848	10,677
	54,735	7,869	62,604	56,480
Other contributions:				
Member buybacks	70		70	63
	\$54,805	\$7,869	\$62,674	\$56,543

Regular District and member contributions in fiscal 2010 represent an aggregate of 32.58% and 6.87% of covered payroll, respectively. The payroll for the District employees covered by the Plan for the year ended June 30, 2010, was \$158,845, which was 92.79% of the total District payroll of \$171,190. The total District contribution of \$51,756 consisted of \$25,460 for normal cost and \$26,296 for amortization of the unfunded actuarial accrued liability. The payroll for the District employees covered by the Plan for the year ended June 30, 2009, was \$158,775, which was 91.75% of the total District payroll of \$173,050. The total District contribution of \$45,803 consisted of \$21,677 for normal cost and \$24,126 for amortization of the unfunded actuarial accrued liability.

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

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009
(Dollars in Thousands)**

NOTE 8 – EMPLOYEES’ RETIREMENT PLAN (Continued)

E. Schedule of Employer Contributions

The schedule of employer contributions is shown below:

Retirement Plan:

	Actual contribution	Annual required contribution	Percentage contributed
Fiscal year ended June 30:			
2008	\$37,387	\$35,128	106%
2009	39,485	39,114	101%
2010	44,031	44,031	100%

Health Insurance Benefit Plan:

	Actual contribution	Annual required contribution	Percentage contributed
Fiscal year ended June 30:			
2008	\$7,216	\$9,475	76%
2009	6,318	9,510	66%
2010	7,725	11,775	66%

The annual required contributions for fiscal years ended June 30, 2010 and 2009, include amounts for the pay-as-you-go amounts for post-employment healthcare benefits.

F. Funding Progress and Funded Status

During the fiscal year ended June 30, 2010, the District made contributions to the Health Insurance Benefit Plan toward the Annual Required Contribution (ARC) amounting to \$7,725, which represented 4.51% of the total \$171,190 total District payroll. During the fiscal year ended June 30, 2009, the District made contributions toward the ARC amounting to \$6,318 to the plan which represented 3.65% of the \$173,050 total District payroll. As a result, the District has recorded the Net OPEB Obligation (NOO), representing the difference between the ARC and actual contributions, as presented below:

Net OPEB obligation at June 30, 2008		\$1,961
Annual required contribution (ARC)	\$9,476	
Interest on net OPEB obligation	142	
Adjustments to the ARC	(108)	
Annual OPEB cost - fiscal year 2008/2009	9,510	
Less contributions made during fiscal year:		
Contributions to Northern Trust	(6,318)	
Contributions less than ARC		3,192
Net OPEB obligation at June 30, 2009		5,153
Annual required contribution (ARC)	11,775	
Interest on net OPEB obligation	374	
Adjustments to the ARC	(278)	
Annual OPEB cost - fiscal year 2009/2010	11,871	
Less contributions made during fiscal year:		
Contributions to Northern Trust	(7,725)	
Increase in net OPEB obligations		4,146
Net OPEB obligation at June 30, 2010		\$ 9,299

As of June 30, 2010, the amount of the Net OPEB obligation is included in accounts payable and accrued expenses in the accompanying balance sheet.

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009
(Dollars in Thousands)**

NOTE 9 - RISK MANAGEMENT

The District has purchased commercial insurance for general, property, public officials' liability and workers' compensation. During the fiscal year ended June 30, 2010, the District paid \$1,382 for current year coverage.

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

Selected other coverages are:

<u>Coverage</u>	<u>Policy Limit</u>	<u>Self-insurance retention</u>
Workers' Compensation	Statutory Limit	\$5,000
All risk property (except flood)	\$100,000	100
Flood	25,000	15,000
Liability	90,000	10,000 Water/ 10,000 Wastewater
Crime	10,000	25
Boiler and Machinery	10,000	25

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

Claim expenses and liabilities are recorded when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. As of June 30, 2010, the amount of these liabilities was \$38,763 and is included in accounts payable and accrued expenses in the accompanying balance sheet. This amount (which has not been discounted) has been actuarially determined and includes an estimate of incurred but not reported losses. Changes in the reported liability are as follows:

	<u>2010</u>	<u>2009</u>
Liability at beginning of year	\$35,204	\$34,093
Current year claims and changes in estimates	9,430	12,153
Payments of claims	(5,871)	(11,042)
Liability at end of year	<u>\$38,763</u>	<u>\$35,204</u>

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009
(Dollars in Thousands)**

NOTE 10 – KNOWN ENVIRONMENTAL LIABILITIES

Following is a summary of the District's known environmental liabilities as of June 30, 2010 that meets the requirements of GASB Statement No. 49:

Under a revised National Pollutant Discharge Elimination System (NPDES) permit issued by the San Francisco Regional Water Quality Control Board, further discharges from the District's wet weather facilities are prohibited. Under an accompanying Cease and Desist Order, the District must submit a plan for eliminating discharges from the three wet weather facilities by January 14, 2010 and achieve full compliance with the discharge prohibition by January 13, 2019. The District also recently received a Federal Stipulated Order on this matter that focuses on the excess wet weather flow entering the District's pipes from the neighboring cities' collection systems. The Order requires the District to do a range of work, including flow monitoring and modeling. The cost to meet the requirements in the Order is approximately \$5M/year.

The San Francisco Regional Water Quality Control Board recently adopted a new general permit for surface water treatment plants that became effective on March 1, 2010. The District's Orinda Water Treatment Plant cannot comply with the requirements of this new permit and the District has negotiated an individual permit and Cease and Desist Order (CDO) to provide a mechanism and timeline for achieving compliance. In the short term, it is anticipated that the District will be able to meet the conditions of the individual permit and the CDO for at least 5 years. At the end of the CDO, the long-term costs and schedule for achieving compliance will be known with greater certainty.

The District submitted a Best Practicable Treatment and Control Evaluation Report to the Central Valley Regional Water Quality Control Board (CVRWQCB) on June 22, 2010 to address potential groundwater impacts from the wastewater treatment facility at Camanche North Shore Recreation Area. Based on the results of this evaluation, the no-action alternative was selected as the preferred alternative because the constituents of concern only slightly exceed recommended target groundwater concentrations and there are no significant impacts upon beneficial uses. Uncertainty exists as to whether or not the CVRWQCB will concur with this recommendation. If the CVRWQCB does not concur, it is possible that the District will be required to construct wastewater treatment pond upgrades. At this preliminary planning stage, it is estimated that the cost would be approximately \$6.6M to upgrade the existing facilities, or alternatively, approximately \$7.8M to construct a joint wastewater project with Amador County.

The CVRWQCB has requested that the District and U.S. Bureau of Land Management (BLM) address three abandoned ponds near Camanche Reservoir that contain mine wastes. The District and BLM have both been named as potential responsible parties. This site investigation/remediation project is currently proceeding into the risk assessment stage, and the final site remedy and cost allocations between the District and BLM have yet to be determined.

The Central Valley Regional Water Quality Control Board has requested that the District address elevated concentrations of petroleum hydrocarbons in soil and groundwater associated with former underground storage tanks (USTs) at the District's Bixler facility. The District has completed site investigation work and groundwater monitoring in accordance with CVRWQCB requirements and the CVRWQCB recently requested that a soil gas investigation be conducted to justify case closure. It is estimated that this investigation can be completed for less than \$50,000. Long term costs, if any, have yet to be determined.

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009
(Dollars in Thousands)**

NOTE 10 – KNOWN ENVIRONMENTAL LIABILITIES (Continued)

The Alameda County Health Care Services Agency requested that the District conduct additional site investigations at the Adeline Maintenance Center Shops to further define the extent of petroleum hydrocarbons in soil and groundwater associated with former underground storage tanks (USTs). The District completed additional site investigations in accordance with an approved work plan. The results of the site investigation indicate that elevated concentrations of petroleum hydrocarbons still remain in on-site soil and groundwater in localized areas near the former USTs. The scope of additional work remaining at this site has yet to be determined.

The District operates many facilities throughout Northern California that have NPDES and WDR permits and air permits. The total estimated liability for all known violations is less than \$50,000.

NOTE 11 - STATE OF CALIFORNIA PROPOSITION 1A SECURITIZATION

Proposition 1A was passed by California voters in 2004 to ensure local property tax and sales tax revenues remain with local governments thereby safeguarding funding for public safety, health, libraries, parks, and other local services. Provisions can only be suspended if the Governor declares a fiscal necessity and two-thirds of the Legislation concur.

Under the provision of Proposition 1A and as part of the fiscal year 2009-10 budget package passed by the California State Legislature on July 28, 2009, the State of California borrowed 8% of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fees, triple flip in lieu sales taxes, and supplemental property taxes, apportioned to the District. The State is required to repay the \$1.2 million it borrowed from the District, plus interest, by June 30, 2013.

Authorized with the 2009-10 State budget was the Proposition 1A Securitization Program (Program), administered by the California Statewide Communities Development Authority (“California Communities”), a joint powers authority sponsored by the California State Association of Counties and the League of California Cities. Under the Program, the participants receive cash equal to their share of State borrowings and forgo interest they otherwise would have received from the State on the unpaid borrowings. The District is a participant in the Program.

California Communities simultaneously purchased the Proposition 1A receivables from the District and other participants, and issued bonds to provide participants with proceeds to be remitted in two equal installments due on January 15, 2010 and May 3, 2010. All costs of issuance and interest were paid by the State of California. Participating local agencies have no obligation on the bonds and no credit exposure to the State. As of June 30, 2010, the District received both installments due under the Program and recorded them as property taxes in the same manner as if the State had not exercised its rights under Proposition 1A. Since sales proceeds to the District equal the book value of State borrowings no gain or loss was incurred.

NOTE 12 - 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.

REQUIRED SUPPLEMENTAL INFORMATION

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**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2010
(Dollars in thousands)**

(1) Pension Plan

Schedule of funding progress for the pension 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)
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	946,616	253,671	73.2%	139,514	181.8%
06/30/06	740,622	1,039,750	299,128	71.2%	142,373	210.1%
06/30/07	827,098	1,126,106	299,008	73.4%	153,394	194.9%
06/30/08	900,917	1,244,993	344,076	72.4%	158,499	217.1%
06/30/09	862,021	1,323,555	461,534	65.1%	161,893	285.1%

Unaudited

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2010
(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 Accrued (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)
06/30/00	\$805	\$29,581	\$28,776	2.7%	\$118,798	24.2%
06/30/01	841	30,971	30,130	2.7%	125,313	24.0%
06/30/02	1,265	50,358	49,093	2.5%	129,791	37.8%
06/30/03	2,113	58,752	56,639	3.6%	133,678	42.4%
06/30/04	2,715	62,357	59,642	4.4%	137,138	43.5%
06/30/05	3,409	71,892	68,483	4.7%	139,514	49.1%
06/30/06	3,608	71,409	67,801	5.1%	142,373	47.6%
06/30/07	4,208	105,409	101,201	4.0%	153,394	66.0%
06/30/08	7,010	137,055	130,045	5.1%	158,499	82.0%
06/30/09	7,354	130,245	122,891	5.6%	161,893	75.9%

Unaudited.

SUPPLEMENTAL INFORMATION

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EAST BAY MUNICIPAL UTILITY DISTRICT
EMPLOYEE RETIREMENT SYSTEM TRUST FUND
COMBINING BALANCE SHEET

June 30, 2010

(With summarized comparative financial information as of June 30, 2009)

(DOLLARS IN THOUSANDS)

	2010			2009 Total
	Pension plan benefits	Post- employment healthcare benefits	Total	
Assets:				
Cash and cash equivalents, at fair value	\$27,315	\$289	\$27,604	\$50,005
Invested securities lending collateral	83,253	879	84,132	46,654
Prepaid expenses		403	403	382
Receivables:				
Brokers, securities sold	15,296	161	15,457	6,951
Employer	1,548	80	1,628	1,268
Plan members	302		302	269
Interest and dividends	1,848	20	1,868	1,383
Total receivables	18,994	261	19,255	9,871
Investments, at fair value:				
U.S. government obligations	41,492	430	41,922	44,264
Domestic corporate bonds	52,231	542	52,773	54,169
International bonds	9,006	93	9,099	6,823
Domestic stocks	471,481	4,890	476,371	411,622
International stocks	150,905	1,565	152,470	125,356
Real estate	14,329	149	14,478	16,936
Total investments	739,444	7,669	747,113	659,170
Total assets	869,006	9,501	878,507	766,082
Liabilities:				
Accounts payable and accrued expenses	648	7	655	1,300
Payables to brokers, securities purchased	24,410	258	24,668	49,378
Securities lending collateral	83,253	879	84,132	46,654
Total liabilities	108,311	1,144	109,455	97,332
Net assets held in trust for pension benefits and post-employment healthcare benefits.	\$760,695	\$8,357	\$769,052	\$668,750

EAST BAY MUNICIPAL UTILITY DISTRICT
EMPLOYEES' RETIREMENT SYSTEM TRUST FUND
COMBINING STATEMENT OF CHANGES IN NET ASSETS

For the Year Ended June 30, 2010

(With summarized comparative financial information for the year ended June 30, 2009)

(DOLLARS IN THOUSANDS)

	2010			2009 Total
	Pension plan benefits	Post- employment healthcare benefits	Total	
Additions:				
Contributions:				
Employer	\$44,031	\$7,725	\$51,756	\$45,803
Plan members	10,774	144	10,918	10,740
Total contributions	54,805	7,869	62,674	56,543
Investment income:				
Net appreciation (depreciation) in fair value of investments:				
Traded securities	80,326	673	80,999	(180,070)
Real estate	(3,062)	(25)	(3,087)	(7,859)
Interest	6,122	51	6,173	7,668
Dividends	14,459	121	14,580	11,359
Real estate operating (loss), net	624	5	629	713
Total investment income (loss)	98,469	825	99,294	(168,189)
Less:				
Investment expense	(2,393)	(25)	(2,418)	(2,210)
Borrowers' rebates and other agent fees on securities lending transactions	(88)	(1)	(89)	(534)
Net investment income (loss)	95,988	799	96,787	(170,933)
Total additions, net	150,793	8,668	159,461	(114,390)
Deductions:				
Benefits paid	51,770	5,961	57,731	54,145
Refund of contributions	378		378	357
Administrative expenses	1,043	7	1,050	972
Total deductions	53,191	5,968	59,159	55,474
Change in net assets	97,602	2,700	100,302	(169,864)
Net assets:				
Beginning of year	663,093	5,657	668,750	838,614
End of year	\$760,695	\$8,357	\$769,052	\$668,750

Financial Trends

These schedules contain trend information to help understand how the District's financial performance and well-being have changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the District's revenue sources and rate structures.

Debt Capacity

These schedules contain information to help the reader assess the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt in the future.

Demographic and Economic Information

These schedules offer demographic, economic and District indicators to help the reader understand the environment within which the District financial activities take place.

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the District's financial report relates to the services the District provides and the activities it performs.

Financial Trends Section

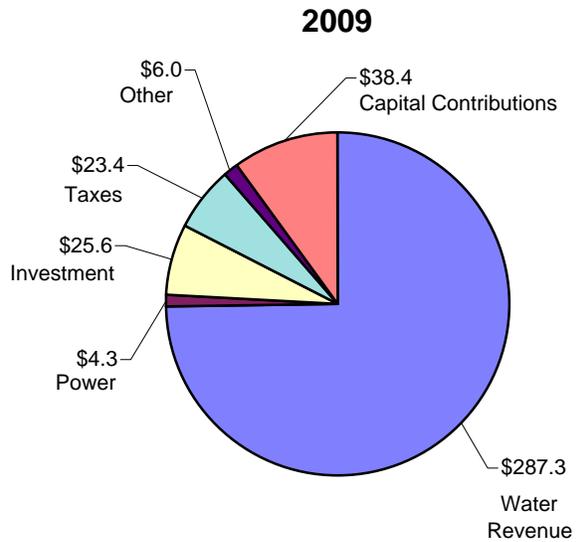
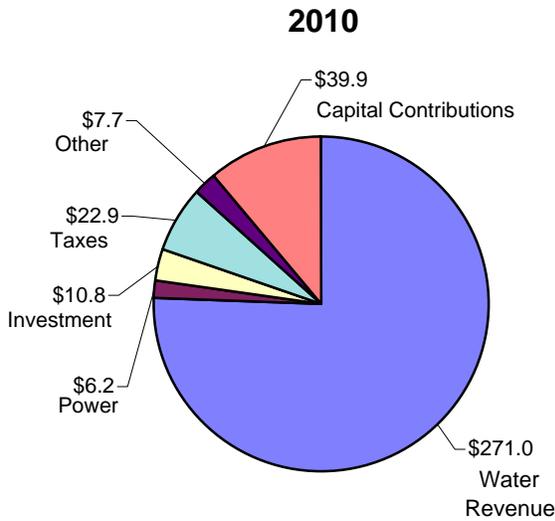
- Comparative Highlights
- Ten-Year Summary of Financial Data
- Changes in Net Assets
- Net Assets by Component

**Financial Trends
Comparative Highlights**

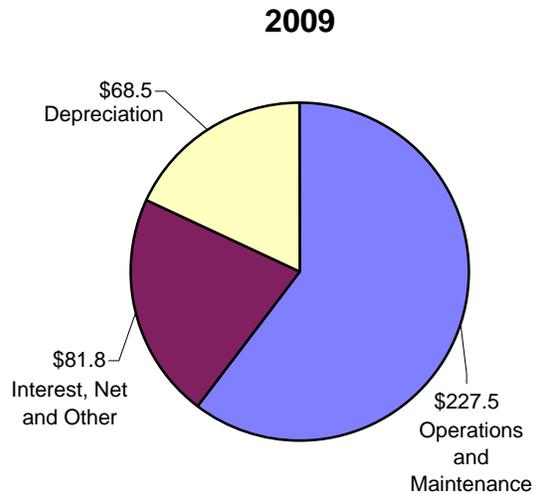
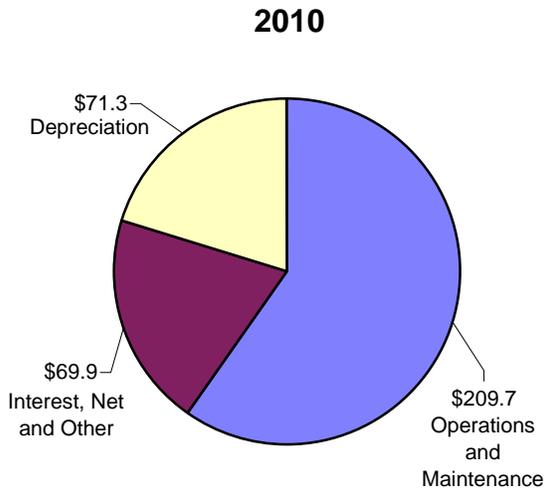
Fiscal Year 2010 and 2009

Water System

**What We Received:
(In Millions)**



**How It Was Used:
(In Millions)**



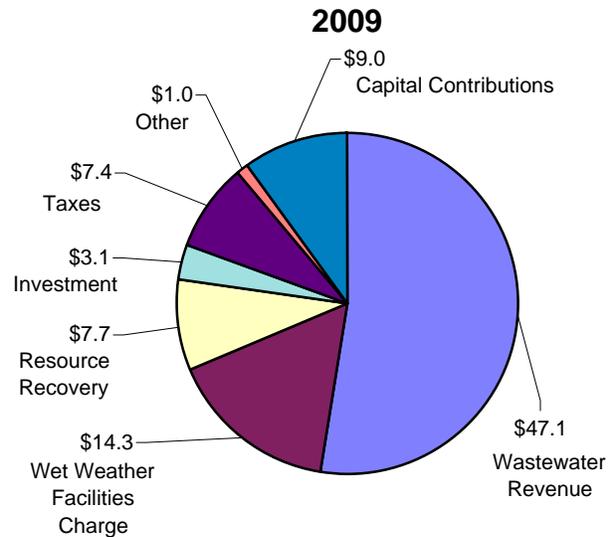
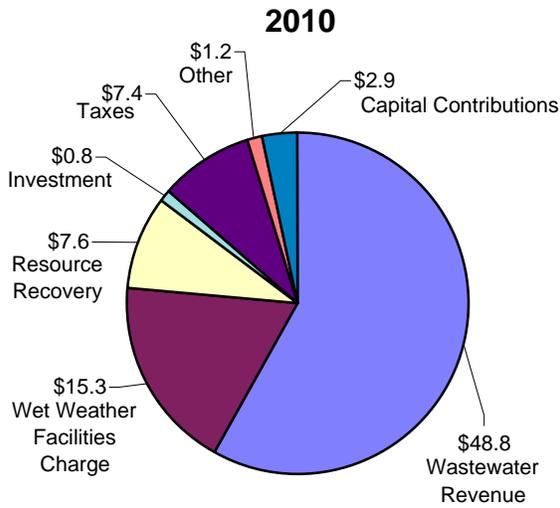
Sources: Financial Statements

Financial Trends
Comparative Highlights(continued)

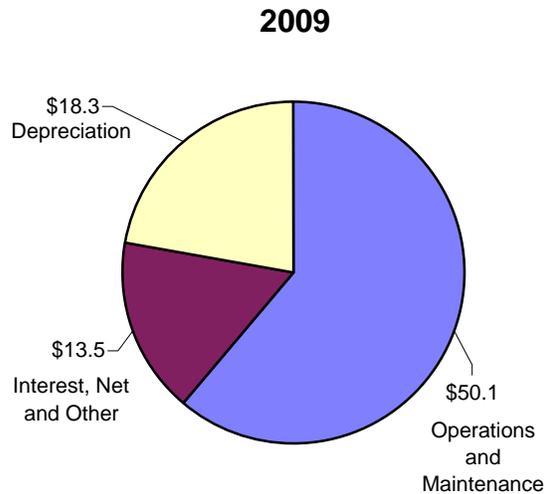
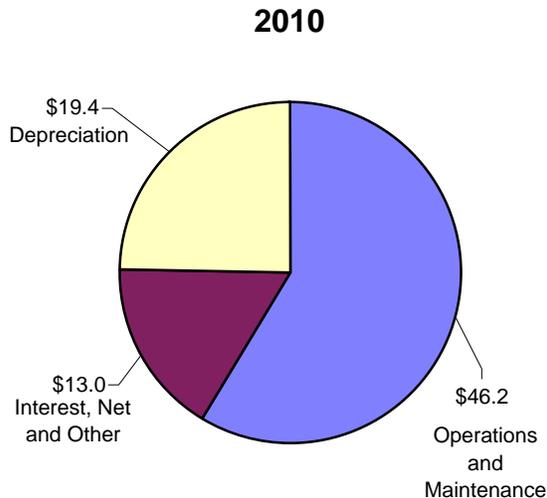
Fiscal Year 2010 and 2009

Wastewater System

What We Received:
(In Millions)



How It Was Used:
(In Millions)



Sources: Financial Statements

Financial Trends
Ten-Year Summary of Financial Data

Fiscal Years 2001 to 2010
(in Millions)

	Fiscal Year Ended June 30									
	2010	2009	2008	2007*	2006*	2005*	2004*	2003*	2002*	2001*
Water System										
Revenues										
Water Revenue	\$ 271.0	\$ 287.3	\$ 270.6	\$ 260.7	\$ 244.3	\$ 235.8	\$ 241.9	\$ 223.2	\$ 214.0	\$ 206.8
Taxes	22.9	23.4	22.7	21.7	19.1	18.3	17.4	16.5	15.6	14.3
Investment	10.8	25.6	40.4	21.8	18.4	7.7	11.1	13.3	25.4	20.8
Power	6.2	4.3	3.1	4.2	11.0	7.0	2.8	4.1	3.1	7.3
Capital Contributions	39.9	38.3	50.5	64.1	67.3	44.9	39.3	44.1	37.9	54.4
Other	7.7	6.2	29.4	7.8	5.3	6.2	2.7	12.9	5.3	3.0
Total Revenues	358.5	385.1	416.7	380.2	365.4	319.9	315.2	314.1	301.3	306.6
Expenses										
Operations and										
Maintenance	209.7	227.5	213.0	183.2	178.7	166.4	156.4	145.3	132.7	133.4
Depreciation	71.3	68.5	67.6	67.7	60.5	62.3	54.6	51.9	49.1	46.9
Interest, Net										
and Other	69.9	81.8	93.2	77.2	76.5	69.3	64.4	64.9	63.9	52.1
Total Expenses	350.9	377.8	373.8	328.1	315.7	298.0	275.4	262.1	245.7	232.4
Changes in Net Assets	\$ 7.6	\$ 7.3	\$ 42.9	\$ 52.1	\$ 49.7	\$ 21.9	\$ 39.8	\$ 52.0	\$ 55.6	\$ 74.2

* Restated to meet current formatting.

Financial Trends
Ten-Year Summary of Financial Data

Fiscal Years 2001 to 2010
(in Millions)

	Fiscal Year Ended June 30									
	2010	2009	2008*	2007*	2006*	2005*	2004	2003	2002	2001
Wastewater System										
Revenues										
Wastewater Revenue	\$ 48.8	\$ 47.1	\$ 46.2	\$ 44.6	\$ 42.6	\$ 42.2	\$ 42.8	\$ 41.6	\$ 39.9	\$ 38.7
Wet Weather										
Facilities Charges	15.3	14.3	13.7	13.7	13.8	13.9	13.9	13.9	13.5	13.2
Resource Recovery	7.6	7.7	6.9	5.8	4.5	3.4	-	-	-	-
Taxes	7.4	7.4	7.2	6.8	5.3	4.7	6.3	5.8	5.9	5.3
Investment	0.8	3.1	5.8	2.7	2.1	1.9	2.6	3.0	4.3	4.9
Capital Contributions	2.9	9.0	2.8	7.0	2.5	1.7	2.1	2.5	5.9	8.7
Other	1.2	0.9	0.7	1.4	0.7	0.7	(0.9)	0.3	0.2	1.0
Total Revenues	84.0	89.5	83.3	82.0	71.5	68.5	66.8	67.1	69.7	71.8
Expenses										
Operations and Maintenance	46.2	50.1	47.6	42.2	40.0	38.4	36.8	35.6	35.3	35.3
Depreciation	19.4	18.3	16.4	16.8	16.4	16.4	15.9	15.9	15.4	14.0
Interest, Net and Other	13.0	13.6	15.1	12.6	13.5	15.7	13.8	16.1	13.3	14.1
Total Expenses	78.6	82.0	79.1	71.6	69.9	70.5	66.5	67.6	64.0	63.4
Changes in Net Assets	\$ 5.4	\$ 7.5	\$ 4.2	\$ 10.4	\$ 1.6	\$ (2.0)	\$ 0.3	\$ (0.5)	\$ 5.7	\$ 8.4

* Restated to meet current formatting.

Financial Trends
Changes in Net Assets

Fiscal Years 2001 to 2010
(In Millions)

	Fiscal Year Ended June 30									
	2010	2009	2008*	2007*	2006*	2005*	2004*	2003*	2002*	2001*
Operating Revenues										
Charges for services:										
Water	\$ 271.0	\$ 287.3	\$ 270.6	\$ 260.7	\$ 244.3	\$ 235.8	\$ 241.9	\$ 223.2	\$ 214.0	\$ 206.8
Wastewater	71.7	69.1	66.7	64.1	60.9	59.5	56.7	55.5	53.4	51.9
Power	6.2	4.3	3.1	4.2	11.0	7.0	2.8	4.1	3.1	7.3
Total Operating Revenues	348.9	360.7	340.4	329.0	316.2	302.3	301.4	282.8	270.5	266.0
Operating Expenses										
Water	281.1	296.0	280.5	250.9	239.2	228.7	211.0	197.2	181.8	180.3
Wastewater	65.5	68.4	64.0	59.0	56.4	54.8	52.7	51.4	50.7	49.2
Total Operating Expenses	346.6	364.4	344.5	309.9	295.6	283.5	263.7	248.6	232.5	229.5
 Operating Activities	 2.3	 (3.7)	 (4.1)	 19.1	 20.6	 18.8	 37.7	 34.2	 38.0	 36.5

* Restated to meet current formatting.

Financial Trends
Changes in Net Assets (continued)

Fiscal Years 2001 to 2010
(In Millions)

	Fiscal Year Ended June 30									
	2010	2009	2008*	2007*	2006*	2005*	2004*	2003*	2002*	2001*
General Revenues and Other Changes in Net Assets										
Non-Operating Activities										
Investment income	11.6	28.6	46.3	24.4	20.5	9.6	13.7	16.3	29.7	25.7
Taxes and subventions	30.3	30.8	29.9	28.5	24.5	22.9	23.7	22.2	21.4	19.5
Interest and amortization of bond expenses	(80.9)	(92.3)	(106.7)	(88.9)	(88.9)	(84.1)	(72.2)	(74.9)	(75.6)	(66.3)
Other income (expense)	6.9	4.1	28.4	8.3	4.8	6.0	(4.2)	7.1	3.9	4.0
Capital grants and contributions	42.8	47.3	53.3	71.0	69.8	46.5	41.4	46.4	43.7	63.1
Total Non-Operating Activities	10.7	18.5	51.2	43.3	30.7	0.9	2.4	17.1	23.1	46.0
Changes in Net Assets	\$ 13.0	\$ 14.8	\$ 47.1	\$ 62.4	\$ 51.3	\$ 19.7	\$ 40.1	\$ 51.3	\$ 61.1	\$ 82.5

* Restated to meet current formatting.

Financial Trends
Net Assets by Component

Fiscal Years 2001 to 2010
(In Millions)

	Fiscal Year Ended June 30									
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001*
<u>Business-type activities</u>										
Invested in capital assets, net of related debt	\$ 1,293.5	\$ 1,304.6	\$ 1,182.8	\$ 1,174.5	\$ 1,226.1	\$ 1,213.2	\$ 1,090.0	\$ 1,006.5	\$ 998.2	\$ 942.1
Restricted for construction	66.8	84.5	85.4	89.6	78.6	54.0	64.4	65.8	61.2	59.7
Restricted for debt service	66.5	58.8	55.1	38.1	37.7	35.2	0.1	-	0.8	0.8
Restricted-other	3.0	3.1	3.0	2.9	2.9	2.9	2.9	2.9	2.8	2.5
Unrestricted	199.5	165.3	275.2	249.2	146.5	135.3	263.4	305.4	266.2	262.9
 Total business-type activities net assets	 \$ 1,629.3	 \$ 1,616.3	 \$ 1,601.5	 \$ 1,554.3	 \$ 1,491.8	 \$ 1,440.6	 \$ 1,420.8	 \$ 1,380.6	 \$ 1,329.2	 \$ 1,268.0

* Restated to meet current formatting.

Revenue Capacity Section

- Ten-Year Summary of Revenue by Source
- Rate History
- Ten-Year Summary of Net Revenue and Debt Service Coverage

**Revenue Capacity
Ten-Year Summary of Revenue by Source**

Fiscal Years 2001 to 2010

Water System
(In Millions)

	Fiscal Year Ended June 30									
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Water	\$271.0	\$287.3	\$270.6	\$260.7	\$244.3	\$235.8	\$241.9	\$223.1	\$214.0	\$206.8
Taxes	22.9	23.4	22.7	21.7	19.1	18.3	17.5	16.5	15.6	14.3
Construction from SCC	0.0	0.0	0.0	19.7	13.7	12.8	12.9	12.3	11.6	11.8
Interest	9.7	24.5	40.6	20.3	16.5	7.6	11.1	13.3	25.4	20.8
Power	6.2	4.3	3.1	4.2	11.0	7.0	2.8	4.0	3.1	7.3
Rental & Other	7.0	4.1	27.7	8.4	6.3	5.5	(2.6)	7.2	4.4	3.1
Total	\$316.8	\$343.6	\$364.7	\$335.0	\$310.9	\$287.0	\$283.6	\$276.4	\$274.1	\$264.1

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.

**Revenue Capacity
Ten-Year Summary of Revenue by Source**

Fiscal Years 2001 to 2010

Wastewater System

(In Millions)

	Fiscal Year Ended June 30									
	2010	2009	2008*	2007*	2006*	2005*	2004	2003	2002	2001
Wastewater	\$ 48.8	\$ 47.1	\$ 46.2	\$ 44.6	\$ 42.6	\$ 42.2	\$ 42.8	\$ 41.6	\$ 39.8	\$ 38.7
Wet Weather Facilities	15.3	14.3	13.7	13.7	13.8	13.9	13.9	13.9	13.5	13.2
Resource Recovery	7.6	7.7	6.9	5.8	4.5	3.4	-	-	-	-
Taxes	7.4	7.4	7.2	6.8	5.3	4.7	6.2	5.8	5.9	5.2
Interest	1.2	2.9	5.7	2.1	1.8	2.1	2.6	2.9	4.3	4.9
Other	0.6	1.2	0.8	2.0	0.7	0.5	(1.6)	0.0	(0.5)	1.0
Total	\$ 80.9	\$ 80.6	\$ 80.5	\$ 75.0	\$ 68.7	\$ 66.8	\$ 63.9	\$ 64.2	\$ 63.0	\$ 63.0

* Restated to meet current formatting.

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

**Revenue Capacity
Rate History**

Fiscal Years 2001 to 2010

Fiscal Year	Water		Wastewater	
	Monthly Base Rate	Rate per 748 (1ccf) Gallons	Monthly Base Rate	Rate per 748 (1ccf) Gallons
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
2007	8.65	1.65	9.27	0.49
2008	9.08	1.73	9.64	0.51
2009	9.53	1.82	10.02	0.53
2010	10.13	2.00	10.42	0.56

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.

Revenue Capacity
Ten-Year Summary of Net Revenue and Debt Service Coverage

Fiscal Years 2001 to 2010

Water System

(In Millions)

Fiscal Year	Total Revenue (1)	Operations & Maintenance Expense (2)	Net Revenue Available for Debt Service	Debt Service	Coverage Ratio
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	305.0	143.9	161.1	96.9	1.66
2007	327.1	141.2	185.9	98.6	1.89
2008	378.2	154.9	223.3	119.5	1.87
2009	353.8	176.2	177.6	119.0	1.49
2010	351.8	156.1	195.7	125.2	1.56

(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.

Revenue Capacity

Ten-Year Summary of Net Revenue and Debt Service Coverage

Fiscal Years 2001 to 2010

Wastewater System

(In Millions)

<u>Fiscal Year</u>	<u>Total Revenue (1)</u>	<u>Operations & Maintenance Expense (2)</u>	<u>Net Revenue Available for Debt Service</u>	<u>Debt Service</u>	<u>Coverage Ratio</u>
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	63.4	38.0	25.4	15.8	1.60
2007	67.6	39.2	28.4	16.0	1.78
2008	73.1	41.6	31.5	20.2	1.56
2009	73.0	44.6	28.4	20.1	1.41
2010	74.0	41.3	32.7	19.2	1.71

(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.

Debt Capacity Section

- Debt Ratings
- Outstanding Debt by Type
- Authorized but Unissued Revenue Bonds and Outstanding Short-Term Debt
- Ratio of Net General Obligation Bonded Debt to Annual Billings and Net General Bonded Debt per Account
- Assessed Valuation of Taxable Property
- Summary of Debt Outstanding

Debt Capacity
Debt Ratings

June 30, 2010

District Debt by Type	Rating by		
	Standard & Poor's	Moody's Investors Service	Fitch
Water System			
Extendable Commercial Paper	A1+	P1	F1+
Revenue Bonds	AAA	Aa1	AA+
Wastewater System			
Extendable Commercial Paper	A1+	P1	F1+
Revenue Bonds	AAA	Aa2	AA+
General Obligation Bonds	AAA	Aa2	-

Debt Capacity
Outstanding Debt by Type

Fiscal Years 2001 to 2010

Water System

(In thousands)

Fiscal Year	General Obligation Bonds	Revenue Bonds	Loans Payable	Total
2001	7,017	1,189,102	21,954	1,218,073
2002	6,274	1,182,044	20,616	1,208,934
2003	5,540	1,163,796	21,363	1,190,699
2004	4,757	1,141,046	22,054	1,167,857
2005	3,922	1,540,834	20,476	1,565,232
2006	0	1,516,562	18,855	1,535,417
2007	0	1,970,254	17,189	1,987,443
2008	0	1,935,620	15,480	1,951,100
2009	0	1,899,360	32,769	1,932,129
2010	0	2,354,095	29,028	2,383,123

Wastewater System

(In thousands)

Fiscal Year	General Obligation Bonds	Revenue Bonds	Loans Payable	Total
2001	44,526	197,359	57,945	299,830
2002	42,787	193,457	54,307	290,551
2003	42,079	241,613	50,543	334,235
2004	41,380	238,373	46,668	326,421
2005	40,031	238,237	42,668	320,936
2006	38,252	234,345	38,539	311,136
2007	34,298	315,863	34,277	384,438
2008	32,165	343,235	29,879	405,279
2009	29,785	305,165	25,338	360,288
2010	27,255	298,215	20,652	346,122

Debt Capacity
Authorized but Unissued Revenue Bonds
and Outstanding Short-Term Debt

As of June 30, 2010
(In Thousands)

Water System

Authorized but unissued revenue bonds	\$	602,330
Outstanding short-term debt (due within one year)	\$	39,670

Wastewater System

Authorized but unissued revenue bonds	\$	169,370
Outstanding short-term debt (due within one year)	\$	8,255

Debt Capacity

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

Fiscal Years 2001 to 2010
(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
2001	368,000	7,017	17	206,791	3.03%
2002	370,000	6,274	15	214,000	2.59%
2003	373,000	5,540	13	223,126	2.13%
2004	375,000	4,757	10	241,927	1.62%
2005	376,000	3,922	0	235,790	0.00%
2006	379,000	0	0	244,280	0.00%
2007	381,000	0	0	260,678	0.00%
2008	382,000	0	0	270,564	0.00%
2009	382,000	0	0	287,313	0.00%
2010	382,000	0	0	271,022	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
2001	177,000	44,526	242	38,666	110.66%
2002	177,000	42,787	238	39,862	105.56%
2003	177,000	42,079	234	41,590	99.38%
2004	177,000	41,380	226	42,822	93.48%
2005	177,000	40,031	216	42,244	90.55%
2006	177,000	38,252	216	42,581	89.83%
2007	178,000	34,298	193	44,593	76.91%
2008	178,000	32,165	181	46,161	69.68%
2009	178,000	29,785	167	47,085	63.26%
2010	178,000	27,255	153	48,764	55.89%

Source: (1) CIS

(2) Financial and Statistical Reports

**Debt Capacity
Assessed Valuation of Taxable Property**

Fiscal Year 2010

EAST BAY MUNICIPAL UTILITY DISTRICT, SPECIAL DISTRICT NO. 1

2008-09 Assessed Valuation:	\$ 75,772,919,462
Redeveloped Incremental Valuation:	15,660,879,272
Adjusted Assessed Valuation:	\$ 60,112,040,190

<u>Direct and Overlapping Tax and Assessment Debt:</u>	<u>% Applicable</u>	<u>Debt 6/30/10</u>
Bay Area Rapid Transit District	13.765 %	\$ 57,813,000
Peralta Community College District	100.000	445,645,000
Alameda Unified School District	100.000	79,415,326
Albany Unified School District	100.000	44,345,000
Berkeley Unified School District	100.000	213,759,222
Oakland Unified School District	100.000	726,160,000
Piedmont Unified School District	100.000	62,164,934
West Contra Costa Unified School District	20.775	151,892,855
Other School Districts	Various	31,178,975
City of Alameda	100.000	9,580,000
City of Albany	100.000	18,190,000
City of Berkeley	100.000	68,700,000
City of Oakland	99.974	272,022,107
East Bay Municipal Utility District, Special District No. 1	100.000	27,255,000
East Bay Regional Park District	20.977	41,277,492
West Contra Costa Healthcare District Parcel Tax Obligations	18.993	4,401,628
City of El Cerrito Lease Tax Obligations	99.816	3,159,176
City of Alameda Community Facilities District Nos. 1 and 2	100.000	13,345,000
City of Berkeley Community Facilities District No. 1	100.000	6,990,000
1915 Act bonds	100.000	52,403,483
Total Direct and Overlapping Tax and Assessment Debt		\$ 2,329,698,198

(continued)

Sources: California Municipal Statistics, Inc.

Table 18 (Continued)
Assessed Valuation of Taxble Property

Fiscal Year 2010

<u>Overlapping General Fund Debt:</u>	<u>(1) % Applicable</u>	<u>Debt 6/30/10</u>
Alameda County General Fund Obligations	33.014 %	\$ 138,330,641
Alameda County Pension Obligations	33.014	58,892,624
Contra Costa County General Fund Obligations	2.932	8,692,744
Contra Costa County Pension Obligations	2.932	12,763,289
Alameda-Contra Costa Transit District Certificates of Participation	42.744	17,240,792
Peralta Community College District Pension Obligations	100.000	155,369,090
Oakland Unified School District Certificates of Participation	100.000	64,430,000
Other School District Certificates of Participation	Various	6,323,725
City of Alameda Cetificates of Participation	100.000	13,305,000
City of Berkeley General Fund Obligations and Pension Obligations	100.000	42,045,000
City of Oakland General Fund Obligations	99.974	407,723,964
City of Oakland Pension Obligations	99.974	210,540,087
Other City General Fund Obligations	Various	<u>28,627,558</u>
Total Overlapping General Fund Debt		\$ 1,164,284,514
Less: Contra Costa County Obligations supported from revenue funds		<u>3,696,148</u>
Total Net Overlapping General Fund Debt		\$ 1,160,588,366
Gross Combined Total Debt	(2)	\$ 3,493,982,712
Net Combined Total Debt		\$ 3,490,286,564

(1) Percentage of overlapping agency's assessed valuation located within boundaries of the district.

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

Ratios to 2009-10 Assessed Valuation:

Direct Debt (\$27,255,000)	0.04 %
Total Direct and Overlapping Tax and Assessment Debt	3.07 %

Ratios to Adjusted Assessed Valuation:

Gross Combined Total Debt	5.81 %
Net Combined Total Debt	5.80 %

State School Building Aid Repayable as of 6/30/10: \$ 17,991

**Debt Capacity
Summary of Debt Outstanding***

As of June 30, 2010
(Thousands of Dollars)

Water System

Revenue Bonds

Series 2001	\$	5,645
Series 2002		191,180
Series 2003		65,345
Series 2005A		300,000
Series 2007A		450,000
Series 2007B		50,280
Series 2008A		318,550
Series 2008B		59,125
Series 2009A		321,140
Series 2010A		192,830
Series 2010B		400,000

Total Water System Debt Outstanding	\$	2,354,095
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Wastewater System

General Obligation Bonds

Series F	\$	27,255
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Revenue Bonds

Series 2007A		80,630
Series 2007B		42,125
Series 2008A		50,000
Series 2008B		66,850
Series 2008C		58,610

Total Wastewater System Debt Outstanding	\$	325,470
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*Debt outstanding does not include State low interest loans, commercial paper or outstanding refunded but not yet called debt.

Sources: Financial Statements

Demographic and Economic Information Section

- District Information
- Principal Water Rate Payers
- Water Sold by Type of Customer
- Consumption and Account Comparative Highlights
- Area Employment Information

Demographic and Economic Information

District Information

Fiscal Year 2010

		<u>Water System</u>	<u>Wastewater System</u>
Established		1923	1944
Service Area	(square miles)	331	88
Population Served	(in thousands)	1,350	650
Unemployment Rate	(Alameda County - %)	11.4	11.4
Facilities:			
Miles of aqueducts		91.5	
Miles of pipeline		4,110	
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		154	
Number of reservoirs		161	
Total District untreated water reservoir capacity	(acre feet)	766,740	
Water demand per fiscal year			
District-provided water	(acre feet)	195,145	
Water recycling per day	(in million gallons)		10.7
Wastewater treatment capacity			
Primary treatment			320
Secondary treatment			168
Energy Recovery	(%)		89
Number of employees		1,551	253
Average years of service of employees		13.5	14.3

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

Demographic and Economic Information

Principal Water Rate Payers

Fiscal Years 2005 to 2010
(In Thousands)

	2010	2009	2008	2007	2006	2005
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REDACTED JUNE 18, 2019, PER CALIFORNIA GOVERNMENT CODE SECTION 6254.16.

Total annual billing	\$ 29,635	11.11%	\$ 30,792	11.69%	\$ 29,434	10.88%	\$ 28,265	10.84%	\$ 27,136	11.11%	\$ 25,823	11.50%
Total annual billings	<u>\$264,828</u>		<u>\$261,411</u>		<u>\$270,564</u>		<u>\$260,678</u>		<u>\$244,280</u>		<u>\$224,631</u>	

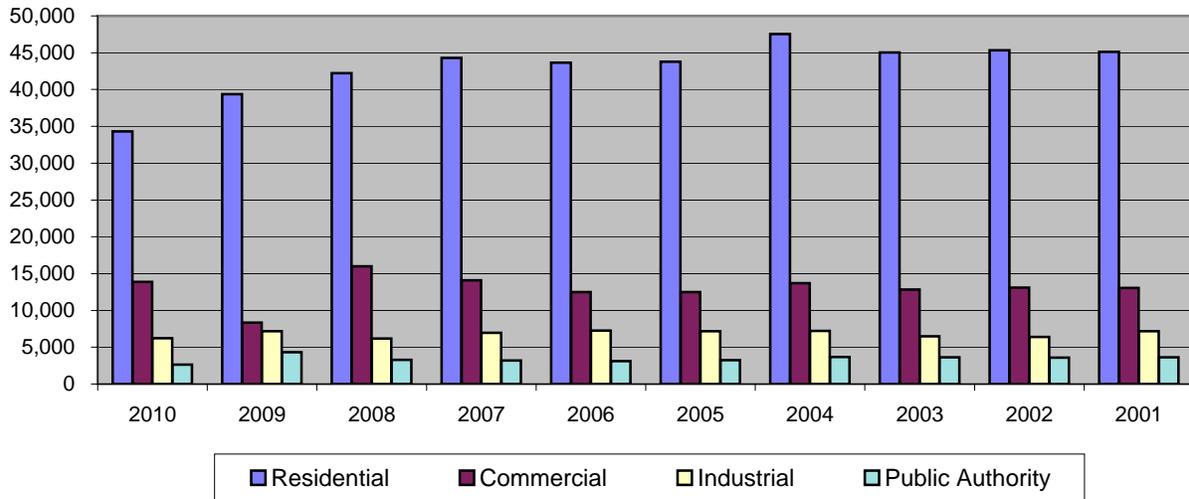
Source data not available for Fiscal Years 2001-2004.

* Listed individually from University of California beginning in 2008

Source: CIS

Demographic and Economic Information
Water Sold by Type of Customer

Fiscal Years 2001 to 2010
(In millions of gallons)



Fiscal Year	Type of Customer				Total
	Residential	Commercial	Industrial	Public Authority	
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
2007	44,300	14,084	6,973	3,178	68,535
2008	42,172	15,971	6,198	3,280	67,621
2009	39,366	8,323	7,189	4,332	59,210
2010	34,317	13,880	6,228	2,652	57,077

Source: CIS

**Demographic and Economic Information
Consumption and Account Comparative Highlights**

Fiscal Years 2010 and 2009

Water System	2010	2009
During the Year:		
Total Water Production, millions of gallons	64,000	66,000
Average Daily Water Production, MGD*	174	182
Maximum Daily Water Production, MGD	253	262
Minimum Daily Water Production, MGD	120	124
At Year End:		
Number of Accounts	380,857	381,728
Number of Employees	1,551	1,580
Miles of Water Distribution Pipe	4,110	4,108
Operating Distribution Storage Capacity, millions of gallons	812	812

Wastewater System		
During the Year:		
Average Daily Wastewater Flow, MGD	68	66
At Year End:		
Number of Accounts	178,051	172,035
Number of Employees	253	267

*=millions of gallons per day

**Demographic and Economic Information
Area Employment Information**

Fiscal Year 2010

	Company	Employment	City
1	University of California, Berkeley	Educational and Health Services	Berkeley
2	County of Alameda	Government	Oakland
3	AT&T Corp	Manufacturing	San Ramon
4	County of Contra Costa	Other Services	Martinez
5	Kaiser Foundation Hospitals	Educational and Health Services	Walnut Creek
6	Oakland Unified School Dist	Educational and Health Services	Oakland
7	Lawrence Berkeley National Lab	Government	Berkeley
8	City of Oakland	Government	Oakland
9	Wells Fargo & Co	Financial Activities	Oakland
10	Cost Plus Management Services	Trade, Transportation and Utilities	Oakland

Operating Information Section

- Full-Time Equivalent District Employees by Function/Program
- Assessed Valuation of Taxable Property
- Ten-Year Summary of Property, Plant and Equipment
- Capital Asset Statistics by Function/Program
- Operating Indicators by Function/Program
- Ten-Year Summary of Expense by Source

Operating Information
Full Time Equivalent District Employees by Function/Program

Fiscal Years 2001 to 2010

<u>Function/Program</u>	Fiscal Year Ended June 30									
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
System Maintenance and Construction	660.0	603.5	603.5	611.5	574.5	578.5	567.5	567.5	545.5	537.5
Water Operations and Maintenance	235.5	282.5	279.5	278.5	309.5	311.5	312.5	314.5	328.5	334.5
Water Resources	44.0	42.0	42.0	42.0	42.0	43.0	45.0	45.0	47.0	47.0
Natural Resources	70.5	68.0	68.0	68.0	68.0	63.0	63.0	63.0	62.0	62.0
Engineering and Construction	257.5	253.5	254.5	260.5	266.5	275.5	274.5	275.5	267.5	267.5
Office of the General Manager	29.5	33.5	33.5	34.5	34.5	37.5	40.0	39.5	47.0	49.0
Finance	57.0	54.0	54.0	65.0	67.0	68.0	112.5	111.5	112.5	113.5
Information Systems	94.0	93.0	93.0	91.0	92.0	79.0	75.0	75.0	73.0	74.0
Administration Department	106.5	107.5	107.5	99.5	100.5	103.5	40.5	39.5	40.0	40.0
Customer and Community Services	144.0	137.0	137.0	137.0	138.0	130.0	149.0	152.0	149.0	151.5
Human Resources	48.5	49.5	49.5	49.5	49.5	50.5	50.5	50.5	48.5	48.5
Office of General Counsel	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5
Water Recycling Program	8.0	8.0	8.0	8.0	8.0	9.0	9.0	9.0	11.0	11.0
Wastewater	283.5	285.5	284.5	286.5	284.5	281.0	278.0	284.5	284.5	292.5
Total	2,055.0	2,034.0	2,031.0	2,048.0	2,051.0	2,046.5	2,033.5	2,043.5	2,032.5	2,045.0

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.

Source: Office of Budgets and Rates

**Operating Information
Assessed Valuation of Taxable Property**

Fiscal Years 2001 to 2010
(In Millions)

	Fiscal Year Ended June 30									
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Water System										
Alameda County	\$ 70,378	\$ 73,200	\$ 74,483	\$ 71,515	\$ 67,322	\$ 62,405	\$ 58,190	\$ 55,508	\$ 51,866	\$ 49,437
Contra Costa County	74,216	74,483	76,573	74,565	70,724	64,099	60,592	55,475	51,916	48,479
Total	\$ 144,594	\$ 147,683	\$ 151,056	\$ 146,080	\$ 138,046	\$ 126,504	\$ 118,782	\$ 110,983	\$ 103,782	\$ 97,916
Wastewater System										
Alameda County	\$ 55,783	\$ 56,061	\$ 56,428	\$ 53,954	\$ 43,534	\$ 41,216	\$ 38,517	\$ 36,135	\$ 33,389	\$ 31,115
Contra Costa County	3,867	3,733	3,808	3,697	2,898	2,677	2,469	2,314	2,119	1,982
Total	\$ 59,650	\$ 59,794	\$ 60,236	\$ 57,651	\$ 46,432	\$ 43,893	\$ 40,986	\$ 38,449	\$ 35,508	\$ 33,097

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.

Operating Information
Ten-Year Summary of Property, Plant and Equipment

Fiscal Years 2001 to 2010

Water System
(In Millions)

	Fiscal Year Ended June 30									
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Structures, Buildings and Equipment	\$ 3,864.4	\$ 3,705.1	\$ 3,591.6	\$ 3,470.3	\$ 3,221.5	\$ 3,037.4	\$ 2,824.3	\$ 2,533.9	\$ 2,338.0	\$ 2,211.6
Less Accumulated Depreciation	<u>(1,177.5)</u>	<u>(1,104.2)</u>	<u>(1,035.0)</u>	<u>(965.3)</u>	<u>(917.9)</u>	<u>(857.1)</u>	<u>(801.3)</u>	<u>(744.9)</u>	<u>(695.4)</u>	<u>(645.6)</u>
Subtotal	<u>2,686.9</u>	<u>2,600.9</u>	<u>2,556.6</u>	<u>2,505.0</u>	<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>
Land and Rights-of-Way	53.5	50.9	49.9	48.9	49.0	49.0	48.9	48.9	48.8	46.1
Construction in Progress	<u>783.1</u>	<u>705.6</u>	<u>422.7</u>	<u>243.7</u>	<u>314.1</u>	<u>295.8</u>	<u>322.2</u>	<u>421.0</u>	<u>419.8</u>	<u>341.6</u>
Total Capital Assets, Net	<u>\$ 3,523.5</u>	<u>\$ 3,357.4</u>	<u>\$ 3,029.2</u>	<u>\$ 2,797.6</u>	<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>

Operating Information
Ten-Year Summary of Property, Plant and Equipment

Fiscal Years 2001 to 2010

Wastewater System
(In Millions)

	Fiscal Year Ended June 30									
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Structures, Buildings and Equipment	\$ 797.2	\$ 768.5	\$ 744.8	\$ 711.6	\$ 703.6	\$ 677.7	\$ 662.7	\$ 653.4	\$ 633.7	\$ 603.1
Less Accumulated Depreciation	<u>(293.0)</u>	<u>(273.6)</u>	<u>(255.6)</u>	<u>(239.2)</u>	<u>(224.9)</u>	<u>(208.3)</u>	<u>(192.4)</u>	<u>(176.5)</u>	<u>(160.7)</u>	<u>(144.9)</u>
Subtotal	<u>504.2</u>	<u>494.9</u>	<u>489.2</u>	<u>472.4</u>	<u>478.7</u>	<u>469.4</u>	<u>470.3</u>	<u>476.9</u>	<u>473.0</u>	<u>458.2</u>
Land and Rights-of-Way	19.7	19.7	19.5	16.1	5.6	5.6	5.6	5.6	5.6	5.6
Construction in Progress	<u>81.8</u>	<u>57.9</u>	<u>46.3</u>	<u>50.9</u>	<u>30.0</u>	<u>21.3</u>	<u>20.3</u>	<u>14.1</u>	<u>23.9</u>	<u>38.1</u>
Total Capital Assets, Net	\$ 605.7	\$ 572.5	\$ 555.0	\$ 539.4	\$ 514.3	\$ 496.3	\$ 496.2	\$ 496.6	\$ 502.5	\$ 501.9

**Operating Information
Capital Asset Statistics by Function/Program**

Fiscal Years 2001 to 2010

<u>Function/Program</u>	Fiscal Year Ended June 30									
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Water System										
Water mains (miles)	4,108	4,108	4,108	4,110	4,085	4,065	4,033	4,032	4,031	4,018
Fire hydrants	30,247	30,203	30,050	29,916	29,532	28,817	28,499	28,380	*	*
Reservoir storage at June 30 (in acre feet)	719,680	657,270	472,330	560,290	719,460	730,720	605,310	706,480	606,640	565,490
									* Data not available for 2002 and prior.	
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	168,000	168,000	168,000	168,000	168,000	168,000	168,000

Operating Information
Operating Indicators by Function/Program

Fiscal Years 2001 to 2010

<u>Function/Program</u>	Fiscal Year Ended June 30									
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Water System										
New connections	514	735	1,535	1,994	2,230	1,928	1,925	2,455	1,164	1,612
Water main breaks	852	1,238	916	938	842	855	876	747	793	795
Average daily production (millions of gallons)	174	182	205	211	211	205	224	213	211	216
Peak daily production (millions of gallons)	253	262	288	336	311	310	310	338	310	311
Wastewater System										
Average daily sewage treatment (millions of gallons)	68	66	69	67	82	76	72	73	74	73

Operating Information
Ten-Year Summary of Expense by Source

Fiscal Years 2001 to 2010
(In Millions)

	Fiscal Year Ended June 30									
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Interest and Amortization of Bonds ⁽¹⁾	\$ 80.9	\$ 92.3	\$ 106.7	\$ 88.9	\$ 88.9	\$ 84.1	\$ 72.2	\$ 74.9	\$ 75.6	\$ 66.3
Depreciation on Utility Plant	90.8	86.8	84.0	84.5	76.9	78.7	70.4	67.7	64.5	60.9
Water Treatment and Distribution	86.0	83.5	80.8	77.0	76.0	72.7	72.5	62.3	61.2	58.8
General Administration ⁽²⁾	49.5	63.7	61.9	37.2	34.7	28.9	21.2	26.2	19.1	21.7
Raw Water ⁽³⁾	28.9	36.3	29.6	25.3	24.2	23.1	22.8	22.9	21.7	24.2
Sewer Treatment Plant Operations	25.2	25.9	24.8	23.0	22.1	20.9	19.8	19.3	20.0	18.9
Financial and Risk Management ⁽⁴⁾	17.5	20.8	17.9	15.7	17.5	15.2	15.5	13.1	11.2	11.2
Customer Accounting and Collecting	16.1	16.5	14.8	14.0	13.3	13.0	12.6	11.7	11.4	10.7
Facilities Management ⁽⁵⁾	11.3	8.7	10.0	11.6	10.9	12.5	10.2	9.0	7.8	8.0
Sewer Lines and Pumping	12.9	13.2	12.0	12.3	11.7	10.7	10.9	9.4	8.8	8.7
Recreation Areas, Net	<u>8.4</u>	<u>9.0</u>	<u>8.6</u>	<u>9.4</u>	<u>8.3</u>	<u>7.8</u>	<u>7.8</u>	<u>7.0</u>	<u>6.9</u>	<u>6.4</u>
Total:	\$ 427.5	\$ 456.7	\$ 451.1	\$ 398.9	\$ 384.5	\$ 367.6	\$ 335.9	\$ 323.5	\$ 308.2	\$ 295.8

⁽¹⁾ The 2010 decrease in Interest and Amortization of Bonds primarily reflects an increase in interest charged to construction and lower interest rates on outstanding debt.

⁽²⁾ The 2010 decrease in General administration primarily reflects cost reduction strategies implemented in the current year.

⁽³⁾ The 2010 decrease in Raw Water primarily reflects additional costs associated with drought management programs in the previous year.

⁽⁴⁾ The 2010 decrease in Financial and Risk Management primarily reflects lower claim settlement costs in the current fiscal year.

⁽⁵⁾ The 2010 increase in Facilities Management primarily reflects decreased maintenance in the previous fiscal year.